

# **EMIL Class 2013**

## **Residence III – Latin America – São Paulo**

**Supply Chain and Tax Strategies in Brazil**

Antonio Grandini – Sep , 10<sup>th</sup>, 2012

# Supply Chain and Tax Strategies in Brazil

## EMIL 2013 – LATAM – São Paulo/Brazil

### ✓ Agenda:

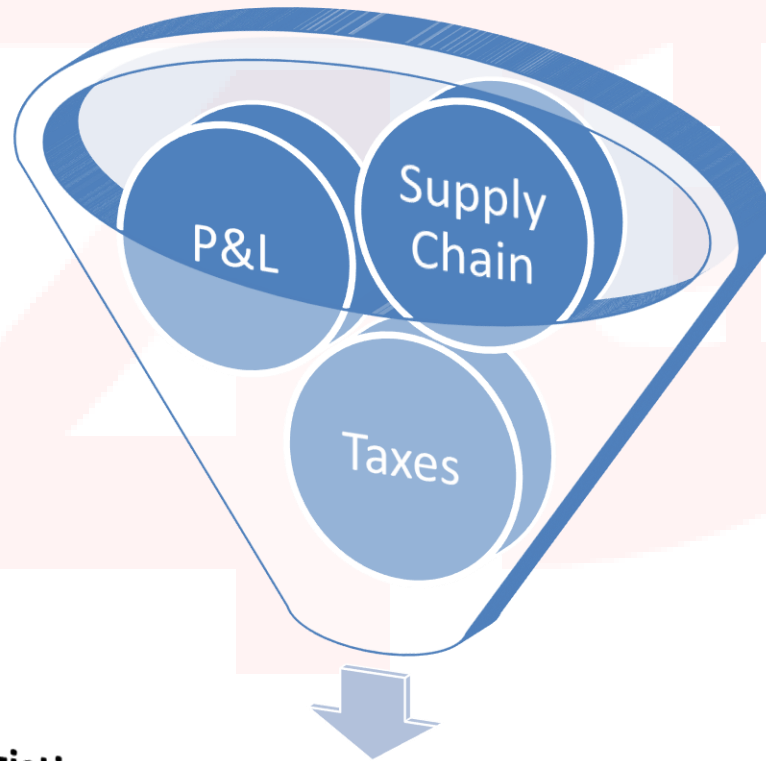
- ✓ Introduction
- ✓ Brazilian Tax Structure and Organization
- ✓ Tax implications on Supply Chain (planning, manufacturing, logistics, imports, exports...)
- ✓ Case Studies
- ✓ Q&A

# Supply Chain and Tax Strategies in Brazil

## EMIL 2013 – LATAM – São Paulo/Brazil

### Living Environment:

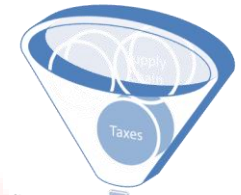
Tax Planning = 3 Dynamics = (P&L + Taxes + Supply Chain)



“Logistics Brazilian tax = challenging concepts...”

# Supply Chain and Tax Strategies in Brazil

## Tax Structure and Organization



"Logistics Brazilian tax = challenging concepts..."

- **92 Tributes:** (Federal / State / Municipal)
- **R\$ 1,5 tri (2011)** (+16% x 2010) (45% from São Paulo)
- **GDP load – 37% (2011)** (+2,7% x 2010)
- **Over 4.000 modifications in 2010** ( up to 11 per day!!!)
- **In cascade Tax** (tax on tax...)



