

**TAX INCENTIVES  
FOR RESEARCH &  
INNOVATION IN  
BRAZIL**



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# **TAX INCENTIVES IN BRAZIL**

As part of the Brazilian government's strategy to improve the competitiveness of the Brazilian economy, investments in research, development and innovation (RD&I) are stimulated by granting fiscal incentives to the companies/institutions that undertake these investments.

The incentives come in different forms - from tax deductions to grants – and covers technological innovations as well as less RD&I intensive activities, such as technological support, IT innovative programs, patenting, and patent protection. The incentives apply to nearly all industrial sectors and are open to almost all types of companies, but benefits can vary according to different economic and legal characteristics.

The aim of this report is to provide a short overview and introduction to the types of tax incentives for RD&I investments currently available under Brazilian law, as well as the main federal taxes to which the incentives are related. However, the report does not offer advice on which taxes and incentives apply to individual companies and can by no means substitute comprehensive, professional advice to companies regarding relevant tax legislation in Brazil.

## TAX INCENTIVES: OVERVIEW

TAX	BRIEF DESCRIPTION	RELATED TAX INCENTIVES	BRIEF DESCRIPTION
<b>IRPJ</b>	Calculated based on company's profit. Tax rate of 15%, with a surcharge of 10% tax (15% for financial institutions) on annual taxable income in excess of R\$240.000,00	Cf. <b>Law of Good (Lei nº 11.196/2005) / (Decree 5798/06)</b>	<ul style="list-style-type: none"> <li>Deduction on the <b>IRPJ</b> of all expenses within RD&amp;I</li> <li>Deduction of extra 60% (100+60=160%) of expenses with technology-based innovation from the calculation of <b>IRPJ</b> and the <b>CSLL</b></li> <li>Accelerated depreciation of equipment, machines, apparels, and new instruments and tools destined to RD&amp;I already in the same year of acquisition, meaning that no <b>IRPJ</b> and <b>CSLL</b> taxes will be calculated taking into consideration these items</li> </ul>
<b>CSLL</b>	Calculated based on company's profit. Tax rate is of 9% (or 15% for financial institutions)	Cf. <b>Law of Good (Lei nº 11.196/2005) / (Decree 5798/06)</b>	<ul style="list-style-type: none"> <li>Deduction of extra 60% (100+60=160%) of expenses with technology-based innovation from the calculation of <b>IRPJ</b> and the <b>CSLL</b></li> <li>Accelerated depreciation of equipment, machines, apparels, and new instruments and tools destined to RD&amp;I already in the same year of acquisition, meaning that no <b>IRPJ</b> and <b>CSLL</b> taxes will be calculated taking into consideration these items</li> </ul>
<b>PIS / PASEP</b>	A federal social contribution calculated as a percentage of the gross revenue, levied generally at 1,65%. In some sectors the rates can be higher.	-	-
<b>COFINS</b>	Calculated as a percentage of the gross revenue and paid on monthly basis. Tax rate of around 7,6% in the non-cumulative system and 3% in the cumulative system (4% for financial institutions). In some sectors the tax can be higher.	-	-
<b>IPI</b>	A tax that applies to all national and imported industrialized products through a non-cumulative system	Cf. <b>Law of Good (Lei nº 11.196/2005) / (Decree 5798/06)</b>  Cf. <b>Law of Information Technology Law/Innovation (no. 8248/91)</b>	<ul style="list-style-type: none"> <li>Reduction of the <b>IPI</b> taxes (80% from 2004-2014; 75% in 2015; and 70% from 2016 up to 2019; from 2020 on this incentive will be extinct)</li> <li>Reduction of 50% on the <b>IPI</b> of purchased equipment destined to RD&amp;I</li> </ul>

For more detailed information (e.g. on specific requirements for each of the tax incentives), please consult the paragraph describing the tax incentives

## ELIGIBLE ACTIVITIES

There are several activities within research and innovation in Brazil eligible for tax incentives. Below is a list of the different types of eligible activities followed by a short explanation that does not however, constitute a formal definition:

- **Basic research:** research on new phenomena with the aim of developing products, processes and innovative systems;
- **Applied research:** research that intends to acquire new knowledge with the intention to develop or improve products, processes and systems;

- **Experimental development:** work derived from existing knowledge to prove, test or demonstrate the technical feasibility and functionality of new products, processes, systems and services along with improvements of existing technologies;
- **Basic industrial technology:** measurement and calibration of machinery and equipment as well as the design and manufacturing of instruments to measure according to specific compliance certificates (including related tests, standardization and technical documentation, and the patenting of products or processes developed);
- **Technical support services:** services that are indispensable to implementing and maintaining facilities, machinery and equipment used solely for research projects, technological innovation, and training of staff devoted to such projects.

