DOING BUSINESS IN BRAZIL

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I. INTRODUCTION

Diversity is the essence of Brazil. In 500 years of history, a nation has been formed of many types of people, owner of a variation of cultures and a large territory, currently divided in 26 States, a Federal District and 5,563 municipalities. As a democracy, the exercising of Power is attributed to distinct and independent organizations, each with its own function, observing a system of control among them in a way that not a single municipality may act in disagreement with the law and constitution.

The geography of the country shows a strong concentration of economic activity and a population residing in a small section of the land; factors which influence in the concentration of income, wealth and social exclusion. Interfering with this scene and create a country of equal opportunities are the challenges that establish the practice of citizenship and public policies.

1. Political division

The Federal Republic of Brazil is currently politically and geographically divided in five distinct regions that have common features in terms of physical, human, economic and cultural aspects. The limits of each region - North, Northeast, Southeast, South and Central West, always coincide with the borders of the States that compose them.

Brazil is divided in 26 States, 5,563 municipalities and the Federal District, in Brasília headquarters of the federal, legislative and judicial government.

The **North** region occupies the largest portion of the Brazilian territory with an area that corresponds to 45.27% of the 8,547,403.5 km² in the country's total area. Made up of seven States, its area is nearly totally dominated by the Amazon River basin. The Northeast region may be considered as the most heterogeneous of the country. Divided into four large zones - middle-north, jungle zone, the "areste" and "sertão" - it occupies 18.26% of the national territory and has nine States.

The **Southeast** is the region that has the most economic importance in the country and also concentrates the largest population index - 42.63% of 157,079,573 Brazilians - and the largest industrial production. It is made up of four States and presents vast physical differences, with coastline, mountains and plains.

The **South**, the coldest region of the country, which has periods of frost and snow, represents the smallest area, occupying 6.75% of the Brazilian territory and has only three States. The rivers that cut through the area form the Paraná basin covering nearly the entire area and are of great importance to the country, mainly for their hydroelectric potential.

Finally, the **Central-west** region is dominated mainly by the Brazilian Central Plateau and may be divided in three areas: dense forest (Maciço goiano-mato-grossense), Paraná sedimentary basin and the depressions. Made up of four States, this region is suffering significant alterations in its vegetation coverage, with the savannah being gradually substituted by plantations and cattle breeding due to the occupation process of this part of Brazil.

2. Brazilian Economy

2.1. Agriculture

Brazilian agriculture is one of the most strategic economic sectors for the consolidation of the economic stabilization program initiated with the Plano Real (introduction of the new currency "Real") in 1994. The significant participation and strong multiplying effect of the agro industrial complex in the GDP, the large influence of products of agricultural origin (basics, semi-prepared and industrialized) in the list of exports and the contribution to inflation control are examples of the importance of agriculture to the development of the Brazilian economy in the following years.

Farming and cattle-raising represents approximately 12% of the national GDP, only taking into account the production amount. When modern concepts for agribusiness are used (which cover the total amount of production operations and input distribution and new agricultural technology, appropriately successful
production, warehousing, transport, processing and distribution of agricultural products and their derivates), the participation of the complex agro industrial reaches more than 35% of the GDP, proving the multiplying effect that this sector exercises upon the economy as a whole and in the inland of the country in particular.

2.2. Industrial

The current Brazilian industry presents some virtuous aspects, such as high potential for expansion in the internal market, growing export coefficient, strong advances in levels of productivity, signifi cant improvement in quality (proven by the large number of companies with ISO 9000 certificates and others) and greater capacity for competition (that is, less dependence in protection and fomentation). Therefore, its growth is subject to the restrictions of external and tax issues.

The inflation control supported by an exchange anchor, beginning with the Plano Real, generated an over-valuation of the exchange rate that, in an open commercial environment, overflowed into intense
and growing inbalance in external accounts. The trade balance became a huge deficit as of 1995 and Brazil accumulated an extensive volume of external liabilities.

2.3. Transport

As a country of continental dimensions, with a territory extending 8.5 million km^2, Brazil requires a vast network of transport means so that its most important and distant points may be reached and interlinked. However, the elevated concentration of population along the coastline and the central-south region created another type of concentration: the greatest part of the transport network is in this region, other than the fluvial network, which was mainly developed in the Amazon.

The existing transport systems were built in the mid nineteenth century and expanded, particularly, in the last decades. The greater part of railroads, highways, waterways, ports and airports were implemented by the public department who generally continue to exploit and manage them.

Many sections of highways and almost all of the railways have been passed to private operators. The privatization process of ports is already up and running currently, more than 90% of the port operators are already held privately. In regards to legislation, the most important fact is the recent promulgation of the law that facilitates these operations and reduces multiple-mode transport costs.

II. COMPANIES STRUCTURE

Currently, companies can be divided into two classes: “corporations” and “simple societies”, differentiated by the way in which the business is exercised. If the company is organized professionally with an economic
production unit or with the distribution of goods or services it will be considered as corporation, if not, it will be considered as simple society.

In the Brazilian legislative system in force, “corporations” may be constituted under many types, which are:

1. Business Corporations

The business corporation is a company whose capital stock is divided in shares of free negotiation, with all of the partners as holders of limited responsibilities in the amount of the individualy subscribed capital, not responding solely by the total of shares.

This type of company may be classified as “public” or “closed”.

The corporation is considered as public when it is authorized to negotiate its securities amounts in the securities share market (stock exchange and over-the-counter market).

The corporation will be considered closed when it does not have authorization to perform business in a public manner in the securities share market (stock exchange and over-the-counter market).

2. Limited Liability Company (LLC)

The "Limited Liability Company" is the only corporate type, of contractual nature, in which all of the partners have responsibility for social debts, and this limitation is represented by the capital stock itself. That is, whilst the Capital Stock is not totally paid-in, all of the partners may be held responsible for it to be paid-in, but upon it being entirely paid-in, not a single responsibility will be subsidized to the partners.

Therefore, the partners responsibility is not unlimited, but correspondent to the amount of paid-in Capital Stock.

The responsibility of the partners is joint and several, including amongst each other. Therefore, the partner that has totally paid-in his quotas may be responsible, joint and several, with the company or with other partners if any of them has not paid-in the stock.

It is worth noting that, however, due to the partner's responsibility of the subscribed quota, the partner that paid for the ther partner's paid-in will have the right to return it against him.

3. Joint Ventures

The Brazilian legislation does not specifically define joint ventures. In the Brazilian business activities, a joint venture is a company that originates from an agreement with two or more parties aiming at developing a united economic venture. This objective may be achieved by forming a new partnership or by the subscription or acquisition of shares or quotas of an already existing partnership. The partnership may have the form of any type of corporate organization recognized by the Brazilian law.

4. Opening of branches in Brazil by foreign companies

Foreign companies are able to open branches in Brazil only by request from the Industry and Trade Minister, and by an authorization agent by a presidential decree. Due to a lot of red tape, few foreign companies open branches in Brazil.

III. FOREIGN INVESTMENT

1. Foreign Capital in Brazil

Foreign capital in Brazil is ruled by Law n. 4,131 (Foreign Capital Law) and 4,390, from September 03, 1962 and August 29, 1964, respectively. Both were regulated by Decree n. 55,762 from February 17, 1965, with posterior alterations.

According to Law n. 4,131/62, foreign capital is "the goods, machines and equipment entering Brazil without initial foreign currency expenses, intended for the production of goods or services, as well as financial and monetary resources, introduced in the country for application in economic activities only if, in both hypotheses, they belong to the legal entities or individual residents, domiciled or with a head office abroad".

There are officially two exchange markets in Brazil, both subject to regulation by the Central Bank and operating with floating exchange rates:

a) Free exchange commercial/financial market, basically reserved for (i) commercial operations (import and export); (ii) investments in foreign currency in Brazil; (iii) loans in foreign currency to residents in Brazil; and (iv) other operations that involve remittance abroad, subject to previous approval by the Brazilian monetary authorities; and
b) Tourism exchange market, initially created for the tourism industry and, later, amplified to cover a few other operations.

The applicable legislation indicates the types of operations that are benefited by this market.

Even though both markets operate with floating rates, freely negotiated between parties, the main difference between them resides in the fact that (i) the commercial/foreign exchange market is restricted to operations that, in certain cases, require previous approval by the Brazilian Central Bank, on the other hand (ii) the tourism exchange market is open to the operations that dispense such previous authorization.

The exchange operations are evidenced by foreign exchange contracts, and are divided in operations that carry the entrance of foreign capital and those that occasion the exit of foreign currency.

Since February 01, 1999, the positions of foreign exchange markets for free and floating rates to the financial institutions were united, in accordance with the Brazilian Central Bank Resolution n. 2.588 of January 25, 1999. Resolution n. 2,588/99 represents the first initiative by the Central Bank in the sense of unifying the foreign exchange markets for free rates and floating rates

1.1. Restrictions to Foreign Investment

The participation of foreign capital is prohibited in the following activities:

- Nuclear energy; · Health services;
- Ownership and administration of newspapers, magazines and other publications, as well as radio and television networks;
- Ownership of rural areas and business within border zones; · Post and telegraph services;
- Grant of domestic airlines; and · Aerospace industry.

There are still restrictions to the participation of foreign capital in financial institutions, however, such restrictions may be reconsidered if there is national interest.

1.2. Registration of Foreign Capital

All foreign investment must be recorded at the Brazilian Central Bank through a RDE-IED - Electronic Declaratory Registration/Direct External Investment - from the Brazilian Central Bank.

The registration of foreign investment is made in national currency. This register is essential for the remittance of profit abroad, for the repatriation of capital and the effective reinvestment of profits.

1.3. Investments in currency

There is not a necessity for previous official authorization for investment in Brazilian companies. The investment for capital subscription or for participation purchase in an already existent Brazilian partnership will be made through any bank establishment authorized to operate the exchange.

The registration of investment depends on the presentation, by the Brazilian company receptor of the investment, of a request from the Central Bank, in the period of 30 days after the closing of the foreign exchange contract, accompanied by documents that prove the incorporation of these resources.

1.4. Investment through Export Credit Conversion

Should the export credits that are intended to be converted into investment be duly registered in the RDE-IED system, previous authorization from the Brazilian Central bank will not be necessary. When the receiving company is delivered the characteristics of the credit and a declaration from the creditor agreeing with the conversion, it will be necessary to perform a symbolic exchange operation representing the purchase and sale of the foreign currency.

In relation to credits not registered in the RDE-IED system, previous authorization from the Brazilian Central Bank will be necessary for its conversion into investment.

1.5. Investment through Import of Goods without Foreign Exchange Cover

Investment under the form of Import of Goods without Exchange Foreign Cover requires previous approval from the Central Bank and the Foreign Trade Department (Decex) through Siscomex.

The products, machines and equipment must be intended for the manufacturing of goods or service rendering. In the case of importation of used goods and import, making the most of tax incentives, the goods cannot have similar Brazilian counterparts.

After the customs clearance of good imported as such, the Brazilian company will have 180 days to incorporate them in its capital and another 30 days to proceed the request for registration of the investment.

In the case of intangible goods, the respective register of the foreign investment depends on the previous approval by the Brazilian Central Bank.

