



## SUMMARY

According to the Organization for Economic Cooperation and Development, Brazil has one of the highest tax burdens in the world. However, the country faces challenges in managing the amount collected and effectively returning it to society in the form of public policies, infrastructure, and quality essential services. This scenario reveals flaws related to regulatory complexity and instability, the high number of ancillary obligations, and legal uncertainty in the country. The combination of these factors compromises the country's business environment and increases companies' compliance costs. In this context, this study aims to analyze the main characteristics of the IBS and assess the potential impacts of the tax transition in Brazil. To this end, a qualitative approach was adopted, based on a specialized literature review. Based on this, relevant innovations were identified, such as: the automated tax collection system (split payment), partial tax refunds for low-income families (cashback), and the change in the tax incidence criterion to the destination location. A long transition period was also established to help taxpayers and government entities adapt to the new tax structure. In light of this, it is clear that the reform proposes a simpler and more efficient tax system, the success of which will depend on cooperation between the agents involved, in order to ensure a safe transition that is compatible with the national socioeconomic reality.

**Keywords:** Tax reform. *Split payment. Cashback.*

## ABSTRACT

According to the Organization for Economic Co-operation and Development (OECD), Brazil has one of the highest tax burdens in the world. However, the country faces persistent challenges in managing the collected revenue and in ensuring its effective return to society through public policies, infrastructure, and high-quality essential services. This scenario reveals shortcomings related to the complexity and instability of tax regulations, the excessive number of ancillary obligations, and the overall legal uncertainty in the country. The combination of these factors undermines the national business environment and increases corporate compliance costs. In this context, the present study aims to analyze the main characteristics of the GTS (Goods and Services Tax) and to assess the potential impacts of the tax transition in Brazil. A qualitative approach was adopted, based on a specialized literature review. From this analysis, several relevant innovations were identified, such as the automated tax collection system (split payment), the partial tax refund for low-income families (cashback), and the shift in the tax incidence criterion to the destination principle. In addition, a long transition period was established to facilitate the adaptation of taxpayers and governmental entities to the new tax structure. Therefore, it can be observed that the reform proposes a simpler and more efficient fiscal system, whose success will depend on the cooperation among all stakeholders, to ensure a safe transition compatible with the national socioeconomic reality.

**Keywords:** Tax reform. Split payment. Cashback.

## 1. INTRODUCTION

Brazil has one of the highest tax burdens in the world, equaling, according to the Organization for Economic Cooperation and Development (OECD), to various economies developed. However, there is a profound discrepancy between the amount collected and the



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effective return to society in the form of public policies, infrastructure and essential services

quality. This paradox highlights not only the flaws in resource allocation, but also a

structural inefficiency in the country's tax collection and management model (OLENIKE et al., 2024).

Since the enactment of the Federal Constitution of 1988, more than 460 thousand norms have been published

taxes. This high volume, often associated with divergent interpretations among tax authorities

federal, state and municipal, reveals the bureaucracy and the difficulty in interpreting the rules

by taxpayers. This lack of standardization generates a high number of processes

judicial proceedings regarding the resolution of interpretative doubts, the contestation of requirements considered

abusive and the search for predictability in the fulfillment of tax obligations by subjects

liabilities. However, these disputes overload the judicial system and increase delays and

public and private spending on resolving these conflicts (HARZHEIM, 2024; SOUSA; MOURA,

2024; BRAZIL, 2023).

In view of this reality, Constitutional Amendment No. was enacted on December 20, 2023.

132/2023, which institutes the Consumption Tax Reform (RTC) in Brazil. This reform is based on the

international model of Value Added Tax (VAT) that is levied on the value

added at each stage of the production chain, thus avoiding the famous "cascading taxation". The

Starting in 2026, a similar model will be implemented in Brazil: dual VAT. It will be divided into

Contribution on Goods and Services (CBS), under federal jurisdiction, and Tax on Goods and Services

(IBS), under state and municipal jurisdiction. This structure will simplify consumer legislation,

making the tax environment more rational, efficient and transparent for the taxpayer (MELLO;

LAURENTIIS, 2024).

