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To: Members of the Executive Board  
From: The Secretary  
Subject: Brazil - Exchange System

There is attached for the information of the Executive Directors a paper on changes in the exchange system of Brazil. A copy of the Resolutions and other documents referred to in this paper is available for reference in Reference Services (ext. 73351).

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

Brazil--Exchange System

Prepared by the Western Hemisphere Department and the  
Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by S.T. Beza and W.A. Beveridge

February 7, 1984

The Brazilian authorities have informed the Fund of certain changes in Brazil's exchange system. These changes are: (1) the replacement of exchange taxes on receipts from exports of a number of items by taxes based on physical movements of the exports; (2) the elimination of an exchange tax on cornmeal exports; (3) the replacement, as of April 1984, of the exchange tax associated with the cocoa contribution quota by a tax on the physical movement of cocoa exports; (4) the amendment of the graduated supplementary tax on remittances of profits and dividends by the introduction of an income tax on all income distributions to non-residents regardless of whether they are intended to be remitted or not; (5) the termination of remaining bilateral payments arrangements subject to the Fund's Article VIII (with Hungary, Romania, and Paraguay); (6) extension of the scope of the financial transactions tax (IOF) to include the sale of foreign exchange for imports of petroleum products.

Under Central Bank Resolution No. 866 of December 1, 1983 the exchange tax on cornmeal exports subject to Fund approval under Article VIII was eliminated, with effect from that date. Exchange taxes on receipts from exports of beef, cattle, hides, and orange and tangerine juice, as previously applied, constituted multiple currency practices subject to Fund approval. According to Central Bank Resolutions Nos. 877 and 880 of December 20, 1983, Ministry of Finance Order No. 313 of December 26, 1983, and Federal Revenue Secretariat Regulatory Instructions No. 149 of December 29, 1983), these taxes have been converted into taxes on physical movement of the exports, eliminating the multiple currency practices. Likewise, under Central Bank Resolution Nos. 878 and 879 of December 20, 1983, multiple currency practices arising from discriminatory exchange taxes were eliminated for a number of export items as of January 1, 1984. <sup>1/</sup> In accordance with Central Bank Resolution No. 887 of December 27, 1983, the cocoa contribution quota will be similarly amended on April 1, 1984 to eliminate the multiple currency practice involved.

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<sup>1/</sup> Items included textile and leather products, cotton yarn, pig iron, and certain footwear and iron and steel products.

Pursuant to Decree-Law No. 2073 of December 20, 1983, the supplementary income tax is now imposed on nonresident income on the basis of the actual distribution or, in some cases, on the accrual, of profits and dividends to the nonresident beneficiary, instead of on remittances, which gave rise to a multiple currency practice. The tax does not apply to reinvested profits and dividends (within the meaning of Article 7 of Law No. 4131 of September 3, 1962, as amended). After the average of distributed (accrued) profits and dividends will have exceeded 12 percent of registered capital and reinvestments during a three-year period, the amount of tax due will be withheld at source from any subsequent amounts distributable to the nonresident.

The bilateral payments arrangement with Hungary was amended on December 20, 1983, with provision for settlement of the balances outstanding at end-1983. The amended agreement between Brazil and Hungary does not give rise to a restriction on the making of transfers under Article VIII, Section 2(a) of the Fund's Articles of Agreement. Similarly, the restrictions on transfers contained in the bilateral payments arrangements with Romania were eliminated as of end-1983, and the outstanding balances converted into a loan. The bilateral payments arrangement with Paraguay was eliminated as of December 28, 1983.

In accordance with Resolution No. 891 of December 28, 1983, the financial transactions tax (IOF) applicable to the settlement of exchange operations was extended to imports of crude oil. The rate will be 10 percent until March 15, 1984, 15 percent from that date to June 15, 1984, and 25 percent from that date until further notice. The extension of the scope of the financial transactions tax is subject to approval under Article VIII, Sections 2(a) and 3.

The Fund staff continues to be in close contact with the Brazilian authorities. Additional modifications to the exchange system are presently in preparation or under active consideration, and the Board will be informed when additional measures are adopted.