1.6. Profit Remittance Tax Treaty

In general, there is no restriction to distribution and profits remittance. The profits and dividends calculated and distributed as of 1996 are exempt from Income Tax Withheld at Source (IRRF).

Brazil signed tax treaties with the following countries: Germany, Argentina, Austria, Belgium, Canada, Chile, China, South Korea, Denmark, Ecuador, Spain, Philippines, Finland, France, Holland, Hungry, India, Italy, Japan, Luxembourg, Norway, Portugal, Czech Republic, Slovakia and Sweden.

1.7. Reinvestment of Profits

In accordance with the Foreign Capital Law, reinvestments are profits "gained by companies established in the country and attributed to residents and domiciled abroad, that were invested in the same companies that they proceed or in another sector of the national economy".

If the foreign investor decides to reinvest instead of remitting the profit, these will be liable to registration as foreign capital along with the original investment, through the RDE-IED model.

1.8. Capital Repatriation

Foreign capital registered by the Central Bank may be repatriated at any time, without previous authorization. The remittances that exceed the quantity registered are considered capital gains to the foreign investor, and are therefore subject to the withholding of 15% by way of income tax.

In the specific case of capital repatriation, it is worth stressing that the Central Bank examines the net profit of the company as that presented in its balance.

1.9. Remittance Abroad

The remittance abroad in foreign currency, with the use of the commercial/financial exchange rate, will suffer restrictions when there is no registration of such resources at the Central Bank, considering that the profit remittance, the capital repatriation and the reinvestment registration are all based on the amount registered as foreign investment.

The international transfer of funds in Brazilian currency between residents (including subsidiaries of foreign companies) and non-residents is totally free of charge or previous authorization, as long as the operations are intermediated by banks authorized to operate with exchange in Brazil.

The national currency transferred abroad is converted into foreign currency through a series of mechanisms, one of these being inter-bank operations in the tourism exchange market.

The remittance of foreign currency for the purpose of investment abroad (up to US$5 million per year) is totally free of charge. Operations that exceed this amount require previous authorization from the Brazilian Central Bank. Either way, it is required that the remittances are made in the tourism exchange market and intermediated by banks authorized to operate with foreign exchange in Brazil. A few formalities must be observed for this specific purpose.

1.10. External Transfer of Investments in Brazil

The participation rights held by the foreign investor in a Brazilian company may be transferred abroad, without implications of tax nature in Brazil. In this case, the foreign purchaser that will inherit the registration of foreign capital of the selling company, regardless of the price paid abroad for the investment, must present the request issuance of a new registration certificate to the Central Bank that evidences the alterations in the name of the foreign investor. This certificate is necessary so that the new investor may remit/reinvest profi t and repatriate the capital using the commercial/financial foreign exchange.

2. Foreign Entities - Registration

2.1. CNPJ (National Corporate Taxpayers Register)

The Brazilian Internal Revenue Services provide the possibility of certain foreign entities obtaining an identification number as Brazilian taxpayers. The legal entities domiciled abroad which have the following assets are required to be registered in the National Corporate Taxpayers Register: (i) real estate, (ii) vehicles, (iii) ships, (iv) airplanes and (v) bank accounts. The legal entities that acquire (i) rights related to industrial ownership or (ii) foreign investments through the mechanisms of representative share certificates or other securities amounts issued abroad, based on securities amounts deposited in specific custody in Brazil, are not obliged to perform this registration.

2.2. Cademp

The legal entities domiciled abroad that perform or contract the following operations in Brazil are required to be registered with Cademp, from the Brazilian Central Bank: (i) acquisition of intangible goods with maturity dates greater than 360 days; (ii) financing; (iii) financed imports; (iv) leasing; (v) simple leasing, rent of equipment and freight of ships; (vi) import of goods without foreign exchange coverage intended for the payment of capital of Brazilian companies; (vii) loans in currency granted to residents of the country; (viii) investments (corporate participations in Brazilian legal entities).

2.3. CVM (Brazilian Securities Exchange Commission)

The Securities Commission is an autarchy linked to the Finance Ministry. It is responsible for the regulation, development, control and investigation of the securities amounts in the country.

The legal entities domiciled abroad that perform investments in the financial market or in the capital market are required to be registered with the foreign investors registry in the CVM.

3. Incentives

The foreign investments and the incentives in export had high growth during the government of the ex-president Fernando Henrique Cardoso between 1994 and 2002. The state and municipal government continued to grant tax benefits to the investments in its regions, with the most significant incentives being given in the Northern and Northeastern regions of the country due to the objective of attracting industries.

Other than regional tax incentives, the legal entities may have a reduction in the income tax when registered in the Worker's Meal Program (PAT) that aims to increase the nutritional conditions of employees. The maximum reduction granted in this case is 4%.

The maximum reduction granted on corporate income tax of the legal entity that realizes investments in culture through the projects duly approved by the National Committee of Cultural Development is also 4%.

4. Amazon, Northeast and Espírito Santo IRPJ - Income Tax Withheld at Source

Brazil offers a variety of tax incentives with the intention of advancing the development of its under-developed areas.

The Northeastern Development Agency (ADENE) and the Amazonian Development Agency (ADA) offer to companies that invest in the development regions held by ADENE or ADA a 75% discount in Corporate Income Tax and non-returnable additions, calculated based on the exploitation's profit basis. In this case, to obtain the benefit, the company has to apply at least 20% in infrastructure and 50% in other forms of investment in the protected regions. The benefit in reference is valid until December 2013 and the benefited companies may only enjoy the benefit for a maximum period of 10 years.

There is also the possibility of a Gradual Reduction in the Corporate Income Tax, should the legal entities that maintain economic ventures in the area of ADA/ADENE reach, fitting into economic sectors considered as priorities for the regional development of these areas, being able to obtain a reduction in the Corporate Income Tax and non-returnable additions calculated based on the exploitation's profit basis in the following proportion:

Reduction	***Period***
37.5%	*01/01/1998 to 12/31/2003*
25.0%	*01/01/2004 to 12/31/2008*
12.0%	*01/01/2009 to 12/31/2013*

IOF - Tax on Financial Operations

In this case there is tax exemption on the foreign exchange operations performed for the payment of imported goods in the ventures that implant, modernize or amplify in the Amazon, or ventures that are considered of interest to regional development. The period for the requirement of the IOF exemption is 12/31/2010.

FDA - Amazon Development Fund

Related to a fund of accounting nature managed by the Amazon Development Fund and its objective is to absorb resources for the development of private incentives in the Amazon.

There is FDA participation in the venture through the subscription and payment, only in public capital companies, of shares with the right to vote, with the conversion limited debentures convertible to 15%. The operation risk is 97.5% of its participation by the FDA and 2.5% by the Operating Agent.

5. Import and Export

Since 1990, Brazil has been attempting to reduce its commercial barriers. The Brazilian government eliminated a series of bureaucratic procedures that were considered obstacles for trading, and since then it has been adopting a series of incentives to stimulate export, including through tax and financial incentives and drawback.

Restrictions and Controls

The Foreign Trade Secretary (SECEX), controlled by the Minister for Development, Industry and Foreign Trade, is responsible for the control of the export of Brazilian imports, and companies involved with foreign trade must register at the SECEX as importers or exporters.

It must be noted that there are restrictions in the Brazilian legislation on the number of import quotas for cars, meat, amongst other products.

Importers

The Importers must obtain electronic permission/license for import through the Integrated System of Foreign Trade.

Some products, such as human blood, drugs, weapons, nuclear material, herbicides and pesticides require special authorization from special agencies and in special conditions.

Necessary Documents

The Importers must present the following documents to the customs authorities:

- Original trade bill; · Import declaration;
- Document that demonstrates the veracity of the goods ownership; and
- Other documents that may possibly be required in accordance with the international trade norms.

Exporters

The Exporters also must be registered, and this registration must be made at SECEX as there is the necessity to obtain the license for some products. Usually the validity of these licenses are 90 days. The operations to follow require authorization for special export are:

- Transactions involving non-convertible currency; · Transactions without foreign exchange cover;
- Consigments out;
- Products that are rare in the country; and
- Products containing nuclear and radioactive materials, weapons and ammunition.

Export of virgin wood, animals and other products are specifically prohibited or severely restricted. The Agricultural Minister regulates the export of determined products of animal and vegetable origin (including beans, coffee and potato). The Health Minister regulates the export of medicine, and the Minister of Arms controls the export of weapons, firearms and pistols.

Necessary Documents

- Export License;
- Document Disembark Bill; · Original Trade Bill;
- Certificate of origin of products for those that are exported to countries in Mercosul or LAIA; · Certificate of classification for export rates; and
- Other documents possibly required by specific legislation.

IV. THE BRAZILIAN TAX SYSTEM

The National Tax System is ruled by way of administrative acts (Complementary Laws, Federal Senate Resolutions, Provisionary Executive Acts, State and Municipals Laws), which are edited obeying the limits of its respective accrual basis. Thus, each taxpayer (Union, States, Federal District and Municipal) has the exclusive power to legislate on the tax of its competence, with the invasion of others within its limits being forbidden (article 151, subparagraph III, of the Federal Constitution).

V. THE TAXES

1. Tax Structure in Brazil

The Federal Republic of Brazil is constituted by three governmental spheres: the Union, also known as Federal Government; 26 States, the Federal District and approximately 5,500 Municipalities. According to the provisions established in the Federal Constitution of 1988, Brazilian federalism is protected by a "pétrea" clause, that is, may only be abolished by the originating constitution power, not able to be extinct by way of Constitutional Ammendment.

In this context, the Union, the States, the Federal District and the Municipalities have political, administrative and financial autonomy, with their attributions, limitations and scopes defined in the Federal Constitution.

In regards to tax material and according to Brazilian federalism, the Union, the States, the Federal District and the Muncipalities may institute the following taxes:

- Taxes, that when possible, will have personal character and will be graduated according to the taxpayer's economic capacity, permitting the tax administration, especially to confirm effectiveness of these objectives, to identify, respecting the individual rights and in terms of the law, the wealth, the income and the economic activity of the taxpayers;
- Rates, due to the exercising of police power or by the use, effective or potential, of public services, provided to the taxpayers or put at his disposition, arising from public works, and with its base and calculation not being able to be made up of taxes; and
- Special assessment, arising from public works.

We stress that, the Federal Constitution promulgated on October 5, 1988, welcomed Law n. 5,172 from October 25, 1966, known as the National Tax Code (CTN) that determines the National Tax System and institutes general norms of direct taxes applicable to the Union, States, Federal District and Municipalities.

2. Taxes in Kind

2.1. Municipal taxes

2.1.1. ISS - Services Tax

ISS is the incidental tax on services, foreseen by article 156, III of the Federal Constitution, in Municipality scope. Thus, it is the duty of the municipalities to institute the taxes on services of any nature, except on interstate and inter-municipal transport services and on communications services that are under the scope of the States according to constitutional determinations. The services taxable by Municipalities are defined in Complementary Law 116/2003.

2.1.2. ITBI - Tax on Real Estate Conveyance

The ITBI is under the scope of the Municipality of the goods situation and is charged by transmission among individuals, under any title, by an onerous act, of real estate or real rights on real estate. The tax basis corresponds to the sales price of the real estate or of the real rights transmitted. The rates are established by municipal law, varying from 2 to 6% in São Paulo for example.

