Tax Intelligence

From complexity to execution

Brazil's Income Tax Reform Taxation of Dividends: Bill No. 1,087/2025 Text approved by the Chamber of Deputies subject to Senate review

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On October 1st, 2025, the substitute text for Bill (PL) No. 1,087/2025 was approved by the plenary of the Chamber of Deputies. This Bill proposes relevant changes to the Income Tax for individuals (IRPF) and for non-resident individuals and legal entities that invest in Brazil, such as (i) the amendment to the Individual Income Tax (IRPF) rules, as from 2026, increasing the IRPF "exemption" range; (ii) the introduction of a minimum Income Tax for the so called "high-income" individuals domiciled in Brazil; and, (iii) the establishment of a new WHT on profits and dividends distribution to resident and non-resident investors, subject to subsequent assessment upon the annual individual income tax return or optional credit.

The substitute text, which will now be subject to **review by the Senate**, introduced some relevant changes compared to the initial proposal submitted by the Federal Government.

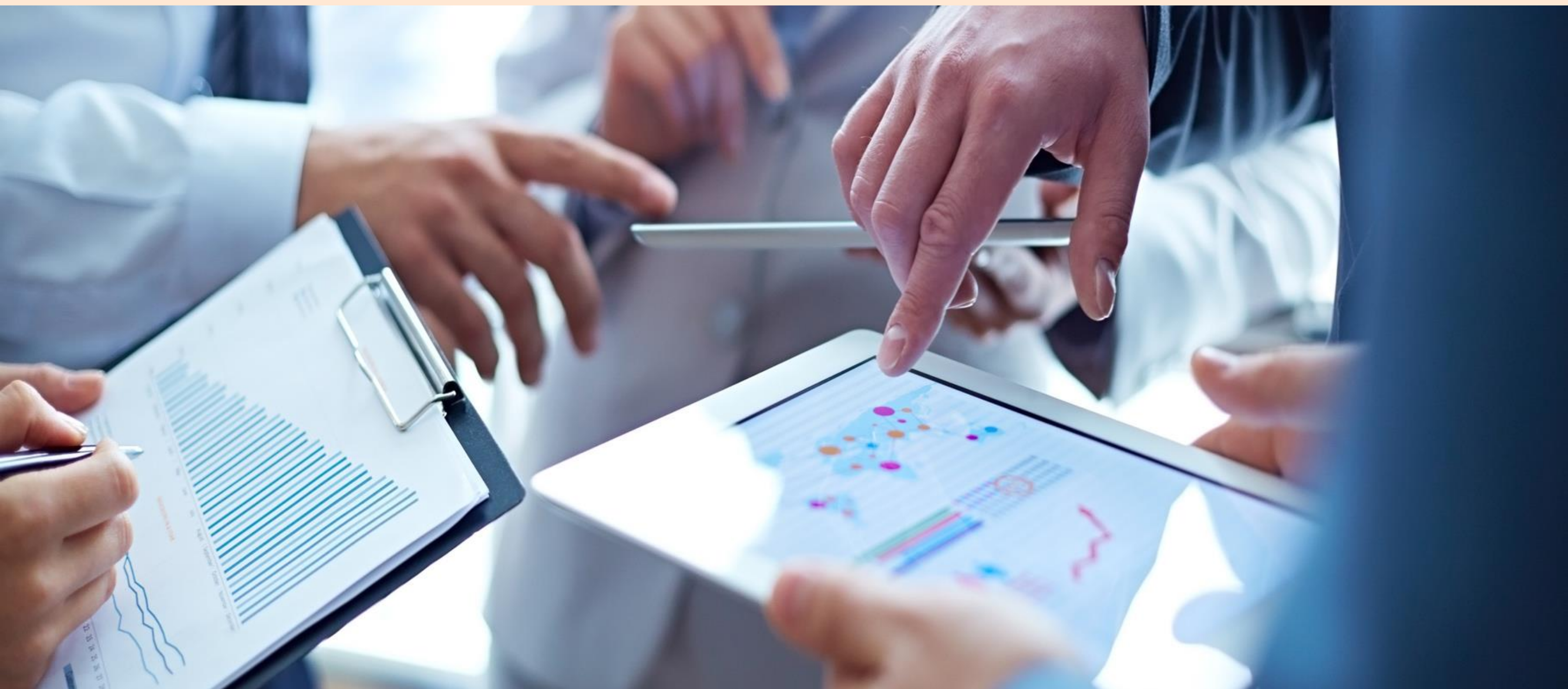
Below, we present the main changes to the Bill approved by the Chamber of Deputies:

"Exemption" of Income Tax for individuals (IRPF)

Monthly and Annual Taxation

The Bill proposes a new table with reduction factors for the calculation of IRPF, which, in practice, results in the existence of only two brackets in the incidence table. The first one for monthly income up to R$ 5,000, which will be exempt. And a second one for monthly income from R$ 5,001 to R$ 7,350, which will be subject to reduction factors. The new reduction factors are applicable as from January 2026.

In summary, the reduction factors exclusively apply to those who earn an annual taxable income below R$ 88,200 (R$ 7,350 per month). For individuals who earn amounts above this threshold, the progressive table will continue to apply, without any interference from the new reduction factors.