Therefore, the main objective of this study is to analyze changes in the system

Brazilian tax system after the implementation of the Goods and Services Tax. To this end,

the following specific objectives were defined: (i) describe the main characteristics of the IBS; (ii)

examine the changes resulting from the unification of consumption taxes; and (iii) evaluate the

likely effects of the transition for tax administrations and taxpayers. The purpose of this

research is to provide the reader with a deeper understanding of the changes introduced

by Constitutional Amendment No. 132/2023 and its effects on Brazil's tax structure.

## **2 THEORETICAL FRAMEWORK**

### **2.1 CONTEXT OF CONSUMPTION TAX REFORM**

The trajectory of Consumption Tax Reform in Brazil is marked by decades of resistance

policies and failed attempts to change the constitutional text. The complexity of the system



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tax has always represented an obstacle to economic growth and competitiveness

business and tax justice in the country. However, the necessary consensus was only reached in 2023

for the approval of Constitutional Amendment No. 132/2023 (BRAZIL, 2023).

The first reform proposals emerged in the 2000s, with emphasis on the Proposal for

Constitutional Amendment (PEC) No. 233/2008. However, this initiative faced strong resistance in the

National Congress and did not advance in the legislative process. In 2017, the Center for Fiscal Citizenship

(CCIF) developed a VAT proposal inspired by international models. This proposal was

used as a basis for the preparation of PEC No. 45/2019, presented to the Chamber of Deputies

by Congressman Baleia Rossi. Simultaneously, the Federal Senate was analyzing PEC No. 110/2019,

developed based on studies by former congressman Luiz Carlos Hauly. Both proposals presented a

text on replacing consumption taxes with a simpler and more rational model

(CENTER FOR FISCAL CITIZENSHIP, 2017; BRAZIL, 2019; BRAZIL, 2019; BRAZIL, 2008).

After years of debate and negotiations, the National Congress finally enacted the Amendment

Constitutional Law No. 132/2023, making the RTC official in Brazil. Among the main changes, the following stands out:

the replacement of: (a) Tax on the Circulation of Goods and Services (ICMS)

and the Tax on Services (ISS) by the Tax on Goods and Services (IBS); and (b) Program of

Social Integration (PIS) and Contribution to Social Security Financing (COFINS) by

Contribution on Goods and Services (CBS). In addition, this amendment also instituted the Tax

Selective (IS) that will be applied residually to products and services that are harmful to health and

environment (BRAZIL, 2023).

Emphasizing the implementation of the IBS, it is essential to understand the characteristics of the taxes

in the process of replacement. The ICMS, under the jurisdiction of the States and the Federal District, is levied on

the circulation of goods and the provision of interstate, intermunicipal and intercity transport services

communication, including those initiated abroad. Its taxable person is any person, natural or

legal entity, which carries out, on a regular basis or in volume, the operations mentioned in article 4 of Law

Complementary No. 87/1996. Furthermore, this tax is governed by the principle of non-cumulativeness

in which the amount due in each operation involving the circulation of goods or provision of services is

offset against the amount charged in the previous ones. In this way, the tax incidence is limited

along the production chain so that the tax falls only on the value added in each

phase. With the RTC, the ICMS rate will undergo progressive reductions starting in 2029, so that,

at the end of the transition period, it will be completely extinguished (BRASIL, 1996; BRASIL, 2023).

In this same process, the ISS is included, a tax under the jurisdiction of the Municipalities and the Federal District,

which is levied on the provision of services, including those originating from abroad or initiated abroad

of the national territory. Its taxable person is the service provider and the calculation basis is the price of the

service provided. The ISS, like the ICMS, faces difficulties arising from fragmentation



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legislation that compromises legal certainty and burdens compliance with tax obligations

by taxpayers. The RTC also provides for the gradual replacement of the ISS by the IBS, following schedule and guidelines similar to those applicable to ICMS (BRASIL, 2003; BRASIL, 2023).