2.1.3. IPTU - Tax on Urban Land and Property

The Tax on Urban Land and Property is charged annually on real estate situated in an urban area. The tax basis is the fair market value of the property. The Federal Constitution allows the progression of IPTU, as it is the Municipality scope to foresee this progression or not.

The progression allows the levy of the rates with the stipulation of differenciated amounts, tax more onerously those that have greater taxable wealth.

2.2. State taxes

2.2.1. ICMS - Value-Added Tax on Sales and Services

Relates to the value-added tax on sales and services of interstate and inter-municipal transport and on communication services, foreseen in article 155, II of the Federal Constitution, under the scope of the States and Federal District.

The ICMS falls upon operations relative to the circulation of merchandise that involve the judicial merchandise business.

- The occurrence of operations, that is, sales transaction, which should transmit the right of possession or ownership;
- The circulation of goods, that is, the change of goods ownership; and

2.3. Federal taxes

2.3.1. IPI - Excise Tax

IPI is an excise tax that are results of an industrialization process, foreseen by article 153, IV of the Federal Constitution, under the scope of the Union.

IPI has an important regulatory function in the market, considering that non-essential and unhealthy products and are taxed more gravely. It is a selective tax in which there is the selection of the rates in accordance with the non availability of the product.

Article 46 of the CTN enumerates the taxable events for IPI, which are:

- In the case of products of foreign origin, the moment of customs clearance;
- The moment of exit of the industrial product or compatible with industry; and
- The moment of selling apprehended or abandoned products, when taken to auction.

We should make clear that as an industrialized product for the purposes of IPI levy, the product must have been submitted to any operation that modifies its nature or purpose, or that improves the product for consumption.

2.3.2. Import Duty

The Import Duty is the tax on foreign products foreseen in article 153, I of the Federal Constitution. The Import Duty is also known as Customs Tariff, and is levied on the amount of goods plus expenses (freight, insurance, etc), and has a non-fiscal nature, since it aims to protect the national industry. The incidental rate depends on the level of necessity and the product's tax classification. As for the majority of the rate, the Import Duty is an exception to the Constitutional Principles of Legality, of Former and of "Anterioridade Nonagesimal".

The taxable event occurs at the moment of customs clearance. For the purpose of the tax basis, the amounts in foreign currency must be converted in national currency, by the exchange rate in force at the time of the imported product's entry in the country.

2.3.3. Income Tax and Salaries of Any Nature

Income tax and salaries of any nature will be informed by general, universal and progressive criteria, in accordance with the Law, and their taxable event is the acquisition of economical or judicial availability of:

- Income, thus understood as a product of capital, work or the combination of both; and
- Salaries of any nature, thus understood as the equity increases not included in the previous item.

The Tax levy is independent from denomination of the income or revenue, location, judicial condition or nationality of source, origin and form of perception.

In the hypothesis of income or revenue derived from abroad, the law will establish the conditions and the moment in which its availability will be given, for the purpose of income tax levy.

The tax basis is the actual amount, arbitrated or presumed income or the taxable salaries.

The taxpayer is the holder of the income availability or salaries of any nature, without loss attributing to this condition to the holder, under any pretence, of the income producing goods or of the taxable salaries.

The law may attribute to the payment source or the taxable salaries to the conditions of the person responsible for the tax whose retention and collection is under his duty.

2.3.3.1. IRPJ - Corporate Income Tax

The income tax is under the scope of the Union, and should be used as a quick way to promote the adequate redistribution of income.

It is the main source of tax income for the Union, and has a distinct tax function.

The legal entitie's profit may be calculated in three forms:

a) Taxable Income Calculation

The taxable income is calculated based on actual accounting, where the profit results from the difference of gross income minus operational expenses, through rigid written accounting or tax criteria, requiring supporting document files of these income and expenses. It is a result (profit or loss) from the base period (before the IRPJ provision), adjusted by additions, exclusions or compensations prescribed or authorized by tax Law. The calculation of taxable income is obligatory for the companies indicated in Law and the remainder is optional.

Taxable Income Statement Scheme

Net Profit or Loss *(before IRPJ): calculated in an accounting manner in the calculation period.*
Additions*: discriminated and grouped according to their nature.*
Exclusions*: discriminated and grouped according to their nature.*
(=) Subtotal*: involves the algebraic sum of Net profit or loss from the calculation period plus the additions and exclusions.*
Compensations of tax losses*: tax losses in previous periods that do not exceed 30% of the positive amount of the previous item.*
(=) Taxable Income or Tax Loss*: is the final result, that is, the tax basis of income tax. If it is negative it can be compensated in subsequent periods.*

Additions

The additions represent costs, expenses, charges, losses, provisions, participations and any other deductible amounts in the calculation of net income that, in accordance with tax legislation, are not deductible in taxable income calculation.

Additions also represent profit, results, income and any other amounts that are not included in the net income calculation, in accordance with the tax legislation, that must be computed when determining the taxable income.

Exclusions

The exclusions represent the amount whose deduction is authorized by tax legislation and that have not been computed in the net income calculation in the calculation period. They are also the results, profit, income and any other amounts included in the calculation of net income that are not computed in taxable income.

Annual or Quarterly Taxable Income

The legal entity that is taxed based on taxable income may opt for the annual or quarterly taxable income calculation methodology.

Within the annual taxable income, the legal entities may opt for payment by estimate, which consists in the monthly payment of an amount of income tax calculated based on the estimated taxable income fixed by Law, formalizing, at the end of the year, an annual adjustment, by which the amount that was paid monthly by estimate during the base year will be abated.

In the case of quarterly taxable income, the legal entity may calculated the income tax on net income on quarterly periods basis, based on the results calculated on March 31, June 30, September 30 and December 31 of each calendar year.

In this case, it should be observed that the compensation of the tax losses for the quarter is also subject to the 30% limit on taxable income calculated in the subsequent quarter.

b) Presumed Profit Calculation

The calculation of presumed profit is an optional calculation method for the legal entity that is not obliged by Law to calculate the taxable income. It consists of the methodology of legal presumption that the company's income is determined by itself based on the application of a percentage over the net income, in the respective period of calculation (quarter).

We present the presumption percentages for each activity sector as follows:

Activities	*Percentage*
Activities in general (RIR/1999, article 518)	*8,0*
Combustive resale	*1,6*
Transport services (except cargo)	*16,0*
Cargo Transport Services	*8,0*
Services in general (except hospital services)	*32,0*
Hospital services	*8,0*
Business intermediation	*32,0*
Management of leasing or ceasing of assets and rights of any nature (including real estate)	*32,0*

The legal entities are prohibited to use the tax regime based on the presumed profit, as follows:

I. Whose total income in the previous calendar year is greater than the limit of R$78,000,000.00 (seventy eight million reais), or proportional to the number of months in the period, when less than 12 (twelve) months;
II. Whose activities are in commercial banks, investment banks, development banks, savings and loans bank, credit partnerships, financing and investment, real estate credit partnerships, brokerage partnerships, commercial leasing companies, credit unions, capitalization and private insurance companies and entities of private pension plans;
III. That had income, profit or capital gains derived from abroad;
IV. That, authorized by tax legislation, make the most of tax benefits relative to tax exemption or reduction;
V. - That, throughout the calendar year have made monthly payments by way of estimate;

VI. That exploit cumulative and continual service providing activities of credit advisory, merchandizing, credit management, selection and risks, management of accounts payable and receivable, purchase of credit rights resulting from merchandise sales with installments or service rendering (factoring).

c) Arbitrated Profit Calculation

Due to the impossibility of calculating legal entity income by the taxable or presumed income criteria from the non-compliance of accessory tax liabilities, such as: the non-presentation of document files from the bookkeeping system in accordance with the Law; and the non-presentation of the accounting ledger. Therefore, this results in the imposition of the tax authorities, due to the irregular practices of the taxpayer. However, since the advent of Law n. 8,981/95, the legal entity is able to communicate to the tax authorities the impossibility of calculating income tax by the taxable or presumed income, in a spontaneous manner, opting to be subjected to taxation on the arbitrated profit in the period.

Only when the gross income is recognized may the taxpayer opt for taxation based on the arbitrated income. If not, the arbitration of income is under exclusive scope of the tax authority.

The percentages to be applied on gross income, when known, are the same percentages applicable to the calculation of the monthly estimate and presumed income, increased by 20%, except when fixed by financial institutions (RIR/1999, articles 532 and 533):

Activities	***Percentage***
Activities in general (RIR/1999, article 532)	*9,6*
Combustive resale	*1,92*
Transport services (except cargo transportation)	*19,2*
Cargo Transport Services	*9,6*
Services in general (except hospital services)	*38,4*
Hospital services	*9,6*
Business intermediation	*38,4*
Management of leasing or ceasing of assets and rights of any nature (including real estate)	*38,4*
Factoring	*38,4*
Banks, financial institutions and similar	*45,0*

he arbitrated income, when the gross income is unknown, will be determined through the off-the-record procedure, by using one of the following calculation alternatives:

I. One and five tenths of the taxable income relative to the last period in which the legal entity maintained bookkeeping in accordance with the commercial and tax laws;
II. Four hundredths of the sum of current, long term and permanent assets amounts existing in the last known balance sheet;
III. Seven hundredths of the amount of capital, including its price level restatement accounted for as capital reserve, stated on the last balance sheet known or recorded in the constitution or alteration acts of corporations;
IV. Five hundredths of the amount of net equity stated in the last known balance sheet; V - Four tenths of the amount of merchandise purchases made in the month;

VI. Four tenths of the sum, in each month, of the employee payroll amounts and the purchase of raw-material, intermediary products and packaging materials;

VII. Eight tenths of the sum of amounts owed to employees in the month; VIII - Nine tenths of the monthly amount of rent due.

Applicable Rates

The income tax rates in force since the 1996 calendar year are the following:

- **15% (fifteen percent)** on taxable, presumed or arbitrated income, calculated by the legal entities in general, whether its object is commercial or civil; and
- **Additional**: The taxable income amount that exceeds the multiplication result of R$20,000.00 (twenty thousand reais) by the number of months in the respective calculation period, if subject to the additional levy, by the 10% (ten percent) rate.

2.3.3.2. Tax Incentives

Other than the incentives described in item 2 and 3 of chapter 1, the legal entity may reduce tax through the following tax incentives: 15% of the costing expense of PAT, net of the amount charged from employees, or 15% of R$1.99 (x) number of meals supplied in the period, whichever is less:

Incentive	*IRPJ Deduction Calculated Based on Income*	*Incentive Calculation*	*Limit of Isolated Deduction*	*Limit of Isolated Deduction*
Worker's Meal Program (PAT)	*Taxable and/or Estimated*	*15% of the costing expense of PAT, net of the amount charged from employees, or 15% of R$1.99 (x) number of meals supplied in the period, whichever is less*	*4% of IRPJ due to the 15% rate*	*4% of IRPJ*
Farming and cattle-raising or Industrial Technological Development Programs (PDTI/PDTA) approved as of 06/03/93	*Taxable*	*40% of donations 30% of sponsorship*	*4% of IRPJ due to the 15% rate*	
Operations of Cultural and Artistic Character	*Taxable and/or Estimated*	*Amount effectively applied in the acquisition of investment certificates in projects approved by the Minister of Culture*	*4% of IRPJ due to the 15% rate*	*4% of IRPJ*
Audiovisual Activity	*Taxable and/or Estimated*	*Donations effectively made*	*3% of IRPJ due to the 15% rate*	
Donations to the Child and Adolescent Rights Fun	*Taxable and/or Estimated*	*-*	*1% of IRPJ due to the 15% rate*	*n/a*

The deduction of any amount by way of tax incentives of the calculated tax based on the presumed or arbitrated profit is forbidden.

