

Brazil Brief

Brazil's economy under test:
how tax reform is repositioning the
country for investors

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The Tax Reform test year: A strategic window for investment in Brazil



The year 2026 marks the beginning of the practical implementation of Brazil's new consumption tax system, with the introduction of the CBS (federal) and the IBS (subnational)—new taxes that will gradually replace the current consumption-based levies—initially at reduced rates. More than an operational challenge, this transition phase creates a strategic opportunity. Foreign investors can test business models in an environment with limited financial exposure, anticipating decisions that will become critical once the new system is fully implemented. At the same time, the coexistence of the current regime and the new system ushers in a period of greater short-term complexity—a dynamic inherent to the transition process. Long-term simplification initially requires an overlap of rules, systems, and interpretations.

In practice, this framework creates a unique scenario. The effective tax burden remains largely tied to the current system, while the new model is introduced in parallel. This allows companies to simulate future structures, such as logistics, supply chains, and corporate organization, without being fully exposed to the financial impact these decisions will entail in the coming years.

This shift is already influencing how strategic decisions are made. Analysis is no longer based solely on current conditions but increasingly incorporates forward-looking projections of cash flows, tax credit dynamics, and operational restructuring under the new regime. Companies are effectively simulating a post-reform environment, comparing current tax burdens with those expected under the new system. This approach anticipates effects that, under normal circumstances, would only become evident after full implementation.

For foreign investors, this context reshapes the timing of market entry. The decision now involves not only assessing current conditions but also weighing the benefits of gaining early operational experience within a system still under development. Operating under two parallel regimes requires continuous adjustments and increased adaptation efforts. Still, the structure of the transition phase creates a distinct advantage: the ability to calibrate decisions with reduced immediate financial impact.



Failing to anticipate the effects of this transition carries an opportunity cost. Those who move early can test structures more safely. This is the moment when mistakes are less costly.

Rafael Amorim, partner

In this edition of Brazil Brief, **Rafael Amorim**, partner in the Tax & Customs practice, explores how this transition is unfolding in practice and shaping corporate operations and investment structuring.

CBS and IBS: What are the new consumption taxes?

Brazil's tax reform introduces two new taxes that will gradually replace the main consumption taxes currently in place:

- **CBS (Contribution on Goods and Services):** a federal tax that will replace PIS, COFINS, and part of the IPI.
- **IBS (Tax on Goods and Services):** a subnational tax that will replace ICMS (state-level) and ISS (municipal-level taxes).

The objective of the new system is to simplify consumption taxation, reduce distortions, and align Brazil more closely with internationally adopted VAT models.

Operational testing and the reconfiguration of strategic decisions

The use of 2026 as a simulation year is already prompting companies to reassess operational decisions that were previously shaped by the current tax framework. Logistics is the most visible dimension of this shift. Structures originally designed to capture tax incentives are being reconsidered in a system that aims to reduce such distortions. Companies that have located operations in specific states due to tax incentives are now evaluating potential reorganization.



The goal is to make decisions based more on economic factors than tax implications.

Rafael Amorim

This shift implies not only potential relocation but also a broader reassessment of operational efficiency.

The impact, however, extends beyond logistics. The reform introduces a variable that directly affects companies' financial structure: cash flow dynamics across the supply chain. The timing of input tax credits, combined with taxation at the point of output, shifts attention to the gap between these events.