# Supply Chain and Tax Strategies in Brazil

## Tax Structure and Organization



### 1. Direct:

- Paid on Company Profits
  - ✓ Burden is on Company's earnings

IR / CSLL

### 2. Indirect:

- Paid on Distribution Chain
  - ✓ Burden is on Final Consumer

ICMS / IPI / PIS / COFINS

# Supply Chain and Tax Strategies in Brazil

## Tax Structure and Organization

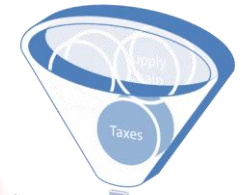


ICMS : IVA

- Non-cumulative, it does not fall in cascade, can be compensated until the final consumer;
- Tax rate varies from State to State
- Circulation of Goods and Supplies Transport or Communication Services

# Supply Chain and Tax Strategies in Brazil

## Tax Structure and Organization

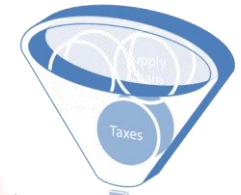


"Logistics Brazilian tax =  
challenging concepts..."

R\$ 455,55 Cost of Goods	R\$ 100,00 18% ICMS	
R\$ 555,55		R\$ 111,11 20% IPI
R\$ 666,66 Sales Price		

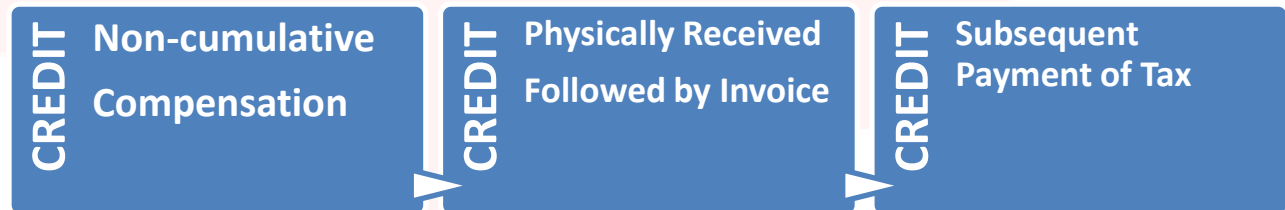
# Supply Chain and Tax Strategies in Brazil

## Tax Structure and Organization



"Logistics Brazilian tax = challenging concepts..."

CREDIT: is due to...



DEBIT: is due to...

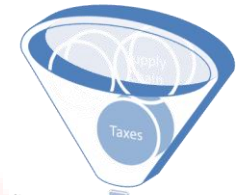


- 1) Price actually charged in the latest operation
- 2) Transaction made between establishments of the same company



# Supply Chain and Tax Strategies in Brazil

## Tax Structure and Organization



"Logistics Brazilian tax = challenging concepts..."

ICMS

Tax Rates Internal and Interstate

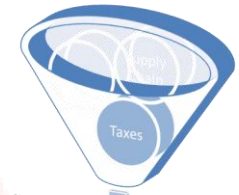
INTERNAL – 17% - 18%, acc. to the State  
(some products 4%, 7%, 12%, 25%)

INTERSTATE – FROM TO RATE

SOUTH SOUTHEAST		12%
SOUTH SOUTHEAST	NORTH NORTHEAST MIDWEST	7%
NORTH NORTHEAST MIDWEST	NATIONAL TERRITORY	12%

# Supply Chain and Tax Strategies in Brazil

## Tax Structure and Organization



"Logistics Brazilian tax = challenging concepts..."

### ICMS - BALANCE FLOW IN A PRODUCTION NETWORK

	SUPPLIER		MAKER		COMMERCIAL ESTABLISHMENT		CONSUMER		STATE	
DEBIT PAYMENT TO	STATE	100	SUPPLIER STATE	100 250	MAKER STATE	250 450	COMM. EST.	450	SUPPLIER MAKER COMM. EST.	100 250 450
CREDIT RECEIVES FROM	MAKER	-100	STATE COMM. EST.	-100 -250	STATE CONSUMER	-250 -450		0	MAKER COMM. EST.	-100 -250
BALANCE ICMS	0		0		0		450		450	