2.3.4. CSLL - Social Contribution on Net Income

The same calculation norms are applied to the CSLL, along with the payment established for the legal entity's income tax, maintaining the tax bases and rates foreseen in the legislation in force.

Taxable Income Calculation

The legal entities taxed on the quarterly taxable income must calculate the CSLL quarterly, and the tax basis corresponds to the accounting result of the period adjusted by the determined additions, by the allowed exclusions and by the compensations of the negative tax basis up to the limit defined in specific legislation in force by the period that the taxable events occurred. The amount of CSLL calculated cannot be deducted for the effect of determining the taxable income neither for its own tax basis.

The legal entities taxed on annual taxable income must pay CSLL monthly, determined on the estimated tax basis, which will be the amount resulting from the application of 12% (commercial and industrial companies) or 32% (service providers) on the monthly gross income, according to the provisions given in specific legislation, increased by amounts related to capital gains, of the remaining income and other positive results defined by law.

Presumed Profit and Arbitrated Profit Calculations

The legal entity taxed on presumed or arbitrated profit must calculate and pay CSLL quarterly. In this case, the CSLL tax basis will be the sum of the following amounts:

- The amount corresponding to 12% (commercial and industrial companies) or 32% (service providers) of gross income earned in the quarter, according to the provisions defined in specific legislation;
- The amounts corresponding to the remaining results and capital gains, as defined in terms of specific Brazilian law; and The amounts relative to the transfer-pricing adjustments will be computed on December 31 of the calendar year.

When the gross income is not recognized, the arbitrated profit for income tax levy will also constitute the tax basis for social contribution on income.

Rate

Social contribution will be determined through the application of **9% (nine percent)** rate for the taxable events occurred:

- As of February 1, 2000 up to December 31, 2002 (MP n. 1,858-10, from 1999 and new editions); and · Also, as of January 1, 2003 (Law n. 10,637/02, article 37).

2.3.5. Transfer Pricing

Imports

The costs, the expenses and the charges related to goods, services and rights, acquired from the linked party, resident or domiciled abroad, will be deductible when determining taxable income and the tax basis for social contribution on net income, up to the amount that does not exceed the price determined by one of the following methods:

I) Compared Independent Prices Method - PIC

Defined as the weighted average of prices practiced by the same export company in sales to third parties, or weighted average paid by the Brazilian company in the acquisition of goods, services and rights, either identical or similar, from third parties.

By this method, the deductibility of paid/contracted prices in the imports from linked parties are limited to the weighted average of prices paid in the acquisition of goods, services or rights, identical or similar from third parties, or in the sales of suppliers linked to third parties, in similar payment conditions.

II) Resale Price minus Profit Method - PRL

Defined as the arithmetic average of the resale prices of goods, services or rights, minus the unconditional discounts granted on taxes and contributions incidental on the sales, of commissions and brokerage paid, and the profit margin of 20% to 40% (depending on the type of activitie), calculated on the resale price minus the unconditional discounts.

III) CPL Production Cost plus 20% Profit Method - CPL

Defined as the average production cost of goods, services and rights, either identical or similar, in the country where they were originally manufactured, increased with the taxes and rates charges by the relevant country for export, and the 20% profit margin, determined by the cost calculated before taxes.

Defined as the average production cost of goods, services and rights, either identical or similar, in the country where they were originally manufactured, increased with:

- Taxes and rates charged by the relevant country of export; and · 20% profit margin on the calculated cost.

To apply this method, the production cost of the export company must be presented and discriminated by components, amounts, and respective suppliers.

Only the following costs are accepted:

I. Of the acquisition of raw-material, intermediary products and packaging materials used in the production of the good, service or right;
II. Of any other good, service or right applied or consumed in production;

III. Of personnel, applied in production, including of direct supervision, maintenance and safekeeping of production facilities and the respective social charges incurred, required or acknowledged by legislation in the country of origin;

IV. Of leasing, maintenance and repair and the depreciation charges, amortization or exhausting of goods, services or rights applied in production; and

V. Amounts from breakages and reasonable losses, occurred in the production process, acknowledged by the tax legislation in the goods, service or rights' country of origin.

Exports

The income arising from export operations to linked parties are subject to transfer-pricing rules (articles 18 to 28 of Law 9,430/96 and Regulatory Instruction SRF n. 243/02) when the price practiced is less than 90% (ninety percent) of the average price practiced in the domestic market, with third parties during the same period in similar payment conditions.

Considering that the price practiced in exports to linked parties is less than 90% of the price practiced in the domestic market we need to analyze whether these operations fit into the possibilities of proof waiver foreseen in articles 35 and 36 of Regulatory Instruction n. 243/02.

It is important to observe that the Internal Revenue Services, in off-the-records procedures, may refute the application of possibilities for proof waiver based on its own criteria.

Should it not be proven that the price in exports is greater than 90% of that practiced in the market, practiced by the company or third parties, for identical or similar goods, the only option would be applying the transfer-pricing methodologies, whose rules are stated in article 23 to 26 of Regulatory Instruction SRF 243/02, which, in summary form, we present:

I) Sale Price in Exports Method - PVEx

Defined as the arithmetic average of sales prices in exports made by the company, for other non linked parties, or by other national exporter of goods, services or rights that are identical or similar, during the same period for income tax basis calculation and in similar payment conditions.

II) Wholesale Price in the Destination Country minus 15% Profit Method - PVA

Defined as the arithmetic average of the sales price of goods that are identical or similar, practiced in the wholesale market in the country of destination, in similar payment conditions, minus the taxes included in the price, charged in the referring country, and with a profit margin of 15% on the wholesale price.

III) Retail Sale Price in the Intended Country minus 30% Profit Method - PW

Defined as the arithmetic average of sale price of goods that are identical or similar practiced in the retail market in the country of destination, in similar payment conditions, minus the taxes included in the price, charged in the determined country, and with a profit margin of 30% on the retail price.

IV) Acquisition or Production Cost plus Taxes and Profit Method - CAP

Defined as the arithmetic average of acquisition or production costs of goods, services and rights, exported and increased with taxes and the contributions charged in Brazil and 15% profit margin on the sum of costs plus taxes and contributions.

2.3.6. IOF - Tax on Financial Transactions

The IOF is the tax on credit, foreign exchange and insurance transactions or those related to securities. Its collection occurs in the operations performed by financial institutions, such as banks, savings and loan banks, brokers, foreign exchange shops, private insurance companies, etc.

- In the credit operations, the taxable event occurs at the moment of complete or partial delivery of the amount or value that completes the object of the obligations, or at its disposition of the interested party (Decree n. 4,494/2002);
- In the exchange transactions, the taxable event occurs at the moment of delivery of national or foreign currency, or of a document that represents it, or its moment of it disposition to the interested party, in the amount equivalent to national or foreign currency;
- In the insurance operations, the levy occurs at the moment of policy issue or of the equivalent document; · In the operations relative to securities, at the time of issuance, transmission, payment or redemption of these, with the charging in one of these situations excluding the remainder.

2.3.7. ITR - Rural Land Tax

The Rural Land Tax, ITR is collected annually on the property or possession of real estate assets in a rural zone. The tax basis is determined by the assessed value of the real estate, the market price of land, excluding the amounts for constructions, facilities, pastures, etc, on January 1 of each year. The rate varies between 0.03 and 20% which is determined by the degree of exploitation and use of the rural area.

2.3.8. PIS - Employees' Profi t Participation Program

The legal entities that of private law and those that are equated with the income tax legislation are PIS contributors, including companies that render services, public companies and mixed economy partnerships and their subsidiaries, excluding the micro businesses and small businesses submitted to the SIMPLES regime.

The taxation may have two forms, cumulative or non-cumulative:

Cumulative

Generally, the legal entities taxed based on presumed or arbitrated profit are classified as cumulative.

The tax basis of the contributions is the billing, that is, the gross income of the legal entity, irrelevant of the type of activity that it exercises, and the accounting classification adopted for the income, minus the exclusions allowed, applied to the 0.65% rate.

Non-cumulative

The non-cumulative methodology is only applied to legal entities taxed based on taxable income, be it quarterly or annually.

The tax basis of the contributions is the monthly billing, understood to be the total of income earned by the legal entity, independent of its denomination or accounting classification, excluding the amounts relative to the acquisitions in each month, of goods and services linked to the purpose of the company, in a previous phase of the chain of production or commercialization, subjected to the same contributions and whose sales or re-sales income integrate the tax basis of "non-cumulative" PIS/PASEP, applied to the rate of 1.65%.

2.3.9. COFINS - Tax on Social Security Financing

Relates to the Social Contribution for the financing of Social Security, and whose taxpayers are the legal entities of private law and those that are equated with the income tax legislation, including companies that are service providers, public companies and mixed economy partnerships and their subsidiaries, excluding the micro businesses and small businesses submitted to the SIMPLES regime.

The taxation may have two forms, as PIS calculation: cumulative and non-cumulative.

Cumulative

Generally, the legal entities will be classified based on presumed or arbitrated income.

The tax basis of the contributions is the billing, that is, the gross income of the legal entity, irrelevant of the type of activity that it exercises, and the accounting classification adopted for the income, minus the exclusions allowed, applied to the 3% rate.

Non-cumulative

The "non-cumulative" methodology is only applied to the legal entities based on taxable income, be it quarterly or annual.

The tax basis of the contributions is the monthly billing, thus the total of income earned by the legal entity, independent of its denomination or accounting classification, excluding the amounts relative to the
acquisitions in each month, of goods and services linked to the purpose of the company, in a previous phase of the chain of production or commercialization, subjected to the same contributions and whose sales or
re-sales income integrate the tax basis of "non-cumulative" PIS/PASEP, applied to the rate of 7.6%.

3. Accessory Obligations

The accessory obligation does not have monetary content, that is, it does not involve payment and that which is translated in positive and negative installments (obligation to do or not do), in the interest of the tax authorities supervision or collection of taxes.

The accessory obligations have the objective of giving means to the tax authorities so that they may investigate and control the collection of taxes (main objective) so that the actual taxpayer of the accessory obligation or other person be submitted.

3.1. Safeguarding of Books and Tax Documents

Article 195 of CTN establishes that "for the effects of tax legislation, the obligatory books of commercial and tax bookkeeping and the proof of entries in them are conserved until the prescription of tax credits arising from operations in which it refers to".

The books, files and documents must be maintained by the taxpayer until the right of the Public Finance Ministry to proceed the income entry has been met by decline.

The right to proceed to the entry of income tax, in accordance with article 173 of CTN, terminates after 5 years, contacted from the first day of the exercise following that in which the entry might have been made.

