

BRAZIL AGAIN SEEKS TO TAX CITIZENS' FOREIGN FINANCIAL INVESTMENTS

Social: The Brazilian government is making another attempt to tax its resident citizens on income from oversea financial investments, after an initial proposal failed. This could mean major changes to the tax treatment of individual income in that country.

The government of Brazil is again looking to increase revenue by taxing the capital income from financial investments obtained abroad by individuals who live in Brazil.

PL 4.173/2023, like its predecessor PL 1,171/20231 that recently failed to become law, introduces a progressive income tax and the taxation of foreign income (financial investments, controlled entities and trusts) by individuals residing in Brazil. It now must pass the Brazilian House and Senate, which combined have 90 days to consider it, making the absolute deadline late November.

Income earned from Jan. 1, 2024, could fall under the new measure.

Foreign holdings

Pending that approval, as of Jan. 2024, financial investments, profits and dividends from foreign-controlled entities must be reported separately from domestic income and capital gains on an individual Brazilian's income tax return.

The government says that Central Bank of the Brazil data on investment abroad shows that Brazilians have assets abroad in a total value of more than 200 billion USD, especially in countries or regimes with low or no taxation. In relation to trusts, especially for high-income families, the absence of regulation of tax effects in Brazil creates legal uncertainty.

Financial investments held directly by the individual continue to be taxed on the realization, but under the new proposal the rate would change. Financial operations outside Brazil would include entities controlled abroad, including funds, held directly or indirectly by the individual, as well as trusts with an individual founder or beneficiary residing in Brazil. Funds and investments

acquired as a non-resident are no longer exempt and are taxed when the non-resident moves to Brazil.

As in the first proposal, income up to 6,000 reais (as of current rates, 1 USD equals 4.93 BRL) will be tax exempt. Income from 6,000 to 50,000 BRL will be taxed at 15%. Income exceeding 50,000 BRL will be taxed at 22.5%.

Financial investments are noted to include retirement funds, pension funds, fixed income securities, and some insurance policies, among others.

Other conditions

- The tax paid abroad may be deducted from an individual's income tax due in Brazil meeting certain requirements of the legislation, but the excess to the amount deductible in the same calendar year won't be deductible in later or earlier calendar years.
- When the foreign company controlled by an individual resident in Brazil should make investments in Brazil, the profit or income may be excluded from taxation provided that the tax incidence in Brazil has been higher than 22.5%.
- Deductibility of losses of entities controlled abroad incurred until the end of this year is limited, as is transfer of assets and rights to entities abroad. If the project is approved in 2023, from 2024, it can only be done at market value if the entity is not "transparent" for tax purposes.

Brazil has long had a [troubled tax system](#), ranking last in per-capita tax efficiency and near bottom on taxation on income compared with taxation on consumption. In recent years, tax havens [reportedly](#) topped the list of offshore investment for wealthy Brazilians.

The country's Leftist President Lula's economic team has claimed that the government will seek to "balance public accounts by taxing those who should but are not paying taxes," according to [news reports](#), similar to [wealth tax](#) proposals in the U.S.

Your tax specialist needs to stay on top of this and many other issues of wealth, foreign income and tax enforcement. If we can help, please let us know.

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About the Author

Alicea Castellanos is the CEO and Founder of Global Taxes LLC. Alicea provides personalized U.S. tax advisory and compliance services to high-net-worth families and their advisors.

Alicea has more than 20 years of experience. Prior to forming Global Taxes, Alicea founded and oversaw operations at a boutique tax firm, worked at a prestigious global law firm and CPA firm.

Alicea specializes in U.S. tax planning and compliance for non-U.S. families with global wealth and asset protection structures which include non-U.S. trusts, estates and foundations that have a U.S. connection.

Alicea also specializes in foreign investment in U.S. real estate property, and other U.S. assets, pre-immigration tax planning, U.S. expatriation matters, U.S. persons in receipt of foreign gifts and inheritances, foreign accounts and assets compliance, offshore voluntary disclosures/tax amnesties, FATCA registration, and foreign companies wanting to do business in the U.S.

Alicea is fluent in Spanish and has a working knowledge of Portuguese.

Alicea is an active member of the Society of Trusts & Estates Practitioners (STEP), the New York State Society of Certified Public Accountants (NYSSCPAs), the American Institute of Certified Public Accountants (AICPA), the International Fiscal Association (IFA), a member of Clarkson Hyde Global, a world-wide association of accountants, auditors, tax specialists and business advisors and the Global Referral Network (GRN).

Distinctly, in 2020, Alicea was awarded with a prestigious NYSSCPA Forty Under 40 Award. She was selected as someone that has notable skills and is visibly making a difference in the accounting profession.

In 2021 and 2022, Alicea was the Gold and Silver Winner, respectively, of Citywealth's Powerwomen Awards in the category USA - Woman of the Year - Business Growth (Boutique). In 2023, she continued her winning streak by receiving the Gold award for Company of the Year Female Leadership (Boutique), and Silver award for Accountancy Firm of the Year at the Magic Circle Awards. Furthermore, Alicea is currently listed in the Global Elite Directory 2023, which is an annual exclusive directory of the world's elite lawyers and outstanding wealth advisors advising ultra-high net-worth clients.