

TAX EXEMPTIONS

BRAZILIAN FREE TRADE ZONES – DECEMBER 2015



INTRODUCTION

This paper has been created by Innovation Centre Denmark in São Paulo. The aim is to provide a brief overview of the geographical areas in Brazil where Brazilian as well as foreign companies can benefit from tax exemptions.

As a company, operating on the Brazilian market, it can be relevant to know these regional, economic zones.

The Brazilian government has created tax free zones in the north region of Brazil with the goal of attracting foreign investment, promoting the development of these areas and to increase the bilateral relations of Brazil with neighbouring countries.

The paper does not claim to cover all opportunities but can be used as an introductory guide to the subject.

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FREE TRADE ZONES IN BRAZIL

Tax exempt areas in Brazil are located within Western Amazon, which covers four states: Acre, Amazonas, Rondônia, Roraima and two cities in Amapá State – Macapá and Santana. Tax incentives for the Manaus Free Trade Zone (ZFM – Zona Franca de Manaus), Western Amazon (AMOC – Amazônia Ocidental) and Free Trade Areas (FTAs) are administered by the Superintendence of the Manaus Free Trade Zone (SUFRAMA). SUFRAMA is affiliated with the Ministry of Development, Industry and Foreign Trade.



ZFM is the largest free trade zone in Brazil. It was created in 1967 by the Brazilian government in order to attract foreign investment and to stimulate economic development in the region. The ZFM has three economic poles: commercial, industrial and agricultural. Despite the remote location, the tax benefits have attracted more than 600 companies over the years.

WHY INVEST?

The current tax policy in the Manaus Free Trade Zone is different from the rest of the country, since it offers local benefits which are not seen in other places. In addition to the advantages offered by the federal government, the model is supported by state and municipal tax policies of exemptions.

There are four possible scenarios that imply the granting of tax benefits, namely:

1) Importing goods into the zone:

- a. Exemption from Import Duty on foreign goods entering the ZFM intended for internal consumption;
- b. Reduction of Import Duty on exiting goods manufactured in the Manaus Free Trade Zone destined to any location within the Brazilian territory.

2) Domestic (nationalized) goods being purchased by the zone:

- a. Exemption from excise tax for all goods produced in the ZFM intended for internal consumption or commercialization anywhere within the Brazilian territory;
- b. Equivalence to a Brazilian export abroad when goods originating in Brazil are shipped for consumption or manufactured within the ZFM, or re-exported abroad, or shipped to Western Amazon;
- c. Tax Exemption for products made out of raw materials of agricultural and vegetal gathering origin produced regionally;

3) Goods being exported by the zone:

- a. The export of goods, regardless of their origin, from the Manaus Free Trade Area to other countries is exempt from export tax.

4) Sales of products from the zone:

- a. Tax exemptions on ZFM goods, intended for internal use or for any degree of manufacture (internal operations);

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Furthermore, companies generating 500 or more direct jobs in the ZFM are also exempt from a range of local taxes such as: garbage collection fees, public cleaning, fees on licenses and general maintenance.

Besides the tax incentives, the investor has the possibility to buy land at a symbolic price. The Brazilian government, through SUFRAMA and other government agencies, is making large investments in infrastructure, so that the investor has all the conditions to install his/her enterprise.

Another advantage of the zone is that since the benefits are guaranteed by the federal constitution, the ZFM turns to be a stable long-term environment for business. Moreover, the pole has productive workforce specialized in the industrial segments found there. The State of Amazonas is also located strategically regarding the countries of Latin America and the United States.

The sectors most developed in the zone – in which it is possible to find many opportunities – are mainly:

- Electronic products and computer science goods;
- Two Wheels Vehicles;
- Chemicals;
- Watches;
- Components;
- Naval;
- Medications;
- Non-alcoholic drinks;
- Food and regional products.

Note that four sectors are excluded from the tax benefits: tobacco products, alcoholic beverages, passenger cars, guns and ammunitions.

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The following table provides an overview of potential challenges and opportunities for companies considering investing in the ZFM.

| Challenges | Opportunities |
|--|---|
| <ul style="list-style-type: none">▪ Remote location from the biggest domestic markets▪ Significant distribution costs▪ Inadequate infrastructure▪ Tax benefits are limited to manufacturing companies | <ul style="list-style-type: none">▪ Several tax benefits▪ The cost of purchasing land for production is low▪ Stable long-term business environment▪ Improving infrastructure▪ Location in proximity of neighbouring countries in Latin America. |