WHT – Monthly taxation on high incomes

Profits and dividends exceeding R$ 50,000 per month

Starting from January 2026, a monthly taxation by the WHT at a rate of 10% is expected for individuals domiciled in Brazil who earn, within a month, profits and dividends from a legal entity in an amount exceeding R$ 50,000. The new tax will be withheld by the paying company, with no deductions allowed from the tax basis.

The Bill also determines that if the same paying source carries out more than one payment to the same individual within the same month, the amount withheld for the WHT must be recalculated to consider the total amounts within that month.

It is important to stress that the amounts withheld for the monthly WHT can be deducted from the annual IRPF. Thus, it is an anticipation (and not an exclusive withholding income tax).

Also, the profits and dividends whose distribution has been approved until December 31, 2025 and are due according to civil or business law, relating to results determined up to the 2025 calendar year, are not subject to monthly withholding tax on high incomes, provided that their payment, credit, use, or delivery occurs as originally stipulated in the approval act.

IRPF – Annual Taxation: income exceeding R$ 600,000 per year

According to the Bill, as from 2026, individuals domiciled in Brazil will be subject to a minimum Income Tax (IRPF) at a **rate of up to 10%** if they earn income exceeding R$ 600,000 per year.

For the purposes of classification within the income range, even income subject to exclusive taxation and those exempt or taxed at a zero rate must be included, except for:

- the exempt portion related to rural activity;
- capital gains, except for stock exchange transactions;
- income cumulatively earned and subject to exclusive withholding income tax (including exempt income);
- amounts received through donation in advance of inheritance and inheritance; and
- amounts received as compensation for work-related accidents, for material or moral damages, except for loss of profits;
- exempt retirement or pension income due to accidents or illnesses in specific cases regulated by art. 6º, items XIX and XXI of Law No. 7,713/1998;
- income from exempt or zero-rate taxed securities, except for income from shares and other equity interests;
- income earned on savings deposit accounts, and the remuneration produced by the following securities:
  - Mortgage Notes, Real Estate Credit Bills (LCI), and Real Estate Receivables Certificates (CRI);
  - Agricultural Deposit Certificates (CDA), Agricultural Warrants (WA), Agribusiness Credit Rights Certificates (CDCA), Agribusiness Credit Bills (LCA), and Agribusiness Receivables Certificates (CRA);
  - Rural Product Notes (CPR);
  - Guaranteed Real Estate Bills (LIG);
  - Development Credit Bills (LCD);
  - Securities related to investment and infrastructure projects; and
  - Investment funds referred to in article 3 of Law No. 12,431/2011, which establish in their regulations the application of their resources in securities related to investment and infrastructure projects in an amount not less than 85% of the fund's reference value.
- income distributed by Real Estate Investment Funds (FII) and Investment Funds in Agro-industrial Production Chains (Fiagro), whose shares are admitted for trading exclusively on stock exchanges or organized over-the-counter markets and have at least 100 quota holders.
- profits and dividends related to results determined up to the 2025 calendar year when their distribution has been approved until December 31, 2025, provided that their payment, credit, use, or delivery occurs in the 2026, 2027, and 2028 calendar years, and has occurred as originally stipulated in the approval act.

WHT – Taxation on Profits or Dividend Distributions Abroad

Profits or dividends paid, credited, delivered, utilized, or remitted to non-resident **individuals or legal entities**, regardless of the amount or the recipient’s jurisdiction, are subject to a withholding income tax at a rate of 10%. This tax is applied without any corresponding reduction in the Corporate Income Taxes (IRPJ and CSLL) imposed on those profits.

Furthermore, Brazilian international treaties have historically permitted withholding tax rates up to 15%, with recent treaties supporting a 10% rate. Therefore, it appears that the existing treaty network will not restrict the application of this WHT taxation.

It should be noted that the 10% WHT is not imposed when profits or dividends are distributed to (i) foreign governments, under certain conditions; (ii) sovereign wealth funds as defined by Brazilian law; and (iii) foreign retirement/pension entities, which will be further specified in a dedicated regulatory act.

Reducer or credit

There is a provision that determines that if the sum of the effective tax rate on the profits of the legal entity, combined with the effective rate of the IRPF exceeds the combined IRPJ/CSLL nominal rates (34%, 40%, or 45%, as the case may be), a reduction of the IRPF must be established by the Executive Branch, to be regulated, applicable to high-income individuals domiciled in Brazil.

Furthermore, it will be granted to the beneficiary domiciled abroad an "optional credit" in case of effective taxation exceeding the nominal rates, considering the same rationale attributed to individuals domiciled in Brazil. It is worth noting that, for foreign investors, the new minimum taxation exceeds the Additional CSLL (the Brazilian QDMTT) of 15% and effectively establishes a new 25% "floor", subject to a cap of 34%, 40%, or 45% in effective terms.

Takeaways

Given the importance of the matter and the unanimous approval in the Chamber of Deputies, as well as the recent approval of similar Bill No. 1,952/2019 by the Senate's Economic Affairs Committee (CAE), the expectation is that Bill No. 1,087/2025 will also be approved by a majority in the Senate.

Although there is still an opportunity for engagement in the legislative process, it is recommended that companies get prepared as soon as possible, considering a scenario in which there will be few changes to the text. In this context, tax modeling exercises and treasury planning, including a review of investment and repatriation plans, can be effective in measuring and mitigating adverse effects resulting from the new regulation.

Want to understand more about how this topic can affect your business? Talk to PwC.

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