## **REGULAR TAXES FOR LEGAL ENTITIES IN BRAZIL**

Considering that all tax incentives for investments in RD&I are granted on the federal taxes, it is important to highlight the most essential taxes of the federal tributary system:

- **Corporate Income Tax (IRPJ):** This tax is calculated based on the company's actual profit, i.e., the taxable income after all additions, deductions and compensations according to the law and the type of company/institution. The tax is based on the calendar year with monthly tax payments. The tax rate is of 15%, with a surcharge of 10% tax (15% for financial institutions) on annual taxable income in excess of R\$240,000.00;
- **Social Contribution on Net Profit (CSLL):** This tax is also based on actual profit of the company, similarly to the IRPJ, and has the same rules established of temporary and permanent adjustments. The tax rate is of 9% (or 15% for financial institutions);
- **Social Integration Program (PIS/PASEP):** This is a federal social contribution calculated as a percentage of the gross revenue, levied generally at 1.65%. In some sectors the imposed rates might be higher. The PIS is paid only once on the final value of each transaction, thus creating a credit system where each company have a tax credit on acquisitions of inputs and certain expenses (non-cumulative system). In some specific legal cases certain companies cannot join the tax credit system, being part of the cumulative system. In this case, without a credit system, the PIS rate is of 0.65%;

- **Contribution for Social Security Financing (COFINS):** This is a social security contribution calculated as a percentage of gross revenue and is paid on a monthly basis, with rules similar to the PIS. As the PIS/PASEP tax, COFINS is also paid through a non-cumulative or a cumulative system, depending on several legal conditions. Currently, the tax rate is 7.6% in the non-cumulative system and 3% in the cumulative system (4% for financial institutions). In some sectors the tax can be higher;
- **Tax on Industrialized Products (IPI):** This is a tax that applies to all national and imported industrialized products through a non-cumulative system (of the value of taxes paid upon the final product from the moment it leaves the industrial establishment, it is possible to deduct the value of taxes paid in former operations regarding the respective inputs). It is applied to goods at the time they leave the industrial establishment, at customs clearance, or when they are bought in auctions. Export products are free of this charge and the tax rates vary considerably across sectors and types of products.

## **TAX INCENTIVES FOR INVESTMENTS IN RD&I: RELEVANT LEGISLATION**

There are two main laws in Brazil determining the tax incentives available to private entities in Brazil and each one of them has been extensively modified by decrees since their creation. Since 2008 companies have been able to benefit from *both* laws, not having to choose between them, but some specific rules regarding mandatory options between different legislations are briefly considered in this report.

Companies in Brazil that make use of any of these incentives must, along with annual income tax return values, report to the government about their RD&I activities and the benefits, projects and structure thereof on an annual basis. The Ministry of Science, Technology and Innovation (MCTI) is the organ responsible for this control.

**Law of Information Technology (no. 8248/91):** This law was created with the aim to promote innovation and to increase competitiveness of IT companies in Brazil. In its current form, the main benefit obtained is the reduction of the IPI taxes (a reduction of 80% from 2004-2024; 75% in 2025-2026; and 70% from 2027-2029; after which the incentive will be dissolved). Reductions can

also be given to areas such as services, raw materials, expenses for real estate property and facilitation of the hiring process of scientists and researchers.

The law requires that at least 4% of the company's revenue earned on the products that have benefited from the tax reduction must be reinvested in RD&I activities, with 2.16% reinvested in RD&I activities within the company and 1.84% invested externally, respectively<sup>1</sup>. In case the company's revenue is less than R\$15 million, the 4% can be invested only within the company.

To obtain the incentives the company must submit a project to the Ministry of Science, Technology and Innovation (MCTI), which should contain information on the products that will receive the IPI deduction along with information about the research project that will be implemented. Some specific northern, northeastern and center-western regions are provided with additional tax incentives to promote these least favored areas (IPI reduction of 95% from 2004-2024; 90% in 2025-2026; and 85% from 2027-2029).