The ability to proceed to the supplementary entry is lost in the period of 5 years, counting from the notification of the first entry.

In the following items, we present the tax and recommendable periods, in accordance with the respective areas:

Accounting documents

The accounting documentation, that is, the accessory accounting support documents, must be maintained for the minimum period of 5 years counting as of the first working day of the year subsequent to the delivery of the legal entity's income tax return.

We understand, however, that the accounting documentation, support for normal entries of company transactions, such as copies of checks, bank statements, movement statements for securities and payment extracts, must be maintained for the minimum of 6 years counting from the year following the taxable event.

Thus, we recommend the safekeeping for at least 10 years, of the legally necessary documentation, for example, the accounting ledger, daily journal and trial balances, since these serve as ways of proving the tax bookkeeping.

Tax collection

The tax collection forms and statements must follow a maturity period table in relation to their maintenance (see table 1). It is worth stressing that the understanding of the period stipulated by law is the same as that above mentioned, that is, counting as of the first working day of the year subsequent to the delivery of the legal entity's income statement.

Table 1 - Tax collection

Description	*Legal basis*	*Period*
Taxes in general	*Article 898, of RIR/99*	*05 years*
Social Contribution on Net Income	*Law n. 7, 689/89*	*05 years*

Exchange Operation

The documentation relative to the highlighted operations must be maintained in the possession of the company for the period stipulated by law, as demonstrated in table 2, below:

Table 2 - Exchange operation and civil proceeding

Description	*Legal basis*	*Period*
Exchange operation process	*Decree n. 40,395/56*	*25 year*
Civil proceeding after judgment in transi	*Article 495, of the Civil Code*	*02 years*

Tax documentation

The maintenance of documents of tax order, for example check stubs and receipt forms, entry and exit books, ICMS calculation books, IPI calculation book and collection forms, is legally necessary for the minimum 5 years counting from the first working day of the year subsequent to the delivery of the legal entity's income tax return, treated as previously mentioned in the Accounting documentation item. However, the good practice recommends the maintenance of the referred documentations of tax order for the minimum of 10 years counting from the year of the taxable event.

Labor documentation

The labor and social security documents must be kept for the minimum period of 5 years, counting from the payment date, or 2 years from the contractual rescission, due to the prescription period for the urban worker as provided for in article 7, XXIX, of the Federal Constitution (CF). Those documents relative to FGTS must be kept for, at least, 30 years (Law n. 8,036/90, article 23, paragraph 5, and article 55 of RFGTS, approved by Decree n. 99,684/90). However, there are documents that, by legal disposition or by cautionary measures, must remain filed for different periods. In relation to employees younger than 18 years of age, these documents do not have a prescription period (CLT, article 440). Thus, as of the date in which these employees complete 18 years, all of the documents related to them must be kept for the periods described in table 3.

Table 3 - Periods for keeping labor documents

Document	Period that must be kept
Workers Contract Rescission Term	2 years
Prior Notice	
Dismissal Request (CF, article 7, incision XXIX)	
CAGED - countable from the postage date	3 years
(Government Directive MTB 194/95, article 1, paragraph 2)	
Vote Record of CIPA Elections (Government Directive MTB 3,214/78	
NR-5 - sub-item 5.5.4, in the edit of Government Directive SSMT 33/83)	
Offset Agreement	
Working Hours Extension Agreement	
Medical Certificate	
Authorization for discounts not provided for in Law	
Time Cards· Documents related to Tax Credits (Income tax, etc)	
Proof of delivery of Dismissal Communication (CD)	
Documents related to Tax Credits (Income tax, etc)	
Employers Union Contribution Collection Guides (there is no prescription period for contributions discounted and not collected)	
Annual Chart of Work Accidents (Government Directive MTB 3,214/78 - NR - 4, item 4.12, letter "j", in the edit of Government Directive SSMT 33/83)	
Receipt of Holiday Bonus	
Receipt of Delivery for Request of Unemployment Insurance (SD)	5 years
Receipt of Vacations	
Salary Advance Receipts	
Payment Receipts	
Employee's Union Contribution List	
Holiday Bonus Request	
Transport Vouchers	
Documents subject to INSS investigation (Payroll, Receipt and file of Family Meal Allowance, medical certificates related to leave due to lack of capacity or maternity leave, collection forms etc) - articles 47, paragraphs 1 and 2, and 71 of ROCSS and articles 82, sole paragraph, and 92, paragraph 2 of RBPS	10 years
PIS/PASEP - counting from the date foreseen for its collection (article 10 do Decree-law 2,052/83)	
Education benefit (article 1, paragraph 3, of Decree-law 1,422/75 and article 8 of Instruction SE/FNDE 43/96)	
Data obtained in medical examination (admission, periodical, return to work, change of function and dismissal) including clinical evaluation and complementary examinations, the conclusions and the measures applied (sub-items 7.4.1, 7.4.2, 7.4.5 and 7.4.5.1 of NR - 7, in the edit of data by Government Directive SSST 24/94)	20 years
Documents relative to FGTS (Law 8,036/90, article 23, paragraph 5, and article 55 of RFGTS, approved by Decree 99,684/90) and Enunciation TST 95	30 years
Proceedings books of CIPA	Not determined, as they be requested at any time
Work Inspection Books	
Work Contract, Books or Files of Employee Records	
RAIS (*) Annual Listing of Information and Salaries (Employees)	

(*) *Item 10 of the RAIS orientation manual, base year 1996, approved by Government Directive MTB 1,127/96, provides that: "The second carbon copy of the RAIS forms or the copy of files generated by way of computer files and the Delivery Protocol, must remained filed at the company/entity throughout 5 years, and be at the disposition of the Financial Ministry's Investigation". Although, due to the fact that RAIS is a document of great importance that presents the entire professional history of an employee during a work contract with the Company, being directly linked to PIS/PASEP, it is recommended that the documents be kept for a undetermined period of time*

Corporate

We recommend that the corporate documentation be maintained for an undetermined period of time, as it refers to questions relative to the constitution and the company's administrative alterations. As an example of the above-mentioned documents, we may mention the articles of incorporation, meeting minutes, capital composition basis and profit distribution. We stress that the maintenance of the corporate documentation is not provided for in the anonymous corporations' legislation.

Other Documentation

In relation to the set of documents, reports, tax basis worksheets, correspondence, studies, economic and financial memorandums, amongst others, that by its nature does not fit into any of the item dealt with previously, we recommend the good sense of maintaining them or disposing of them, considering that there is no legal provision for the definition of the procedure to be adopted.

3.2. Electronic Data Processing

The legal entities that use electronic data processing systems to record business and economic or financial activities, bookkeeping or prepare documents of an accounting or tax nature, are obliged to maintain, at the disposition of the Internal Revenue Services, the respective digital files and systems, for the period foreseen in tax legislation, observing the determinations of Regulatory Instruction SRF n. 86/2001.

The computer files, according to the tax authorities' criteria, may be required in the original form in which they were kept.

The period to meet the expectations of tax authorities is a maximum of 40 days, when notified by the Internal Revenue Services the company has 20 days, which is able to be prolonged for another 20 days with approval by the tax authorities, and carrying a fine equivalent to 0.2% per day of delay, calculated on the gross income of the period.

The maintenance period for files in digital form is 5 years plus the period to which they refer.

Those that omit or provide incorrect information and do not apply to Regulatory Instruction 86/01 may suffer penalties with fines that reach 5% of the operation amount, limited to 1% of the gross income of the legal entity in the period.

The taxpayer must present, when requested, the data corresponding to the necessary information to treat the minutes and accounting and tax events in a clear and complete form, in regards to:

1. Accounting
2. Suppliers/Clients
3. Accounting/Tax Documents
4. Inventory Control/Records
5. Balance Price Level Adjustments and Equity Control

6. Payroll
7. Input/Products' List
8. Registry of Individuals and Legal Entities applied to the files supplied 9. Code Tables applied to files supplied

The computer files relative to the tax documents stated in item 3 must obey the following requisites:

- Inclusion of all of the documents of tax interest, other than invoices, transport receipts, etc;
- The details of all of the Invoices stated in the Tax books of Entries and Exits, including in the case of dispatch note that accompanies the Invoice must be kept individually;
- Generation of the accounting/tax documents files separated per establishment;
- All of the fields in the Invoices whose filling out is legally obliged as well as those that, even though they are not printed in the documents must be recorded in the computer files;
- When there are different products stated on a single Invoice or dispatch note, these products must be recorded separately;
- When independent files are used for each part of the Invoice, it is the legal entities' obligation to deliver the data in a manner so that they may be put back together;
- The entry/exit invoices must be presented in separate files;
- All of the cancelled invoices must be stated in the files, with their respective indication; and
- The companies that are not obliged to perform bookkeeping of the entry and exit books, by specifi c legislation, will remain obliged to maintain the individualized records of entry/exit invoices.

3.3. Value-Added Tax Information and Computation Forms (GIA)

The person registered in the ICMS (State) taxpayers registry must make a declaration in an information form, in the form and mode stipulated by the Finance Ministry:

- The amounts of operations or services in the calculation period detailed by the Fiscal Code for Operations and Services (CFOP);
- The amount of tax to collect or the creditor balance to be moved to the following period, calculated monthly; · Information relative to its economic movement, for the purpose of tax investigation;
- Information related to calculation of participation indexes of São Paulo municipalities in the collection of tax;
- Its interstate operations of merchandise entry or exit, as well as the services received or provided, with details of the amounts per sending or receiving State; and
- Other economic-tax information relative to its activity, according to the provisions defined by the Finance Ministry.

As a rule, its delivery/transmission will be performed by way of computer files and Internet to the site of the State Finance Ministry in which the establishment is registered, and the period and other information are regularized in specific state legislation.

3.4. Quarterly Computer File - List of Interstate Operations and Services

The taxpayer that performs operations with other federation units must send the computer file with the tax registration relative to the interstate operations made in the previous quarter to the Finance Ministry or the Federation Taxation Unit up to the 15th day of the first month of each civil quarter.

When a good is returned after that due to not being delivered to the addressee, and the operation is indicated in a file, it makes the generation of the file clear up the fact which will be remitted along with the quarterly file in which the return is verified.

The file remitted to each Federation unit restricts the addresses located in it.

Legal Base

- Convention n. 57/95; and;
- Articles 10 and 11, Government Directive CAT n. 32/96.

3.5. Computer File

The taxpayer that uses an electronic data processing system, recorded in files or electronic documents relative to the elements contained in the tax documents and/or the data related to the operations/services and the commercial controls presented in the data processing system in the form established by the ICMS Convention, relative to all of the operations, acquisitions and services rendered and/or received, under any pretence, performed in the calculation period and generated the computer file for delivery to the tax authorities when solicited.

This, it must provide, when requested, detailed documentation, complete and updated from the system, containing descriptions, layout of files, list of programs and the alterations that occurred in the calculation period, in terms of the models foreseen in the legislation above mentioned, especially in the “Orientation Manual”, an integral part of Attachment I, of ICMS Convention 57/95.