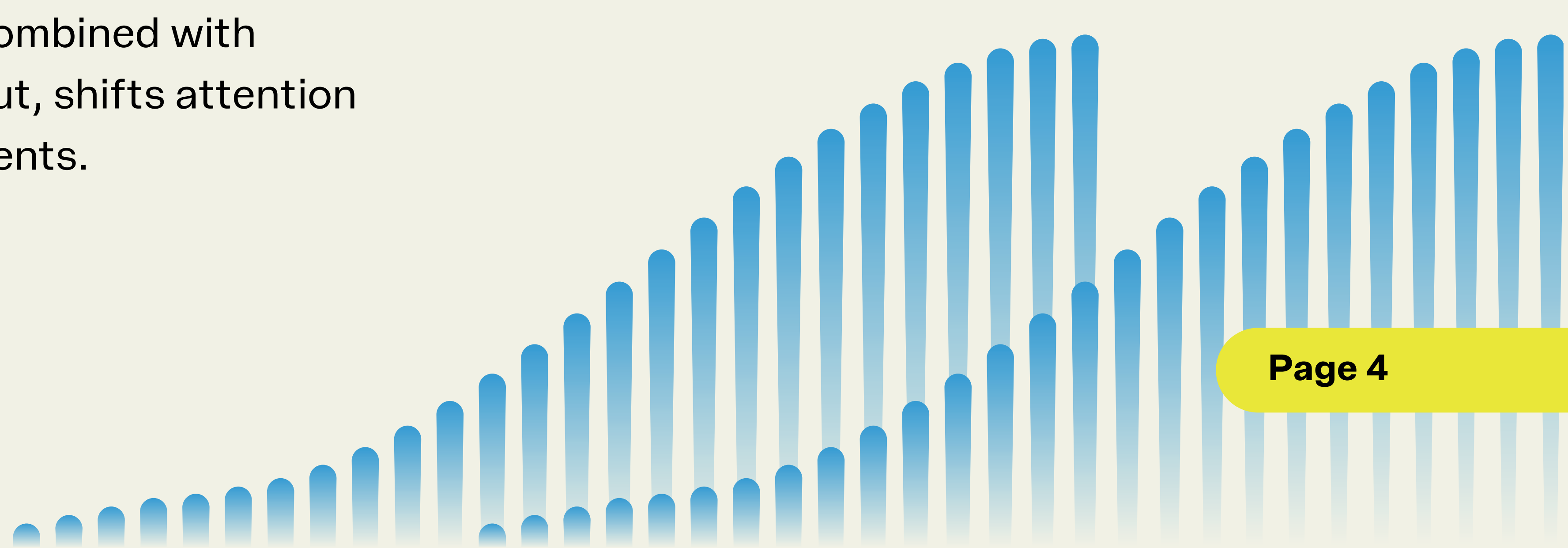


There is a critical timing issue between recognizing tax credits and paying the corresponding tax, which directly affects companies' cash flow.

Rafael Amorim

As a result, structures that appear efficient from a margin perspective may prove more demanding in terms of working capital, requiring closer integration between operational and financial planning.

A third area affected is the review of commercial relationships structured under the current system. Contracts with suppliers and customers are being revisited to reflect the anticipated effects of the reform, often before those effects are fully measurable.





Companies are reviewing contractual arrangements to adjust clauses and anticipate the impact of the reform.

Rafael Amorim

This process may involve cost reallocation, pricing adjustments, and, in some cases, the economic rebalancing of contractual relationships, with effects cascading throughout the supply chain.

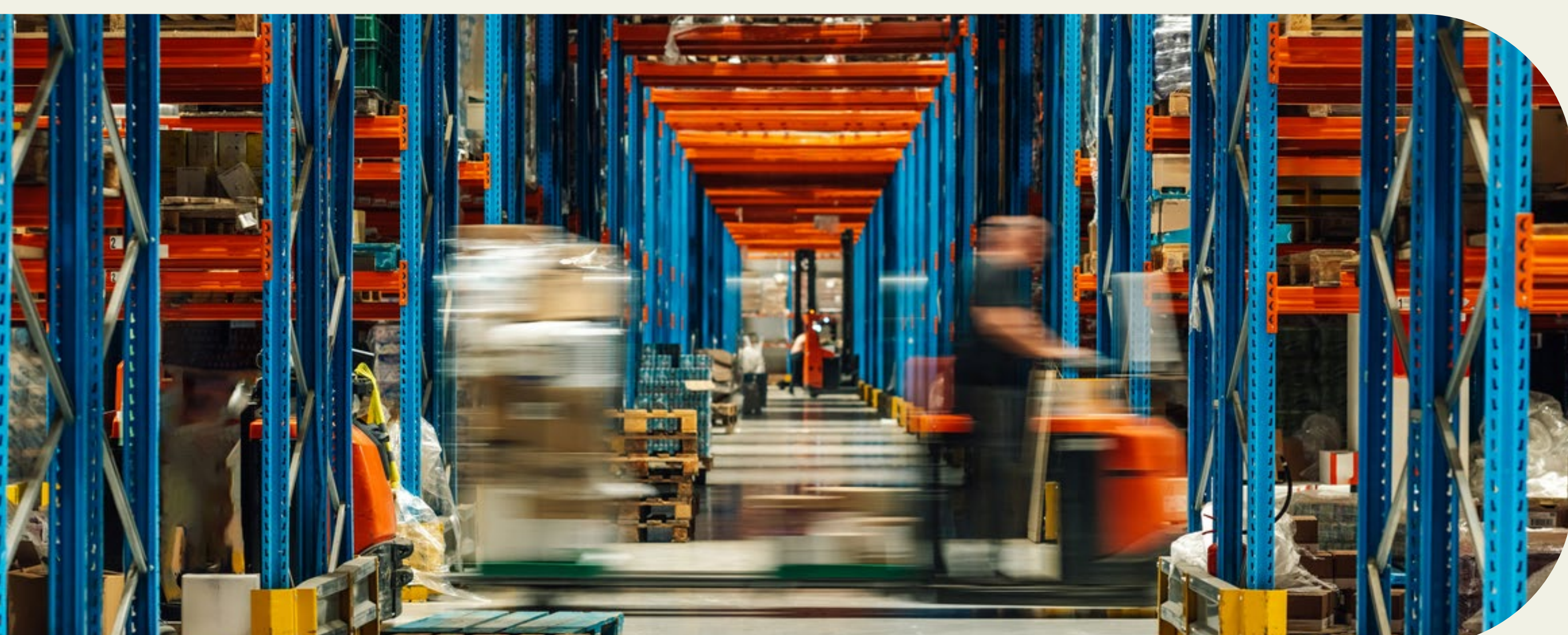
For foreign investors, these variables are becoming central to asset valuation and market-entry decisions. In M&A transactions, reliance solely on historical performance becomes less relevant in a context of structural change.



