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Brazil bill approval biggest power tax change in years

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Sao Paulo, 20 June (Argus) – Brazil approved the biggest change to its power taxation system in decades last week, with a bill that promises to reduce costs to all consumers.

The measure could reduce power bills by an average of 4.3pc, according to think tank Instituto Acende Brasil, which added that each type of consumer will be affected differently.

The bill was approved on 15 June and affects other fuels as well by limiting the ICMS state tax.

Some experts have said the taxation on electricity is one of the most complex in place in Brazil today, with several different federal, state and municipal charges. Brazilian power bills also arrive to consumers with a series of surcharges to pay and subsidize producers and distributors, and tariffs to cover distribution and transmission costs. Power bills can add up to 49.1pc in fees, including all taxes and surcharges, according to Marcos Aurelio Madureira, president of Brazilian association of electricity distribution companies Abradee.

The vote in Congress last week limits one of the most important state taxes on power to a 17pc rate ceiling, based on it being an essential service. Currently, this tax rate varies from 17-32pc depending on the state. The bill derived from a superior court decision last year that had given states until 2024 to change this charge to avoid drastic changes to their budgets without time to adjust.

The decision to legislatively accelerate this process in an election year has worried many, as it will force the government to take money from the federal budget, where it would finance matters such as public health and education, and direct it to compensating states.

Because the court's decision originally dealt with conservation of the four-year budget, it is possible the bill will be the subject of legal disputes if the states are not adequately compensated and are severely affected, said Leilane Silva, tax lawyer and coordinator of tax litigation at the Paraná state office of Martinelli Advogados.

Silva added that making power less expensive through the improvement of the taxation scheme could lead to benefits in the production chain, including making industries more competitive by lowering costs.

Abradee's Madureira argues that more changes are needed to make power less expensive, including new incentives on surcharges and a pending bill for the payment of taxes on top of surcharges.

By Rebecca Gompertz

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