The computer file of tax records, according to the specifications and model foreseen in the “Orientation Manual”, will contain the following information:

a) The type of registration;
b) The date of the entry;
c) The National Corporate Taxpayer's Register (CNPJ of the issuer/sender/addressee;
d) The state registration of the issuer/sender/addressee;
e) Federation unit of the issuer/sender/addressee (State or Federal District);
f) The identification of the tax document, the model, the series and sub-series and the order number;
g) The Fiscal Code for Operations and Services consigned in the Entry and Exit Record book;
h) The amounts to be consigned in the Entry and Exit Record books; and i) The Federal Tax Situation code for the operation.

The documents and computer file above mentioned must be in perfect condition for delivery, keeping in mind that the Tax Authorities from Minas Gerais may request, at any moment, in a 5 (five) working day period, counted from the notification date, without loss of immediate access to facilities, equipment and information contained in the computer file.

Other than the obligation of maintaining the information above mentioned, the ICMS Convention 57/95 establishes the procedures for the authorization for the system's use, through a request made to the Tax Post, by the terms given in Attachment 2, as well as regulate the issuance of Invoices and the printing of tax records of entries, exits, inventories and ICMS calculation.

The Executive Management of Tax Administration may establish formats for tax records to be presented in computer files, other than those foreseen in legislation or the form of presentation that is different to that given in the "Orientation Manual" - Attachment 1, hypothesis in which the templates for records and presentation conditions will be defined.

The tax records must be conserved for the minimum of 5 (five) years counted as of the first of January following the calculation period that it refers to.

Should disobedience with the tax legislation, impediment to tax authorities, lack of delivery of the computer file or its delivery in conditions that prevents its reading be proven, the Tax Authorities may, without loss from the application of appropriate penalties, amongst these the dis-characterization of tax entries, imposing restriction, impeding the use or disenfranchise the authorization of the use of the electronic data processing system for the issuance of tax documents and or tax book bookkeeping.

Legal Base

Convention n. 57/95 and alterations.

3.6. Tax Books - General Observations

The tax books must be bound, per calculation period, in groups of up to 500 (five hundred) typographically numbered pages in increasing order, in a way that impedes its substitution.

The tax books whose bookkeeping is carried out by an electronic data processing system will be bound, in up to 60 (sixty) days counting from the date of the last entry, and these books will have a closing term, dated and signed by the taxpayer.

3.6.1. Entry Record Book (model 1-A)

The services that the establishment has taken (subject to ICMS) and the tax documents relative to the acquisition of goods that do not change in terms of the establishment, under any pretence, are to be applied to the bookkeeping in the establishment's goods entry book (ICMS taxpayer).

3.6.2. Exit Record Book (model 2-A)

The services that the establishment has taken (subject to ICMS) and the tax documents relative to the acquisition of goods that do not change in terms of the establishment, under any pretence, are to be applied to the bookkeeping in the establishment's goods exit book (ICMS taxpayer).

3.6.3. Record Book for the Use of Tax Documents and Occurrence Terms (model 6)

This book is intended for the bookkeeping of tax document entries, prepared by graphic establishments or by the taxpayer, as well as transcription by the tax authorities, in terms of occurrences.

3.6.4. Inventory Record Book (model 7)

This book has the purpose of making an inventory, of the amounts and with specifications that permit its perfect identification, the goods, the input, the manufactured products, the products in manufacturing and the goods in the warehouse, existing in the establishment at the time of the balance sheet to the end of each calculation period.

3.6.5. IPI Calculation Record Book (model 8)

Tax book intended to record the accounting and tax amounts relative to IPI, of the entry and exit operations, taken from entry and exit record books. The tax debts and credits, the determined balances and other elements that may be required will also be recorded in this book.

3.6.6. ICMS Calculation Record Book (model 9)

Tax book intended to record the accounting and tax amounts relative to ICMS of the entry and exit operations and the services received and rendered, taken from the entry and exit record book and grouped according to the Fiscal Code for Operations and Services. The tax debts and credits, the determined balances and the data relative to information forms and tax collection forms will be recorded in this book.

3.6.7. Assets ICMS Credit Control - CIAP

A document intended for the control of ICMS credits and cancellations relative to the acquisition of goods intended for permanent assets.

Since January 2000, the credit, when permitted, will be appropriated in 48 monthly installments directly in the ICMS calculation record. Each installment can only be credit in the monthly proportion of exits/taxed services, in relation to the total amount of operations/rendering in the month. The exports and the exempt non-taxed operations in which the legislation authorizes the maintenance of credit will be considered as taxable for the purpose of credits.

3.7. Invoices - General Observations

The tax documents are numbered in kind, in increasing order from 1 to 999,999 and grouped in uniform clusters of 20 (twenty) minimum and 50 (fifty) maximum. When the number 999,999 is reached, the numeration must begin again with the same designations of series and sub-series for the issuance of tax documents to be carried out in numerical order.

The printouts of the tax documents will be used by the increasing sequential numerical order. The use of batches or sets of forms, without being used simultaneously or when the inferior number has already been used, is forbidden.

The tax document cannot have any corrections or erasures, and must be issued with tracing or carbon paper. The written words and indications must be legible on all copies.

Should the invoice be cancelled, the taxpayer must keep the stub copies, stating the reasons for the cancellation and

3.8. LALUR (Taxable Income Control Register)

LALUR is a book that contains tax entries, and is intended for the off-the-books calculation of taxable income subject to taxation each period of calculation, also containing elements that may affect the result from future calculation periods (RIR/1999, article 262).

The LALUR book may be kept through the used of an electronic data processing system, observing the standards prescribed by the Internal Revenue Services. The bookkeeping in continuous forms whose pages must be numbered in a sequential order, either by hand or typographically, must contain the opening and closing terms (RIR/1999, articles 255 and 263).

The LALUR does not need to be registered in any agency or department. Even though it is exempt from registration or authentication by a specific official agency, it must contain, for the effects of federal investigation, the opening and closing terms, dated and signed by the company's legal representation or by a registered accountant.

All of the taxpaying legal entities are required to perform the bookkeeping of LALUR on the income tax based on the taxable income, including those that spontaneously opted for this form of calculation (RIR/1999, article 246).

LALUR Composition

The LALUR, whose pages are typographically numbered, will have two parts, with an equal number of pages in each, combined in one bound volume, comprising of:

a) Part A, intended for the adjustment entries of net profit from the period (additions, exclusions and compensations), closing with the transcription of the taxable income statement; and;
b) Part B, intended exclusively for the control of amounts that are not contained in the commercial bookkeeping, but that may influence the determination of taxable income in future periods.

Period in which the LALUR entries should be made

According to the taxation regime adopted by the taxpayer, the entries are made in the following manner:

a) Quarterly taxable income; in part A, the adjustments to net profit in the period will be made at the end of each quarter at the time of taxable income determination. In part B, concomitantly with the entries for adjustments made in part A, at the end of the calculation period; and

b) Annual taxable income: should balances or trial balances be investigated for the purpose of suspension or reduction in income tax, the additions, exclusion and compensations calculated in taxable income determination must state, in a non-discriminative manner, in Part A, for the means of preparing the taxable income statements of the period in force, without recording in Part B. At the end of the period with the annual taxable income calculation all of the adjustments to net profit in the period of part A, as well as the entries in part B, must be done.

3.9. Daily Journal

The Daily journal constitutes the basic record of all of the accounting bookkeeping and consequently its use is indispensable. The Daily journal that the legal entities are obliged to maintain are composed of pages numbered in sequence, bound in book form.

The Daily journal must contain the opening and closing terms, typographically numbered, on the first and last page respectively. The opening term will state the purpose of the book, the order number, the numbers of pages, the individual company or the name of the partnership to which it belongs, the branch location or establishment, the number and date of the filing of the constitutive acts in the registration agency and the registration number in the National Corporate Taxpayer's Agency (CNPJ).

The closing terms will indicate the purpose of the book, the order number, the number of pages and the respective individual company or commercial partnership. The opening and closing terms are dated and signed by the trader or by a registered solicitor and registered accountant. At the location where there is not any registered person, only the trade and the solicitor sign the opening and closing terms. The referred Daily journal must be registered at the competent agency.

For the purpose of calculating taxable income, the tax administration cancels the bookkeeping and arbitrates the profit if the taxpayer does not have the Daily journal, or does not place in the bookkeeping, as the absence of the Daily journal is equivalent to the non-existence of bookkeeping.

Even though the Daily journal must kept on a daily basis, the monthly bookkeeping is acceptable as a reiterated practice by the administrative tax authority. The monthly bookkeeping is an entry, made once a month, of operations of the same nature, described in books or auxiliary registers, or described by the occurrence day in the only entry that contains them.

Bookkeeping in summary form may be used, in which monthly totals are added to the Daily journal and reference is made to the pages in which the operations are entered in the duly registered auxiliary books. In relation to the static accounts and possible movements, the corresponding entries must be part of the Daily journal, recorded separately and clearly in a manner that permits the exact identification, at any moment, of facts described (RIR/1999, article 258).

The journal's books or files, as well as the auxiliary books, must contain opening and closing terms, and be authenticated at the competent Trade Registration agency, and, in case of civil partnership, at the Legal Entity Civil Registry or at the Securities and Documents Registry.

3.10 Accounting Ledger

The Accounting Ledger contains the details of the entries made in the journal.

The legal entity taxed on taxable income must maintain an Accounting Ledger, or the files used to summarize and totalize, per total or subtotal of the entries recorded in the Daily journal, in good order and according to recommended accounting standards, and obeying the other demands and conditions foreseen in the legislation.

The bookkeeping must be kept separate and in accordance with the chronological order of the operations. The lack of maintaining the Accounting Ledger in the conditions previously determined will imply the arbitration of the legal entity's profi t.

The registration or authentication of the Accounting Ledger or file is not necessary (RIR/1999, article 259).

3.11. DIPJ (Income Tax Return)

The DIPJ must be presented, in a centralized manner by the parent company, for all of the legal entities, including same companies, according to the pertinent legislation.

The obligation does not apply to micro or small businesses, that opted for the Unified System for the Payment of Taxes and Contributions of Small Business - SIMPLES regime, to the public agencies, autarchies and public foundations, and the inactive legal entities, according to the definition of the Internal Revenue Service's act.

The DIPJ contains information and the calculation of the following taxes and contributions owed by the legal entity:

- Corporate Income Tax - IRPJ; · Excise Tax - IPI;
- Social Contribution on Net Income - CSLL; · Contribution for PIS/PASEP; and
- Tax for Social Security Financing - Cofins.

Fine for Delay in Statement Delivery

The individual that does not present the DIPJ within the determined period, or that presents the DIPJ with errors or omissions, will be summoned to present the original DIPJ in the case of lack of presentation, or provide explanations in other cases, in the period stipulated by the Internal Revenue Services, and will be subject to the following fines:

I. Two percent per calendar month or fraction, levied on the legal entity's amount of income tax informed in the DIPJ, even if paid in whole in the case of lack of delivery after the due period, limited to twenty percent;
II. R$20.00 (twenty reais) for each group of ten incorrect or omitted information.

For the effects of the application of fines foreseen in items I and II, the opening term is the following day after the end of the period originally determined for the delivery of the DIPJ. As the final term, it is considered the effective date of delivery or in the case of non-presentation, the transcription documents of the infraction.

The fines will be reduced:

I. By fifty percent if the statement is presented after the due date, but before any official procedure; II - Twenty-five percent if the statement is presented in the determined summons period.