A company's valuation today must incorporate how the reform will affect future cash flows. This fundamentally changes the analytical framework.

Rafael Amorim

In this context, a company's ability to adapt to the new tax system becomes an integral component of its overall value.





The transition and the expected rise in tax litigation

The parallel implementation of two tax systems is likely to lead to increased litigation, particularly in the short term, although the scope and nature of these disputes will depend on how the transition unfolds in practice. System adjustments, the introduction of new compliance obligations, and the application of rules that are still being consolidated create an environment more prone to differing interpretations and disputes.

This dynamic adds a layer of uncertainty for companies, as inconsistencies or interpretative divergences may affect cash flow and operational predictability. At the same time, the introduction of a new tax framework—with concepts and mechanisms still evolving—tends to open the door to more structural legal discussions. This, however, is a gradual process, the intensity of which will depend on the pace of regulatory consolidation and on how both tax authorities and taxpayers respond during the initial years of implementation.

Despite the expected increase in litigation, the prevailing market view is not one of disruption. There is a broad perception that Brazil's institutional framework is capable of absorbing and gradually resolving these disputes.



There is confidence that these issues will be addressed and that, over the long term, the system is likely to generate net benefits.

Rafael Amorim

For investors, this suggests that a rise in disputes should be viewed as part of the transition process rather than as a structural constraint on operational viability.

Structuring before entry: The key differentiator in the tax Transition

The reform changes the starting point for structuring business operations in Brazil. Instead of operating within a stable—albeit complex—tax system, companies are now making decisions in a transitional environment in which the effects of the new model are still being calibrated in practice.



It is no longer just about minimizing tax costs, but about understanding how the business model can operate more efficiently under the new framework.

Rafael Amorim

In this context, decisions regarding operational structure, location, and supplier relationships are no longer adjusted at the end of the process but are defined from the outset in light of the new tax logic.

For foreign investors, this shift changes the analytical focus. Entry into Brazil can no longer be based solely on current tax costs, but requires a broader perspective that incorporates the trajectory of the transition. Structures that are efficient today may lose competitiveness over time, while alternatives not yet adopted may prove more suitable under the new regime.



Investors who enter without proper planning and without a clear understanding of the reform's impacts risk becoming disoriented.

Rafael Amorim

Legal counsel assumes a more strategic role, acting not only in interpreting regulations but also in scenario planning and structuring operations.

The current transition phase creates a unique window for investors assessing entry into the country. The ability to test operating models, simulate impacts, and adjust structures before full implementation reduces the cost of decisions that may be more difficult to reverse later. The complexity of the transition does not disappear, but it can be incorporated progressively as operations evolve. In this sense, early engagement with the process tends to transform the initial phase of reform from a potential barrier into a strategic positioning stage.

In practical terms, this anticipation is already translating into priority areas for 2026. Cash flow management becomes critical given the new dynamics of tax credits and debits and their impact on working capital. Contract reviews are necessary to reflect the redistribution of the tax burden across the supply chain, with direct implications for pricing and margins. At the same time, system upgrades become essential to ensure compliance and operational security during the coexistence of the two regimes. Rather than isolated adjustments, these areas are likely to guide core structural decisions as the reform progresses.



Anticipating the effects of the transition creates a tangible advantage: it allows companies to test models with greater confidence at a stage when the cost of error remains limited.

Rafael Amorim

What companies are testing in practice in 2026

The first year of the transition has been used by companies as a period to simulate and adjust their operating models, with a focus on anticipating the effects of the new tax system. Key areas under review include:

- **Logistics:** Reassessment of distribution center locations and operational flows, with reduced emphasis on tax incentives in decision-making.
- **Cash flow:** Simulation of credit and debit dynamics under the new system and their impact on working capital.
- **Contracts:** Review of commercial terms to reflect the new tax incidence across the value chain.
- **Operational structure:** Evaluation of local presence, outsourcing, or hybrid operating models.
- **Market entry models:** Comparison between direct operations and structures without a physical presence in Brazil.
- **Tax infrastructure:** Adaptation of management systems to support the coexistence of both tax regimes.

The common objective is to anticipate structural decisions ahead of the full implementation of the new system.

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Rafael leads the Tax Law team in São Paulo and is experienced in a range of matters, including tax advice and planning, as well as highly complex issues. He has an excellent reputation among clients, who often highlight his knowledge and assertiveness.

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