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Global Agricultural Information Network

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Changes to Brazil's Excise Tax on Industrialized Products (IPI)

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Report Highlights:

On August 31, 2015, a special edition of the *Official Gazette* published Provisional Measure (MP) 690, in which the Excise Tax on Industrialized Products (IPI) on alcoholic beverages was changed from an *ad rem* to an *ad valorem* system. Also on August 31, Decree 8,512 was published, which established the actual tax rate for each type of beverage under the new system.

General Information:

Brazil has a value added tax is known as the Excise Tax on Industrialized Products (IPI). It is a federal tax, applied on both domestic and imported items, with rates ranging in concert with how the Government of Brazil (GOB) categorizes industrialized products - from “essential” to “superfluous.” There are specific situations in which the Brazilian government may exempt taxpayers from IPI. For example, exports and products coming from the Manaus Duty-Free Zone, but the government may also select a certain category of products to be exempt from IPI taxes within a set time frame. This was the case with white kitchen appliances and popular vehicles in the past.

A New IPI Tax System

In 2014, Brazil found itself in a recession. Corruption scandals, rising inflation, and the government’s inability to control the budget deficit reduced consumer and investor confidence and sent the country into a downward spiral. The GOB took a series of urgent actions to overcome its deficit and bring in new revenues. On August 31, 2015, a special edition of the *Official Gazette* published Provisional Measure (MP) 690, in which the IPI tax on “hot beverages^[1]” was proposed to be changed from the old *ad rem* (fixed) system to an *ad valorem* (percentage of final cost) system. The measure was announced by then Minister of Finance, Joaquim Levy, and Minister of Planning, Nelson Barbosa, during the presentation of the 2016 budget proposal. Also on August 31, Decree 8,512 was published. Decree 8,512 established the actual tax rate for the various categories of “hot beverages” in its annexes.

ANNEX I

TIPI CODE	DESCRIPTION	RATE (%)
2204.10	Wine of fresh grapes “champagne” type (Champagne)	10
2204.21.00	Wine and grape must with fermentation prevented or arrested by adding alcohol (In containers holding 2 liters or less)	20
2204.29.11	Others (In containers holding 5 liters or less)	20
2204.29.19	Wines (Others)	20
2205	Vermouth and other wine of fresh grapes flavored with plants or aromatic substances	15
2206.00.90	Fermented beverages, including cider, perry and mead (Others)	20
2208.20.00	Spirits obtained by distilling grape wine or grape marc (Brandy/Pisco)	30
2208.30	Whiskies	30
2208.40.00	Rum and other spirits obtained by distilling fermented sugarcane products (Cachaça)	25
2208.50.00	Gin and Geneva (Gin)	30
2208.60.00	Vodka	30
2208.70.00	Liqueurs and Cordials	30
2208.90.00	Others (Except Ex 01 and Ex 02)	30
2208.90.00	Others Ex 02 (Ready to drink products with an a.b.v less than 8%)	20

ANNEX II

TIPI CODE	DESCRIPTION	RATE (%)
2208.40.00	Ex 01 (Rum and other spirits produced from sugar syrup)	30

IPI in the 1990s – Ad Rem for Everyone

Before the 1990s, Brazil applied an *ad valorem* system to tax alcoholic beverages, changing to a complicated *ad rem* system in the beginning of the 90's. Under the *ad rem* system there were 26 levels of the IPI tax, classified by letters A-Z. The tax rate increased with each letter, and was based on type of beverage and volume of the container. While the *ad rem* IPI tax was applied to domestically produced beverages as well as imported, the applied grade for imported products was always two letters higher. So for example, sparkling wine in bottles up to 180 ml produced in Brazil may be classified at level C, but an imported sparkling wine in the same volume from the United States would be classified at level E. Although this *ad rem* system may not have been applied equally using a national treatment argument, the tax rate for alcoholic beverages was so low that no importing companies complained at the time.