The minimum fine applied for delay or lack of delivery of the DIPJ is R$500.00 (five hundred reais).

3.12. Declaration of Federal Contribution and Taxes - DCTF

The DCTF contains information relative to the taxes and contributions calculated by the legal entity in each quarter; the payments, possible installments and the credit compensations, as well as information on the suspension of tax credit exigency.

In accordance with the Regulatory Instruction SRF 482/2004, as of the 2005 calendar year, the DCTF must be present monthly, in a centralized manner, by the parent company, legal entities, the same companies, immune and exempt:

I. Whose gross income earned in the second calendar year, before the period corresponding to the DCTF to be presented, has been over 30 (thirty) million reais; or
II. Whose sum of debits declared in the DCTF relative to the second calendar year, before the period corresponding to the DCTF to be presented, has been greater than 3 (three) million reais.

The remaining legal entities must present, quarterly, the DCTF in a centralized manner by the parent company.

Fines for Delay in the Declaration Delivery

The fines for delay in the declaration delivery applied to the DCTF are calculated by the quantity of months, or the fraction of months of delay, counted as of the day after the ending of the period of delivery of the declaration and up to the effective delivery, or in the case of when the declaration is not presented, the date of the inscription documents of the infraction is used.

Fine Amount

Two percent per calendar month or by fraction of the month, levied on the amount of taxes and contributions informed in the DCTF, even if entirely paid, in the case of lack of delivery of these Declarations or delivery after the due date, limited to twenty percent.
The fines will be reduced:

a) By half when the declarations is delivered after the due date but before any official procedure;
b) By seventy-five percent if the statement is present in the determined summons period.

In any of the above mentioned cases (items a and b), the minimum fine to be applied will be R$500.00 which is able to be reduced by 50% if paid before the end of the legal impugnation due date or by 30% if paid within the 30 days of the recognition of the decision at first instance.

3.13. DIRF (Declaration of Income Tax at Source)

DIRF is the declaration made by the payment source, intended to inform the Internal Revenue Service of the amount of income tax withheld at source from the income paid or credited to its beneficiaries.

The following legal entities and individuals that paid or credited income with tax withheld at source are required to present the DIRF, within a single month of the calendar year, for itself and as a representative of third parties:

- Head office establishments of legal entities of private law domiciled in the country, including the immune and exempt;
- Public law legal entities;
- Branches or representatives of legal entities that have offices abroad; · Individual companies;
- Loan and savings banks, association and employee and employer union organizations; · Owners of notary and registration services (registries);
- Condominiums and buildings; · Individuals;
- Administrative fund or investment club institutions; and · Management agencies for maritime labor work.

The agencies, the autarchies and the public federal administrative foundations that perform payments to legal entities for the supply of goods or rendering of services also must present the DIRF.

3.14. DACON (Statement of Social Contribution Tax Determination)

DACON aims to calculate PIS/PASEP and the non-cumulative Cofins that are to be obligatorily presented by the legal entities in general, taxed by the income tax based on taxable income, with the exceptions foreseen in article 8 of Law n. 10,637 from 2002 and in article 10 of Law n. 10,833 from 2003.

This statement must be presented by the legal entity's parent company establishment up to the last working day of month following the end of the relative quarter by way of application that is available by Internal Revenue Services on the Internet.

The legal entity that does not present the DACON within the periods established or that presents it with errors or omissions, will be subject to fines of 2% (two percent) per calendar month or per fraction of a calendar month, levied on the Cofins amounts, or, when lacking, on the Contribution for PIS/PASEP, informed in DACON, even if entirely paid, in the case of the lack of delivery of this statement or the delivery after the date, limited to 20% (twenty percent) of that amount.

Should errors in the amount of R$20.00 (twenty reais) for each group of ten errors or omissions, the minimum fine to be applied will be:

I - R$200.00 (two hundred reais) when relative to an inactive legal entity; II - R$500.00 (five hundred reais) in other cases.

Observing the minimum amounts, the fines will be reduced:

I - By 50% when the statement is presented after the date, yet before any official procedure; II - In twenty-five percent if the statement is presented in the determined summons period.

3.15. PER/DCOMP (Electronic Request for Returns or Reimbursements and for the Compensation Declaration)

The legal entity that calculates credit relative to the taxation or contribution managed by the Internal Revenue Services, liable for restitution or indemnification, and that would like to use this in the compensation of own debits relative to taxes and contributions managed by the Internal Revenue Services or for amounts to be restituted or indemnified, must forward to the Internal Revenue Services, respectively, the Compensation Statement, the PER/DCOMP document generated from the PIS/PASEP program.

The Electronic Request for Reimbursements generated from the PER/DCOMP is constituted as a document to be presented to the Internal Revenue Services by the taxpayer that calculates credit relative to the taxation or contribution managed by the Internal Revenue Services, liable to restitution and that desires to restitute this amount

The Electronic Request for Reimbursement generated from the PER/DCOMP program is constituted as a document to be presented to the Internal Revenue Services by the legal entity that wishes to reimburse the Excise Tax (IPI) credit, liable for reimbursement only if the credit has been recognized by judicial decisions transited in rem judicatam and that have been calculated within the last five years, with exception made towards the IPI credits relative to article 25 of Regulatory Instruction n. 460 from October 18, 2004 (indemnification of IPI for diplomatic missions, consular divisions and permanent representations from international agencies that Brazil is part of) that are not able to be demanded by the Program.

The Compensation Declaration, generated from the PER/DCOMP program, is constituted as a document to be presented to the Internal Revenue Services by the taxpayer that calculates credit relative to the tax or contribution managed by the Internal Revenue Services, liable to be object of the Electronic Request for Restitution or the Electronic Request for Reimbursement, and that desires to use this in the compensation of its own debits relative to the taxes and contributions under the management of the Internal Revenue Services.

4. Labor Legislation

4.1. Types of Hiring

4.1.1. Contract for an Undetermined Period

This is the most commonly used employee contract. It occurs when the experimental phase-work contract is over and the employer decides to continue with the employee. Upon exercising this option, the employer creates an employment relationship for an undetermined period.

Another hypothesis with this type of contract occurs when a contract is prepared right after another in sequence, not respecting the interval of six months, which is the minimum period between contracts.

Rights of the worker hired for an undetermined period of time

Minimum Wage: is the minimum remuneration stipulated by the State and/or Federal Government.

Weekly Working Hours: according to the Brazilian Federal Constitution "the length of the normal work hours is no more than eight hours per day and forty-four hours per week, permitting the compensation of hours and the reduction of the working week through an agreement or work convention" (article 7, incision XIII of the Federal Constitution).

Unemployment Insurance: is assistance for employees that have been dismissed. Its purpose is to provide temporary financial assistance to the employee.

Thirteenth Salary: is also known as Christmas Bonus. It is an additional salary paid in December to employees.

Profit Sharing: is a plan for the division of profit paid to the employees as a bonus for reaching objectives determined by the company.

Additional Over Time: are the hours that exceed the daily working hours (more than 8 hours) or the weekly working hours (more than 44 hours), remunerated with a 50% increase on the amount of normal hour remuneration.

Annual Vacation: after the validity period of the work contract, the employee will have the right to take vacations, without any loss in remuneration in the following proportion:

I. 30 (thirty) consecutive days, when no more than 5 (five) days of work were missed;

II. 24 (twenty-four) consecutive days, when between 6 (six) and 14 (fourteen) days of work were missed;
III. 18 (eighteen) consecutive days, when between 15 (fifteen) and 24 (twenty-four) days of work were missed;
IV. 12 (twelve) consecutive days, when between 25 (twenty-five) and 32 (thirty-two) days of work were missed.

Maternity Leave: is the time a woman spends away from work due to pregnancy. During the woman's leave due to pregnancy, the woman will have the right to an entire salary and this will be paid by Social Security. It is forbidden that the employer carry out the woman's dismissal whilst she is on maternity leave. The length of the maternity leave is 120 days.

Previous Notice: any of the parties (employees or employers) that, without just cause, decides to sever the contract, the party must advise the other party with at least 30 (thirty) days notice.

Night Shift Work: additional 20% on the salary paid for the night shift work rate.

Transport Vouchers: is the benefit paid by the employer for the transport of employees from their residence to the work location and back. This benefit is compulsory, and the non-supply of this benefit by the employer is forbidden. The employer may discount 6% of the employee's salary to aid the costing of the benefit granted.

Stability: the provisionary stability of the pregnant employee is assured, of the union director, including the substitute, of the employee who is part of the management of the Internal Committee for Accident Prevention - CIPA and the accident victim, when these situations occur.

Government Severance Indemnity Fund for Employees (FGTS): are monthly deposits made by companies on behalf of the employees in the amount equivalent to 8.5% of the remunerations paid or owed. In the case of employee dismissal without just cause, the payment of a 50% indemnification of the amounts deposited in the FGTS account is compulsory.

4.1.2. Contract for a Determined Period

The contract for a determined period is a contract with a stipulated period, that is, it has a beginning date and an ending date for the activities. After the termination of its validity, the maximum limit for a work contract for a determined period is 2 (two) years and the stipulation of a new contract between the company and the employer must obey an interval of 6 (six) months between the end of the old contract and the beginning of a new contract, on the other hand, it may be characterized as a contract for an undetermined period.

Rights of the employee contracted for a determined period

The filling out of the professional booklet is performed normally, informing the contract characteristics, containing the beginning date and the ending date, as well as possible extensions.

Minimum Salary: is the minimum remuneration stipulated by the State and/or Federal Government.

Weekly Working Hours: according to the Brazilian Federal Constitution "the length of the normal work hours is no more than eight hours per day and forty-four hours per week, permitting the compensation of hours and the reduction of the working week through an agreement or work convention" (article 7, incision XIII of the Federal Constitution).

Unemployment Insurance: is an assistance for employees that have been dismissed. Its purpose is to provide temporary financial assistance to the employee.

Thirteenth Salary: is also known as Christmas Bonus. It is an additional salary paid in December to employees.

Profit Sharing: is a plan for the division of profit paid to the employees as a bonus for reaching objectives determined by the company.

Additional Over Time: are the hours that exceed the daily working hours (more than 8 hours) or the weekly working hours (more than 44 hours), remunerated with a 50% increase on the amount of normal hour remuneration.

Annual Vacation: after the validity period of the work contract, the employee will have the right to take vacations, without any loss in remuneration in the following proportion:

I. 30 (thirty) consecutive days, when no more than 5 (five) days of work were missed;
II. 24 (twenty-four) consecutive days, when between 6 (six) and 14 (fourteen) days of work were missed;
III. 8 (eighteen) consecutive days, when between 15 (fifteen) and 24 (twenty-four) days of work were missed;
IV. 12 (twelve) consecutive days, when between 25 (twenty-five) and 32 (thirty-two) days of work were missed.

Maternity Leave: is the time a woman spends away from work due to pregnancy. During the woman's leave due to pregnancy, the woman will have the right to an entire salary and this will be paid by Social Security. It is forbidden that the employer carry out the woman's dismissal whilst she is on maternity leave. The length of the maternity leave is 120 days.

Previous Notice: any of the parties (employees or employers) that decides to sever the contract, must pay 50% indemnification of the days that remain until the termination of the contract.