The IBS, provided for in Complementary Law No. 214/2025, is a tax whose jurisdiction is shared between States, Municipalities, and the Federal District. Its incidence covers transactions involving goods material or immaterial, rights and provision of services. It also applies to the import of foreign goods and services, regardless of the importer - individual, legal entity or entity without legal personality – not carrying out such operations on a regular basis. Furthermore, the IBS adopts the principle of non-cumulativeness and provides for tax justice mechanisms, such as the refund personalized (cashback) to the individual responsible for a low-income family. This measure is applicable to the use of certain essential services, as detailed in the excerpt below (BRAZIL, 2023; BRAZIL, 2025; MELLO; LAURENTIIS, 2024).

Art. 116. The refunds of taxes provided for in this Chapter will be granted at the time defined in the regulations.

§ 1º In the case of domestic supply of electricity, water supply, sewage and piped gas and provision of telecommunications services refunds will be granted at the time of billing.

§ 2 In the case of the supply of goods or services subject to a fixed periodic charge, refunds will be granted, preferably at the time of collection.

§ 3 The amounts will be made available to the financial agent within a maximum period of 15 (fifteen) days after the calculation, in compliance with the provided for in item I of § 1 of art. 114 and in art. 115 of this Complementary Law.

§ 4º The financial agent must transfer the amounts to the recipient families within 10 (ten) days after the provision referred to in § 3 of this article. (BRAZIL, 2025).

After the previous description, it becomes essential to understand the transition process between the model previous tax system and the system established by the RTC. Thus, the next section will address the main guidelines of this period. In addition to outlining an overview of the expected impacts of the reform on the collection, legal certainty and federative balance.

## 2. MATERIAL AND METHOD

This research is qualitative in nature and arises from the interest in understanding the main characteristics of the Goods and Services Tax. To this end, a bibliographical research was carried out, based on doctrinal works, scientific articles published in academic journals and legislation relevant to the topic. Furthermore, data from research institutions were used, with the aim purpose of analyzing the potential impacts of the new tax system. Based on these information, it is expected that the research will serve as academic support for understanding the implementation of IBS. In addition to facilitating the identification of potential challenges and benefits, resulting from the tax transition in Brazil.



### 3. RESULTS AND DISCUSSION

Constitutional Amendment No. 132/2023 established a fifty-year transition period with the purpose of ensuring economic and fiscal stability in Brazil. According to the Complementary Law No. 214/2025, the States and Municipalities will have autonomy to define their respective tax rates. IBS. However, between 2029 and 2077, the Federal Senate will set minimum reference rates and no federative entity may adopt a percentage lower than that (BRASIL, 2023; BRASIL, 2025). According to the implementation schedule, the IBS will be charged in 2026 at a rate symbolic rate of 0.1%. In 2027 and 2028, this rate will be applied with a division of 0.05% for the at the state level and 0.05% at the municipal level. Starting in 2029, ICMS and ISS will begin to be reduced progressively by 10% per year until its complete extinction in 2032. Simultaneously, the rate of the IBS will be increased in the same proportion, ensuring the stability of tax revenues. The administration of the IBS will be under the responsibility of a temporary Management Committee that will have autonomy administrative, technical, financial and budgetary. However, there is already a Bill Complementary No. 108/2024, which aims to make this Committee a permanent entity (BRAZIL, 2024; BRAZIL, 2025).

Art. 125. In 2026, the tax provided for in art. 156-A will be charged at the state rate of 0.1% (one tenth of a percent), and the contribution provided for in art. 195, V, both of the Federal Constitution, will be charged at a rate of 0.9% (nine tenths of a hundred). (...)

Art. 127. In 2027 and 2028, the tax provided for in art. 156-A of the Federal Constitution will be charged at the state rate of 0.05% (five hundredths of a percent) and the municipal rate of 0.05% (five hundredths of a percent).

Art. 128. From 2029 to 2032, the tax rates provided for in articles 155, II, and 156, III, of the Federal Constitution, shall be fixed in the following proportions of the rates set in the respective legislation:

I - 9/10 (nine tenths), in 2029;

II - 8/10 (eight tenths), in 2030;

III - 7/10 (seven tenths), in 2031;

IV - 6/10 (six tenths), in 2032.

§ 1º The tax or financial benefits or incentives related to the taxes provided for in articles 155, II, and 156, III, of the Federal Constitution not covered by the provisions of the caput of this article will be reduced in the same proportion. (...)

Art. 129. The taxes provided for in articles 155, II, and 156, III, of the Federal Constitution shall be abolished as of 2033. (BRAZIL, 2025).

