

# GENERAL AGREEMENT ON

## TARIFFS AND TRADE

RESTRICTED

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#### Notifications Pursuant to Article XVI:1

##### BRAZIL

The present document updates the information appearing in document L/6111/Add.6 and L/6111/Add.6/Corr.1.

#### Income Tax Reduction

##### Nature and authority

Exporters benefited from an income tax exemption created by Decree-Law 1158 of 1971 until December 1987. However, profits made in 1988 (income tax return to be filed in 1989) are now subject to a tax rate of 3 per cent and those made from 1989 onwards are going to be subject to a tax rate of 6 per cent (as compared to the normal 35 per cent tax rate), according to Decree-Law n.2.413, of February 10, 1988.

##### Incidence

The utilization of this benefit is only possible when the enterprise has both an operational profit and a taxable profit. The magnitude of the tax reduction varies in accordance with the proportion of export sales in relation to total sales of the enterprise. The benefit is not received until the statement of taxable income is submitted and taxes paid.

As noted above, this tax reduction applies only to enterprises with operational profits and taxable profits. In such case the reduction of the total income tax to be paid constitutes savings to the general account of the recipient company. It is important to note that total taxable profits (export and domestic) benefit from this program to the same degree. This dilutes any possible direct price impact on exports. Furthermore, the benefit to the enterprise is not received until long after the exports that generated the benefit.

Consequently the actual price impact on the exported products is questionable.

##### Amount

Benefits are estimated to have reached cruzados (CZ\$)39.440.673.000,00 in 1987 and cruzados (CZ\$)283.172.316.000,00 in 1988.

Estimated amount of benefits per unit

The benefit per unit exported was 0,004472 per cent in 1987. As for 1988, the full data necessary for the calculation are not available.

Working Capital Financing for Exports

Nature and authority

Working capital financing for production of exported products was originally provided in accordance with Central Bank Resolution 71 of 1970 and its amendments. The legislation now in force is Central Bank Resolutions 882, of December 21, 1983, and 950, of August 21, 1984, as amended by Resolutions 1.009, of May 2, 1985, and 1.538. of November 30, 1988.

Incidence

A corporation must apply to CACEX to become eligible for Resolution 674/882 financing. The company approaches CACEX, either presenting the previous year's exports or an adequately constructed and realistic export plan. The amount of financing in most cases will be based on the previous year's exports.

The maximum dollar eligibility under the program is established by CACEX. The maximum value of such financing is calculated by determining the "net" value of the previous year's exports (5 per cent to 30 per cent of the "net" exports, depending on the product). This value is calculated by making several deductions from the F.O.B. export value.

Resolutions 674 and 882 specifically list the applicable deductions as follows:

- (a) commission of the foreign agent or representative;
- (b) payment of contractual penalties, refunds, or return of goods;
- (c) cruzados exports;
- (d) re-exports or exports of imported goods;
- (e) remittance of goods for display in trade fairs or expositions, provided they are not sold;
- (f) exports without exchange coverage, such as donations, servicing replacement due to failures, samples and similar cases;
- (g) imported inputs with f.o.b. value exceeding 20 per cent of exported product;
- (h) imports by exporting companies, on a direct basis or trading companies, during the previous calendar year, within the following limits:
  - (i) companies showing a trade surplus: 10 per cent of the f.o.b. value of imports;

- (ii) companies showing a trade deficit: 10 per cent of the f.o.b. value of imports less the percentages listed below, based on the company's trade deficit:

<u>Deficit</u>	<u>Rate of Deduction</u>
- over 100% of the export value	60%
- between 70% and 100%	50%
- between 40% and 69%	40%
- between 20% and 39%	25%
- between 1% and 19%	10%

At present, financing of this program is made directly by commercial banks using their own resources and charging the prevailing market interest rate. The Foreign Trade Department of Banco do Brasil S.A. (CACEX) ensures the payment ("equalization") of the financial fees up to a limit of 7.5 per cent per annum. Loans are not permitted to be rolled over, have a maximum duration of 12 months, and interest is payable at the end of 6 months and at the expiration of the loan.

#### Amount

Since the "equalization" system was adopted, the Central Bank has been keeping control of the funds destined to the three lines of credit ("working capital financing for exports", "financing for trading companies" and "financing for storage of goods") in an aggregate manner which makes a breakdown showing each line of credit not technically possible. Therefore the values indicated hereinafter correspond to the total amount paid in "equalization" fees for those lines of credit: cruzados (CZ\$)6.759.510.000,00 in 1987 and cruzados (CZ\$)60.197.736.000,00 in 1988 (January through November).