The *ad rem* system was last updated in 2008 by Decree 6,588. The tables below describe how the AD Rem was applied:

CLASS	IPI (R\$)	CLASS	IPI (R\$)	CLASS	IPI (R\$)
A	0.14	I	0.61	Q	2.90
B	0.16	J	0.73	R	3.56
C	0.18	K	0.88	S	4.34
D	0.23	L	1.08	T	5.29
E	0.30	M	1.31	U	6.46
F	0.34	N	1.64	V	7.88
G	0.39	O	1.95	X	9.59
H	0.49	P	2.39	Y	11.70
				Z	17.39

HS Code	Description	Class by bottle capacity (ml)			
		Up to 180	181 to 375	376 to 670	671 to 1,000
2204.10.10	Wine of fresh grapes "champagne" type	E to H	J to M	K to P	L to Q
2204.10.90	Other sparkling wine	C to G	H to L	I to O	K to Q
2204.2	Wine and grape must with fermentation prevented or arrested by adding alcohol				
	1. Port wine and sherry wine	E to F	J to K	K to L	L to O
	2. Wine and grape must with fermentation	A to	A to	B to I	C to J

	prevented or arrested by adding alcohol, comprehending mistelles	C	F		
	3. Table wines produced with American varieties or hybrids, semi-sparkling included	A to B	A to D	B to G	C to J
	4. Fine or noble and special table wines, produced with wine grapes, semi-sparkling included	C to E	E to F	G to I	H to J
	5. Table wine, Young wine	C to E	E to F	G to I	H to J
	6. Other Liqueur wines, from hybrid grapes	B to C	C to E	D to H	D to K
	7. Other Liqueur wines, from wine grapes	C to F	E to G	G to J	H to K
	8. Other wines	C to I	E to M	G to P	H to Q
2204.30.00	Other grape must	A to C	A to F	B to I	C to J
22.05	Vermouth and other wine of fresh grapes flavored with plants or aromatic substances	B to I	C to M	E to J	H to L
2206.00	Fermented beverages (including cider, perry and mead)				
	1. "Cooler", from wine	B to J	C to N	E to Q	G to T
	2. Cider	A to B	A to D	B to G	C to H
	3. Other fermented beverages, alcohol content above 14%	B to L	D to M	E to Q	H to R
2208.20.00	Spirits obtained by distilling grape wine or grape marc				
	1. Spirits obtained by distilling grape wine or grape marc (brandy or grappa)	J to K	K to L	L to O	M to R
2208.3	Whiskies	C to L	I to P	L to S	O to U
	1. Aged up to 8 years and less than 12 years, except from pure malt ("pure malt" and "single malt")	C to M	I to Q	L to T	O to V
	2. Aged up to 12 years, except from pure malt ("pure malt" and "single malt")	C to O	I to S	L to V	O to X
	3. Pure malt whisky ("pure malt" and "single malt")	C to M	I to Q	L to T	O to X
2208.40.00	1. Rum and tafia				
	2. Rum and tafia obtained by sugarcane molasses	B to I	F to M	I to P	L to R
	3. Tafia, commercialized in returnable bottles	A to G	B to K	C to N	F to Q

	4. Tafia, commercialized in non-returnable bottles	B to G	C to K	D to N	H to Q
2208.50.00	Gin and geneva	B to I	F to M	I to P	L to S
2208.60.00	Vodka	B to I	E to M	H to P	L to S
2208.70.00	Liqueurs	B to I	F to M	I to P	L to R
2208.90.00	Other alcoholic drinks (eg: "Arrack", "Korn", "Pisco", "Steinhager")	B to I	F to J	I to L	L to M
	1. "Cooler" , alcohol content below 8%	D to E	E to G	G to I	I to L
	2. Admixed spirit composed by tar	B to G	D to K	F to N	I to O
	3. Admixed spirit and alcoholic drink, composed by ginger	B to G	D to K	F to N	I to O
	4. Alcoholic drink from "jurubeba"	B to G	C to K	E to L	H to M
	5. Spirits distilled from fruits' essential oils	B to J	C to N	E to Q	H to R
	6. Spirits distilled from plants or fruits	B to J	C to N	E to Q	H to R

