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Decree 10,977/22 reduces IOF-Exchange rates to reach 0% in 2029

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Introduction

Decree 10,997/22, which was published on 16 March 2022, has established the reduction of the tax on exchange transactions (IOF-Exchange) rates to 0% in 2029.

Currently, a general rate of 0.38% applies, but the applicable rules provide for some exceptions, such as higher rates for short-term loans and credit card international payments.

According to Decree 10,997/22, the reduction will be carried out gradually until it reaches all exchange transactions. This reduction is connected to Brazil's entry process into the Organisation for Economic Co-operation and Development (for further details please see "Tax challenges in Brazil's accession to OECD").

0% rate to loans of any term

The reduction to 0% is already effective on exchange transactions for the entry of funds for loans granted for an average minimum term of 180 days or less. Such loans were previously subject to a 6% tax rate, also applicable if the minimum term established was not respected after the entry of funds (eg, in case of a repayment prior to the minimum term). The 0% rate that was applicable to loans with a term that exceeds 180 days remains unchanged.

Federal government has used the IOF-Exchange on loans to regulate the inflow and outflow of funds into the country and the currency exchange rate. In this sense, the average minimum term has varied several times, specially between 2011 and 2014, reaching up to 1,800 days in 2012.

In this context, the reduction to 0% releases companies from the increased IOF-Exchange cost in short-term loans, as well as from the required control not to disrespect the minimum term.

Other reductions

A gradual reduction from 6.38% to 0% will apply to exchange transactions related to the purchase of goods and services and foreign withdrawals by users of credit or debit cards. There will be a reduction of 1% per year as from 2 January 2023 to reach 0% as from 2 January 2028.

Further, a 1.1% tax rate currently applies to the acquisition of foreign currency in cash and for the transfer of funds abroad to be available for a corporation (or individual) that is resident in Brazil. However, from 2 January 2028, this rate will be reduced to 0%.

Comment

Despite the Decree 10,997/22, the IOF-Exchange rates may still be changed in the future, mainly considering that IOF-Exchange has been used by the government for regulatory purposes, as well as to meet the need to increase the tax revenues. In principle, IOF rates can be modified by the government through decrees with immediate effect.

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