Among the main innovations of the RTC, there is the split payment, scheduled to be implemented from of 2026. This mechanism allows payment institutions to automatically carry out the retention and transfer of the tax to the treasury at the time of the commercial transaction. In this way, the The supplier of the good or service already receives the net value of the transaction, without the need to collect the tax separately to the tax authorities. This technology aims to reduce tax evasion and default, making the collection process more transparent and efficient (BRAZIL, 2025).



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Another significant aspect of the reform is the change in the location of the tax levy, which will burden at the destination of the operation (at the point of consumption). This change represents an advance in terms of distributive justice, as it tends to benefit the less developed regions of the country. According to a study by Gobetti and Monteiro (2023), the inequality in revenue between the richest municipalities and poorest could be reduced by up to fifteen times compared to the current scenario. With this, the states and the poorest municipalities will have greater capacity to invest in public policies aimed at to social well-being (BRAZIL, 2023).

In addition to the gains in federal equity, the economic projections associated with the reform also indicate the country's economic development. According to studies by Domingues and Cardoso (2020), this new tax model could generate accumulated growth in the Gross Domestic Product (GDP) of up to 20% over fifteen years. They also estimate the possibility of creating 7 to 12 million of new jobs and the increase in the purchasing power of the population, especially in the lower income brackets income (BRAZIL, 2023).

Despite these advances, the RTC is not free from potential negative impacts. During the period of transition, there will be simultaneous coexistence between two tax regimes. This phenomenon tends to temporarily increase the complexity of compliance with tax obligations by taxpayers. In this scenario, small and medium-sized businesses are more vulnerable, since, generally, they have a limited accounting structure and less financial capacity to implement the necessary changes. Consequently, they may face increased operating costs and the risk of tax default, due to the difficulty of this new tax model (WAY; MAIA, 2025).

Another sensitive aspect concerns the processing of administrative processes related to the CBS and the IBS in different instances. The provision for processing administrative proceedings in different bodies separate predisposes to the risk of different decisions on identical matters. Despite the Law Complementary Bill No. 214/2025 and Complementary Bill No. 108/2024 provide for the action of a "Harmonization Committee" with the aim of standardizing administrative jurisprudence, The effectiveness of this Committee will depend on its ability to coordinate between the federative entities (MANEIRA; MAIA, 2025).

In the judicial sphere, actions involving the IBS and CBS tend to be processed, respectively, in the Courts State and Federal Courts, due to the federative nature of each tax. This fragmentation may generate conflicts of jurisdiction, conflicting judicial decisions and difficulties in standardization of jurisprudence for taxpayers and federative entities. Thus, the National Council of Justice created a Working Group, focused on analyzing these potential conflicts, in an attempt to standardize the future jurisprudential understandings and reduce unnecessary litigation (MANEIRA; MAIA, 2025; NATIONAL COUNCIL OF JUSTICE, 2025).



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Therefore, Constitutional Amendment No. 132/2023 represents a strategic restructuring of the system Brazilian tax system, mitigating the problems of the previous model. However, the transition to the new regime presents challenges that can generate disproportionate economic impacts among taxpayers and tax administration. Therefore, continuous technical monitoring, with legislative reviews and periodic impact assessments will be essential to reduce any distortions of the reform tax.

## FINAL CONSIDERATIONS

As seen, Constitutional Amendment No. 132/2023 and the creation of the Tax on Goods and Services brought relevant changes to the scope of consumption taxation in Brazil. It was found that The reform's main objectives are to reduce the complexity of the tax system, rationalize the collection mechanism and increase the transparency of this regime to taxpayers. Despite the possibility of problems in relation to the simultaneous coexistence of two tax regimes and the processing of administrative and judicial processes in different instances, economic projections indicate positive aspects for the country's economy.

In view of the above, the RTC presents a more modern, efficient tax system aligned with the demands of the national reality. The reform also promises a fairer distribution of the tax burden and a more transparent and predictable business environment. As a continuation of this study, it is expected analyze the concrete effects of the tax transition on national revenue, in order to outline the evolution of the IBS rate on the economic and regional sectors of Brazil.

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