Enter PLV 26/2015

On December 2, 2015, a joint Congressional committee appointed to analyze Provisional Measure (MP) 690 approved an amended version of MP 690, now titled “*Projeto de Lei de Conversão (or PLV) 26/2015.*” On December 15, 2015 Brazil’s Chamber of Deputies voted to pass PLV 26/2015 with changes. The new text was passed by the Senate on December 16, 2015. The change made by the Chamber of Deputies was to further lower the IPI rates for wine, liquor, and cachaça, as shown below:

	Decree 8,512	Projeto de Lei de Conversão 26
Wine and Liquor	10%	6% ceiling for 2016 5% ceiling from 2017
Cachaça	25%	17%

On December 30, 2015 President Dilma Rousseff line item vetoed this further reduction in the IPI rates for wine, liquor, and cachaça, signing PLV 26/2015 into effect with an IPI rate of 10% for wine and liquor, 25% for cachaça, and 30% for most other distilled spirits including Tennessee Whiskey and bourbon. Following the veto, Congress technically had 30 calendar days from the start of session on February 1, 2016 to overturn the President's veto and maintain its lower proposed IPI levels. If her veto is overturned, the President will have to sign the final version into law, even if it runs contrary to her initial position. However, as of the date of this report, Congress has not taken a decision on whether to override the veto.

Distinctive Products

The United States and Brazil have a shared intent to increase trade in distilled spirits between our two countries, as evidenced by a 2013 bilateral agreement on distinctive products, whereby the United States recognized cachaça as a distinctive product of Brazil, and Brazil recognized bourbon and Tennessee Whiskey as distinctive products of the United States. This new IPI tax measure could undermine the spirit of that agreement, by appearing to introduce a tax advantage for Brazil's cachaça producers. If the tax structure applies a lower tax rate to locally produced spirits than it applies to imported spirits, this may raise concerns with respect to Brazil's national treatment obligations as a WTO Member.

E Agora?

Throughout this process, the Brazilian Food and Beverage Importers and Exporters Association (ABBA) played a major role in negotiating with the GOB. ABBA lobbied for a flat rate of 18 percent for all categories of hot beverages. According to ABBA, the new IPI rates will put many companies out of business, meaning income generated by the tax is also likely to drop. If this happens, there will be potential to negotiate with Brazil's Federal Revenue Office. It is early yet to demonstrate the full impact of these higher taxes because they went into effect December 1, 2015.

The table below shows the effect of the new system on a product valued at R\$ 100.

PRODUCT TYPE	EXAMPLE CONSIDERING HIGHER CLASSIFICATION (From 671 to 1,000ml, upper letter)		
	Current IPI (AD REM in R\$)	New IPI (Ad VALOREM in R\$)	IPI Increase (%)
Wine of fresh grapes "champagne" type	2.90	10.00	245
Other sparkling wine	2.90	10.00	245
Port wine and sherry wine	1.95	20.00	926
Vermouth and other wine of fresh grapes flavored with plants or aromatic substances	1.08	15.00	1,289
Other fermented beverages, alcohol content above 14%	3.56	20.00	462
Spirits obtained by distilling grape wine or grape marc (brandy or grappa)	3.56	30.00	743
Whiskies aged up to 8 years and less than 12 years, except from pure malt ("pure malt" and "single malt")	7.88	30.00	281
Whiskies up to 12 years, except from pure malt ("pure malt" and "single malt")	9.59	30.00	213
Pure malt whisky ("pure malt" and "single malt")	9.59	30.00	213

Rum and tafia obtained by sugarcane molasses	3.56	25.00	602
Gin and geneva	4.34	30.00	591
Vodka	4.34	30.00	591
Liqueurs	3.56	30.00	743

^[i] “hot beverages” are defined as those alcoholic beverages listed in the tables Annex I and II.