

New Law on Income and Dividend Taxation

Impacts on Non-Residents and
Cross-Border Remittances



Law No. 15,270, dated November 26, 2025

The new Brazilian income tax law is now in force, effectively reinstating the withholding tax (WHT) on dividend distributions, including all remittances abroad. This measure, long anticipated by the market, significantly impacts non-resident investors and multinational structures.



The Law introduces the following primary changes to Brazil's income tax framework:

- * **Reinstatement of WHT on Dividends:** This is the most critical change for non-resident investors.
- * **Minimum Tax:** Establishes a minimum tax liability for high-income individuals.
- * **Income Tax Reduction:** Introduces a tax reduction for individuals earning up to BRL 5,000 per month, with a progressive phase-out for those earning between BRL 5,000 and BRL 7,350.

The new rules will enter into force on 1 January 2026. The main impacts on non-residents are summarized below:

10% Withholding Tax on Dividends

The Law introduces a 10% withholding tax (WHT) on profits or dividends paid or credited, as detailed below:

(i) The tax applies to distributions made by a legal entity to individuals or legal entities domiciled abroad.

(ii) The tax also applies to distributions made by a legal entity to the same individual resident in Brazil, on monthly amounts exceeding BRL 50,000.



Key Provisions

Gross Amount:

As a general rule, WHT will apply to the gross amount distributed.

International Alignment:

The measure aligns Brazil with OECD member country practices, which typically impose dividend withholding rates ranging from 5% to 15%. Furthermore, Brazil's tax treaties generally allow withholding rates between 10% and 15%.

Exemptions:

WHT exemption will apply to amounts paid, credited, or remitted to:

- ➔ Foreign governments, subject to the reciprocity rule
- ➔ Sovereign wealth funds
- ➔ Entities whose core activity is the administration of pension and retirement benefits

Transitional Rules for Accumulated Profits

The Law establishes a transitional rule (legacy provision) under which profits accrued up to 31 December 2025 will not be subject to the new withholding tax, provided that the resolution approving the distribution is adopted by 31 December 2025 and that the payment or credit of such dividends occurs in the form and within the timeframe originally approved.

However, this exception has given rise to diverging interpretations. Under a prevailing restrictive view, the non-taxation of dividends paid after 1 January 2026, even if approved by 31 December 2025, would apply only to beneficiaries resident in Brazil, and may not extend to cross-border remittances to non-residents.

Corporate Law Conflict – Brazilian Corporations Law



For companies organized as corporations (S.A.), the Brazilian Corporations Law requires that dividend payments be made within the same fiscal year in which they are approved. As a result, the tax rule conflicts with the corporate rule, creating practical challenges for dividend planning.

This misalignment demands heightened care in corporate documentation, so as to preserve eligibility for the tax exemption and avoid shareholder disputes.

Tax Credit Mechanism

The Law establishes a tax credit mechanism to limit the combined tax burden borne by the distributing company and the dividend beneficiary, calculated on a consolidated basis, as follows:

The distributing company's effective IRPJ/CSLL tax burden, plus the 10% WHT, may not exceed the following nominal corporate income tax rates:

- * **34%** for non-financial companies
- * **40%** for insurance and capitalization companies
- * **45%** for financial institutions

Accordingly, where the sum of the company's effective IRPJ/CSLL tax rate and the additional 10% WHT exceeds the applicable nominal IRPJ/CSLL rate, a tax credit will be granted, at the option of the non-resident beneficiary, calculated on the amount of profits and dividends distributed.

The company's effective tax rate corresponds to the amount of IRPJ/CSLL actually paid divided by the company's accounting profit.

The Brazilian Federal Revenue Service will issue further regulations governing the formalization of the refund election, as well as the procedure through which the foreign beneficiary may claim the credit. The deadline to file for the credit will be up to 360 days, from the end of the relevant fiscal year.

Next steps

Review of Corporate and Compensation Structures

Now is the time to reassess. Companies should immediately review their capital structures and shareholder compensation models for the coming years, with a view to implementing any necessary measures still in 2025, including:

Identifying which profits are eligible for distribution by 31 December 2025 and whether they are properly recognized in the company's books

Reviewing the applicable tax treaties for each jurisdiction to which profits are remitted and reassessing the related corporate structures

Reevaluating debt-to-equity ratios and interest deductibility limits

Assessing how the current structures impact the overall tax burden on corporate profits

Designing or revisiting shareholder and equity compensation plans

Key Legal Debates

The Law has already given rise to key legal debates, including:



Whether the taxation of profits and dividends related to periods prior to 31 December 2025 may be incompatible with the principles of non-retroactivity and legal certainty.



Whether the statute may lawfully impose new conditions on the distribution of profits from fiscal years that have not yet formally closed, potentially conflicting with corporate law parameters.



Whether the differentiated treatment between residents and non-residents could amount to a violation of tax neutrality.

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