**Law of Good (Lei nº 11.196/2005):** This law is intended to broaden the scope of existing laws regarding tax incentives for RD&I and to facilitate access to such incentives, while simultaneously stimulating companies facing technological risk associated with the innovation processes. This allows the use of tax incentives by legal persons that perform technological research and development activities without the need of project approval by the government. The activities considered under the law are: basic research, applied research, experimental development, patents, technical support services, and human resources. Access to the incentives does not depend on company type or certain regional criteria; however, most of the incentives apply only to the companies that adopt the actual profit method to pay the income tax. Companies adopting the assumed profit method only benefit from the IPI reductions. Summing up, the incentives are:

- Deduction on the IRPJ of all expenses within RD&I;
- Deduction of extra 60% (100+60=160%) of expenses with technology-based innovation from the calculation of IRPJ and the CSLL. The value can rise up to 70% if 5% of the employees are hired exclusively for activities within RD&I. The value increases up to 80% if more than 5% of the employees are dedicated to such activities. An additional 20% can be excluded from the IRPJ on the values related to approved patents resulting

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<sup>1</sup> This money will be divided in mandatory deposits to the National Fund for Scientific and Technological Development, and partnerships with science and technology institutions from the Center-Western, Northern and Northeastern regions of Brazil, as a mean to guarantee a minimum investment in the least favored areas

from the RD&I activities, as well as some registered *cultivares* (different varieties of plants species; this term is strongly connected to biotechnology property rights);

- Reduction of 50% on the IPI of purchased equipment destined to RD&I;
- Accelerated depreciation of equipment, machines, apparels, and new instruments and tools destined to RD&I already in the year of acquisition, meaning that no IRPJ and CSLL taxes considers these items when being calculated;
- Accelerated amortization during acquisition of intangible assets linked to RD&I activities;
- Reduction of income tax rate to 0% in cases of remittances to foreign countries, if they are destined to the registration and maintenance of brands, patents and *cultivares*;
- Deduction of IPRJ and CSLL regarding transfers made to micro and/or small companies, if the money is to be invested in RD&I activities of interest to the legal entity making the transfer.

Additional incentives may apply in certain conditions. Companies have the option between the Law of Good incentives or to adopt the incentives granted by Law no. 11487/2007. The latter grants exclusion of IRPJ and CLSS on the value spent on scientific and technological projects performed by science and technology institutions (STI). The exclusion ranges from half until up to two times the value. In this case, the STI should be accredited and approved by a permanent committee (Ministry of Education/Ministry of STI/Ministry of Development, Industries and Foreign Trade).

## **MAIN ELIGIBILITY CRITERIA AND REGISTRATION**

The legal instruction IN-RFB 1187/11 regulates the access to tax incentives by establishing certain rules. The macro requirements are:

- The company must have a taxable income within the period;
- The expenses connected to the RD&I projects must be controlled through specific accounts;
- Goods and services must be acquired in Brazil, with some exceptions (e.g. fixed asset import);
- Clearance of federal taxes (certified at each semester);
- To receive the incentives, the company must fill out forms on benefits, projects and innovation structure used in previous years and address the documentation to the Ministry of Science, Technology and Innovation;

- Report the income tax return values on an annual basis to the Brazilian Federal Revenue (RFB).

## **INTRODUCTION TO GRANTS AND OTHER INCENTIVES**

Several institutions in Brazil have also implemented specific grants and other incentives to promote innovation and scientific research through private entities. Among the most important institutions is the Banco Nacional de Desenvolvimento Econômico e Social (BNDES) (National Bank for Economic and Social Development) an agency within the MDIC. BNDES supports projects that contribute to the country's development. Innovation, local/regional development and environmental issues are considered the most important to be addressed by BNDES' policies, which have resulted in the creation of various types of funding packages, programs, and grants.

Another relevant institution is the Financiadora de Estudos e Projetos (FINEP) (Funding Authority for Studies and Projects), a Brazilian innovation organ focused on the promotion of development through public support to science, technology, and innovation activities. FINEP, in addition to numerous academic funding lines, has several initiatives for the private sector, e.g., sectorial funds for S&T for financing projects, development and innovation in a broad range of economic sectors; refundable and non-refundable financial support which covers all stages and dimensions of a project; incubation of technology-based companies, and establishment of technology parks.

Other federal agencies e.g., Conselho Nacional de Desenvolvimento Científico e Tecnológico (National Council for Scientific and Technological Development), Coordenação de Aperfeiçoamento de Pessoal de Nível Superior (Coordination for the Improvement of Higher Education Personnel) and state funding agencies complete the spectrum of institutions promoting innovation through grants and funding programs in Brazil.

Innovation Centre Denmark can be consulted for further information on funding opportunities for Danish-Brazilian cooperation within research.

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