#### Estimated amount of benefits per unit

The amount of benefit per unit exported can be estimated only for the three programs together ("working capital financing for exports", "financing for trading companies" and financing for storage of goods"): 0,66 per cent in 1987 and 0,96 per cent in 1988 (January through November).

### Financing for Trading Companies

#### Nature and authority

Working capital financing for trading companies exporting manufactured products was originally provided in accordance with Central Bank Resolution 329, of March 15, 1973. The legislation now in force is Central Bank Resolutions 883, of December 21, 1983, and 950, of August 21, 1984, as amended by Resolutions 1.009, of May 2, 1985, and 1.538, of November 30, 1988.

Incidence

This program operates identically to financing available under Resolution 882, although Resolutions 882 and 883 are mutually exclusive and do not provide cumulative benefits.

Financing is made directly by commercial banks using their own resources and applying prevailing market interest rates. CACEX ensures the payment of financial fees up to 7.5 per cent per annum.

Amount

See corresponding item under "Working Capital Financing for Exports".

Estimated amount of benefits per unit

See corresponding item under "Working Capital Financing for Exports".

Financing for Storage of Goods

Nature and authority

Under Resolution 330, of March 15, 1973 of the Banco Central do Brasil, exporters may be eligible for working capital financing of the value of merchandise placed in a specified bonded warehouse and destined for export. Terms and conditions are similar to those currently applicable to the working capital financing for exports and the financing for trading companies.

Incidence

In order to be eligible for such financing, the exporter must store its goods in a specified bonded warehouse. Such warehouses are owned and operated only by selected trading companies.

The maximum level of eligibility is 80 per cent of the value of the merchandise placed in the warehouse. This percentage applies only if the products will remain in the warehouse from 1-90 days. If the period in which the goods remain in the warehouse is in the range of 90 to 180 days, the maximum eligibility is 70 per cent. For periods between 180 and 365 days, the maximum eligibility is 60 per cent.

Amount

See corresponding item under "Working Capital Financing for Exports".

Estimated amount of benefits per unit

See corresponding item under "Working Capital Financing for Exports".

## Exemption from Import Duties and the Excise Tax

### Nature and authority

Under Decree-Law n.2.324, of March 30, 1987, exporters of manufactured goods are eligible to obtain exemption from import duties and the excise tax ("Tax on Manufactured Products" - I.P.I. in Portuguese) on the importation of goods the value of which cannot exceed 10 per cent of the increase of exports in the most recent calendar year over the previous calendar year. This benefit will be in effect until December 31, 1991.

It is important to note that this is not a new benefit but a reinstatement of a benefit that was established by Decree-Law n.1.189, of September 24, 1971, and discontinued by Decree-Law n.1.726, of December 7, 1979.

It is also worth noting that tax changes that took place in 1988 (Decree-Law n.2.433, of May 19 and Decree-Law n.2.434, of May 19) reduced considerably the benefit of this program, by making generally available the exemption from the excise tax (I.P.I.) in the case of purchases of equipment, machines, instruments and their respective accessories, spare parts and tools, whether imported or manufactured domestically, by any producer (be it an exporter or not) for its own use.

Another aspect that must be stressed, in line with the reduction of the effective benefit of this program, is that the credit/debit mechanism of a value added tax like the excise tax (I.P.I.) makes the exemption useless in the case of the importation of raw materials and intermediate products that are used in the manufacturing of exported goods. The same result - exemption from the excise tax (I.P.I.) as well as from the customs duties - could be achieved by using the normal drawback mechanism.

### Incidence

As is clear from the foregoing description, only firms which increase their exports in one calendar year as compared with the previous one can benefit from this program. They must apply to the Foreign Trade Department of "Banco do Brasil S.A." (CACEX) for import licenses with the total value within the limits calculated in accordance with what is established in Decree-Law n.2.324/87. Those import licenses showing the exemption from customs duties and the excise tax (I.P.I.) are then forwarded to Customs (a department of the Internal Revenue Service) when the importation occurs effectively.

### Amount

Total benefits amounted to cruzados (CZ\$)49.101.000,00 in 1987 and cruzados (CZ\$)2.602.141.000,00 in 1988 (January through October).

### Estimated amount of benefits per unit

The amount of benefit per unit exported was 0,005 per cent in 1987 and 0,05 per cent in 1988 (January through October).