Night Shift Work: additional 20% on the salary paid for the night shift work rate.

Transport Vouchers: is the benefit paid by the employer for the transport of employees from their residence to the work location and back. This benefit is compulsory, and the non-supply of this benefit by the employer is forbidden. The employer may discount 6% of the employee's salary to aid the costing of the benefit granted.

Stability: the provisionary stability of the pregnant employee is assured, by the union director, including the substitute, of the employee who is part of the management of the Internal Committee for Accident Prevention - CIPA and the accident victim, when these situations occur.

Government Severance Indemnity Fund for Employees (FGTS): are monthly deposits made by companies in the name of the employees in the amount equivalent to 8.5% of the remunerations paid or owed. In
the case of employee dismissal without just cause, the payment of a 50% indemnification of the amounts deposited in the FGTS account is compulsory. When the work contract ends at the period determined, there is no indemnification payment.

4.1.3. Temporary Contract

The temporary contract mode stipulates that the providing of services is performed by an individual to a company, to attend a temporary need for substitution of its regular and permanent employees or the increase in service. The registration in the Work Booklet (CTPS) is signed as a temporary condition.

Rights of the temporary employee

Weekly Working Hours: according to the Brazilian Federal Constitution "the length of the normal work hours is no more than eight hours per day and forty-four hours per week, permitting the compensation of hours and the reduction of the working week through an agreement or work convention" (article 7, incision XIII of the Federal Constitution).

Salary: remuneration equivalent to that received by employees of the same category of service rendering company or clients calculated on an hourly basis, guaranteeing, under any hypothesis, the receipt of the minimum regional and/or federal salary.

Additional Over Time: are the hours that exceed the daily working hours (more than 8 hours) or the weekly working hours (more than 44 hours), remunerated with a 50% increase on the amount of normal hour remuneration.

Annual Vacation: after the validity period of the work contract, the employee will have the right to take vacations, without any loss in remuneration in the following proportion:

I. 30 (thirty) consecutive days, when no more than 5 (five) days of work were missed;
II. 24 (twenty-four) consecutive days, when between 6 (six) and 14 (fourteen) days of work were missed;
III. 18 (eighteen) consecutive days, when between 15 (fifteen) and 24 (twenty-four) days of work were missed;
IV. 12 (twelve) consecutive days, when between 25 (twenty-five) and 32 (thirty-two) days of work were missed.

Night Shift Work: additional 20% on the salary paid for the night shift work rate.

Transport Vouchers: is the benefit paid by the employer for the transport of employees from their residence to the work location and back. This benefit is compulsory and the non-supply of this benefit by the employer is forbidden. The employer may discount 6% of the employee's salary to aid the costing of the benefit granted.

Government Severance Indemnity Fund for Employees (FGTS): are monthly deposits made by companies on behalf of the employees in the amount equivalent to 8.5% of the remunerations paid or owed.

4.2. Labor and Social Security Charges

INSS

Contribution salary from	*Rate up to*	*Percentage*
-	*800.45*	*7.65%*
800.46	*900.00*	*8.65%*
900.01	*1,334.07*	*9.00%*
1,334.08	*2,668.15*	*11.00%*

Validity: as of May 2005.
Legal Base: Government Directive n. 822 from 05/11/2005 (DOU 05/12/2005).

FGTS

Rate of 8.5% of the monthly remuneration paid to each employee, with 0.5% contribution to the government.

PIS

Rate of 0.65% on gross income. PIS will not be charged by companies that opt to use SIMPLES.

Union Contribution

Discounted from employees: annually, one day of salary.
Employer: see rate in progressive table in the respective union.

Prior Notice

Amount corresponding to one-month salary.

Vacations Overdue

The salary of the month that the employee takes as holidays, to be paid in advance and increased by 1/3 (one third).

Proportional Vacations

1/12 on the employee's salary for each month or fraction greater than 15 days worked, counted as of the admission date up to the completion of the year, and thereon successively.

Thirteenth Salary

Amount corresponding to one-month salary, of which 50% is to be paid up to November 20 of each year and 50% up to December 20 of the same year.

Proportional 13th salary

1/12 on the employees salary for each month or fraction greater than 15 days worked, counted as of January 1 of the corresponding year up to December 31 of the same year.

Source: Work and Employment Minister, Social Security and Federal Saving and Loans Bank.

Summary of Contributions in the Employees' Payroll

In our example we will consider an employee with a monthly salary of R$1,000.00 (one thousand reais).

A. Monthly Remuneration Amount	***R$1,000.00***
1. *Sum of annual salary*	*R$11,000.00*
B. Complementary Remuneration	
2. *Payment of Vacations (relative to 30 days per year)*	*R$1,000.00*
Monetary Vacation Bonus (obligatory 1/3 on the salary amount)	*R$334.00*
3. *Thirteenth Salary*	*R$1,000.00*
5. *Over Time (not applied in the example)*	*R$0.00*
6. *Night Work (not applied in the example)*	*R$0.00*
7. *Family Benefit (not applied in the example)*	*R$0.00*
Total Remuneration Amount	*R$1,000.00*
4. *PLR (one salary, as an example) (profit sharing program) Total Amount (Remuneration Total + PLR)*	*R$14,334.00*
C. Amount used as a Contribution Tax basis	***R$13,334.00***
	R$1,334.00
8. *Contribution on FGTS Account - 8.5%*	*R$2,666.00*
9. *Social Contribution Security - 20%*	*R$400.00*
10. *Workers' Accident Insurance*	*R$774.00*
11. *Contribution to Other Entities and Funds*	*R$5,174.00*
Total Amount of Contributions	*R$8,507.00*
General Total (Contribution Total + Total of Complementary Remunerations)	*22.66%*
Social Contribution and Labor Benefits Total in % on the Base Salary	*77.34%*

5. Foreigners Employment

Foreigners that need to remain in Brazil for work require authorization granted by the Labor Minister and demanded by Brazilian consular authorities, in accordance with the legislation in force.

5.1. Visa Types

5.1.1. Short-term business trip visas

The visitors that come to Brazil with short-term visas may not, under any hypothesis, receive any type of remuneration. The visa may be obtained at the Brazilian Consulate if it has jurisdiction of the applicant's residence location and is not necessary for all countries. In the request for the visa, the objective of the trip, names, addresses, and commercial contact telephone numbers in Brazil must be provided, as well as, the arrival date, date foreseen for departure and a moral and financial responsibility guarantee by the applicant during his/her stay in Brazil.

This visa may be valid for a period of 90 days counting from the date of first arrival in Brazil, and may be used for various entrances in the country within this period. An extension for three more months may be obtained at the Federal Police before the expiry date of the visa.

5.1.2. Temporary Work Visa

There are other types of visa for persons coming to Brazil for work reasons, and to obtain these, the applicant must obtain Work Authorization from the Brazilian Authorities. After the approval of the request, the authorization will be published in the Official Daily Government Newspaper, and the consulate designated will be notified.

From this point, the foreign candidate may acquire the visa concession.

5.1.3. Temporary Visa for professionals

This visa is offered to the persons that come to Brazil for a period of up to two years, which may be extended for two more years. This visa is available to foreigners that are temporarily employed in a Brazilian company that requires skills that are not found in Brazil.

5.1.4. Foreign journalists

Related to a visa intended for foreign journalists that are working temporarily in Brazil. In this case, the candidate is not able to receive a salary in Brazil.

5.1.5. Permanent Work Visa

A permanent work visa may be solicited by persons that are permanently transferred to Brazil to work at a branch or subsidiary of any foreign company with the role of director/manager. In this case, the company must have, at least, US$50 thousand* of foreign investment registered at the Brazilian Central Bank. Should a person work in Brazil for four years in a temporary manner - irrelevant of whether the company is Brazilian or foreign -, it may require the change of its condition to permanent. The company must make this request to the Justice Minister. To obtain permanent work authorization for a person that is not working in Brazil in a temporary character at the time, it is necessary that the request be made previously to the Labor Minister.

The Work Booklet (CTPS) will be supplied to the foreigner through the presentation of all necessary documents. The person interested in getting the CTPS must go to the Regional Labor Services (DRT), Regional Sub-Service House or the Federal Police closest to the residency.

** National Immigration Council, Regulatory Resolution n. 60 from October 6, 2004.*

5.2. Entrance Registry for Brazil

Foreigners that are residents in Brazil, immigrants and temporary residents that come to Brazil to work - with exception of short-term business trips - must register themselves at the Federal Police within 30 days after the arrival in Brazil and present their passport.

5.3. Preparatory trips for permanent or temporary work

The short-term business visa may be solicited by persons that need to come to Brazil for business before obtaining work authorization and the appropriate visa.

Nevertheless, these persons cannot receive remuneration in Brazil until they have had authorization and the visas have been obtained.

5.4. Work of spouse and children

Spouses and children that accompany the foreigners will come to Brazil with the same visa, however they will not be able to work, unless the visa is modified to permanent resident. Should the applicant be married to a Brazilian or have Brazilian children, he/she may solicit a permanent visa at the Brazilian Consulate before coming to Brazil, or at the Justice Minister if the person has already come to Brazil. Foreigners that adopt a Brazilian child also have the right to a permanent visa.

5.5. Foreigners' work booklet

The Work Booklet (CTPS) will be supplied to foreigners through the presentation of necessary documents. The person interested in getting the CTPS must go to the Regional Work Services (DRT), Regional Sub-Service Houses or the Federal Police closest to their residence.

5.6. Work of foreigners in Brazil

5.6.1. Foreigner with a permanent visa

- A recent 3 x 4 photo with white background;
- Original foreign identity card - CIE. The validity period of the CTPS will be identified to the CIE; · Should the CIE be a previous model and re-registered, present also an authenticated copy and the re-registration protocol to the original Federal Police; and
- In case of absence of the original CIE, it will be necessary to present the CIE solicitation protocol to the Federal Police to consult identification data issued by the National Registration System of Foreigners (SINCRE) and the original passport with the respective visa and permanent registration. In this case, the validity period of the CTPS will be up to 180 days, which can be extended for the same period of time.

5.6.2. Professional with temporary work visa

- A recent 3 x 4 photo with white background;
- Official Daily Government Newspaper original (of the approval by the General Coordinator of Immigration up the applicant's process);
- Original passport with the respective visa and registration at the Federal Police; · Original Federal Police Protocol; and
- Original SINCRE (issued by the Federal Police) or the visa request authenticated front and back.

6. Mercosul Work Visa

The "Mercosul Visa" will be required by individuals, nationals, service providers from any of the country's states, that solicit entry with the intention of providing, temporarily, services in the national territory, under contract, for the realization of remunerated activities (named "contract") in the state of origin or entrance, to remain up to 2 (two) years, able to be prolonged once for the same period of time, up to the maximum of 4 (four) years, counting from the date of entrance in the territory.

- The "Mercosul Visa" will have its validity linked to the duration of the contract, respecting the maximum limit of 4 years;
- The grant of the "Mercosul Visa" will not be submitted to any kind of test of economic necessity, neither any type of previous authorization of a labor nature and will be exempt from any kind of requisite of proportionality of nationality and salary similarity; and
- The "Mercosul Visa" gives the right to multiple entrances and exits.

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