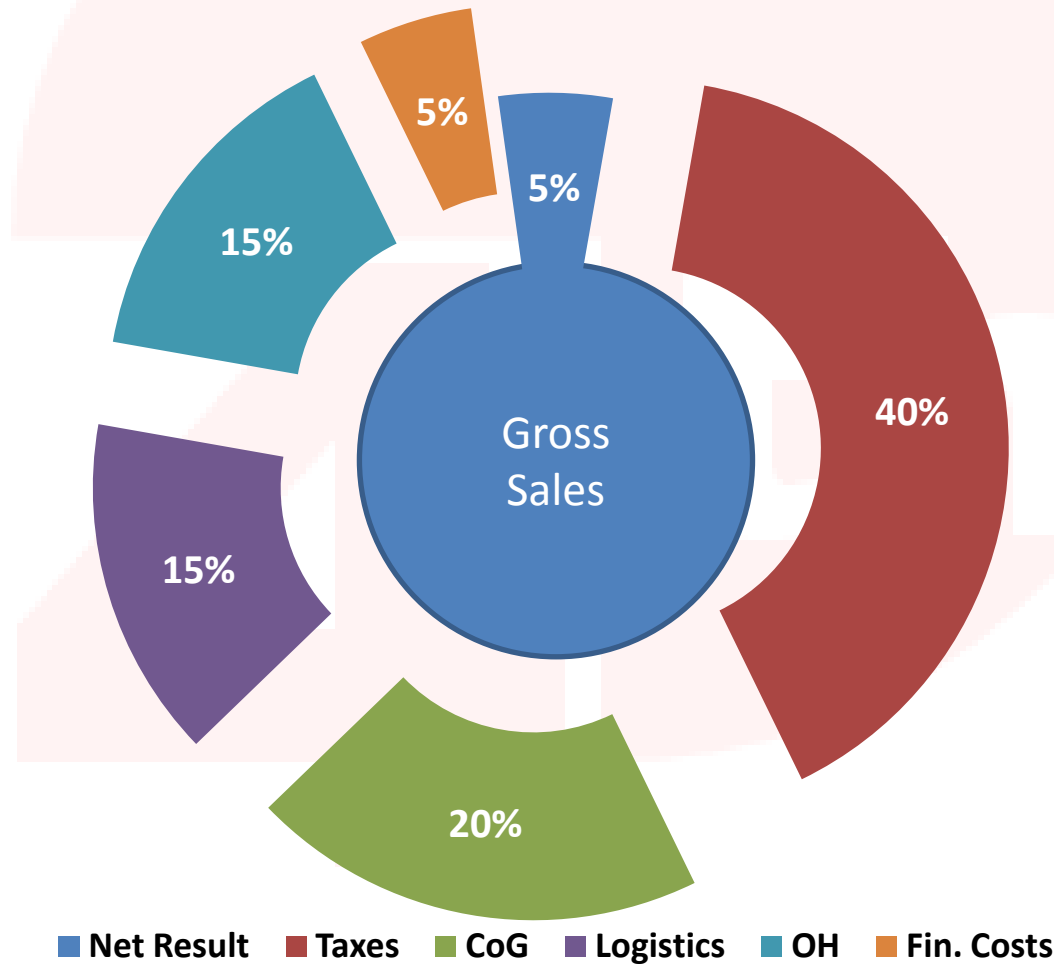
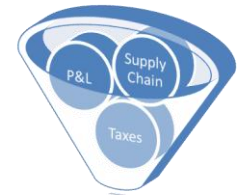
### ICMS-ST - BALANCE FLOW IN A PRODUCTION NETWORK

	SUPPLIER		MAKER		COMMERCIAL ESTABLISHMENT		CONSUMER		STATE	
DEBIT PAYMENT TO	STATE	100	SUPPLIER ICMS STATE ICMS-ST - STATE	100 250 200	MAKER	450	COMM. EST.	450	SUPPLIER ICMS MAKER ICMS-ST MAKER	100 250 200
CREDIT RECEIVES FROM	MAKER	-100	STATE MAKER	-100 -450	CONSUMER	-450			MAKER COMM. EST.	-100 0
BALANCE ICMS-ST	0		0		0		450		450	

SUPPLY CHAIN

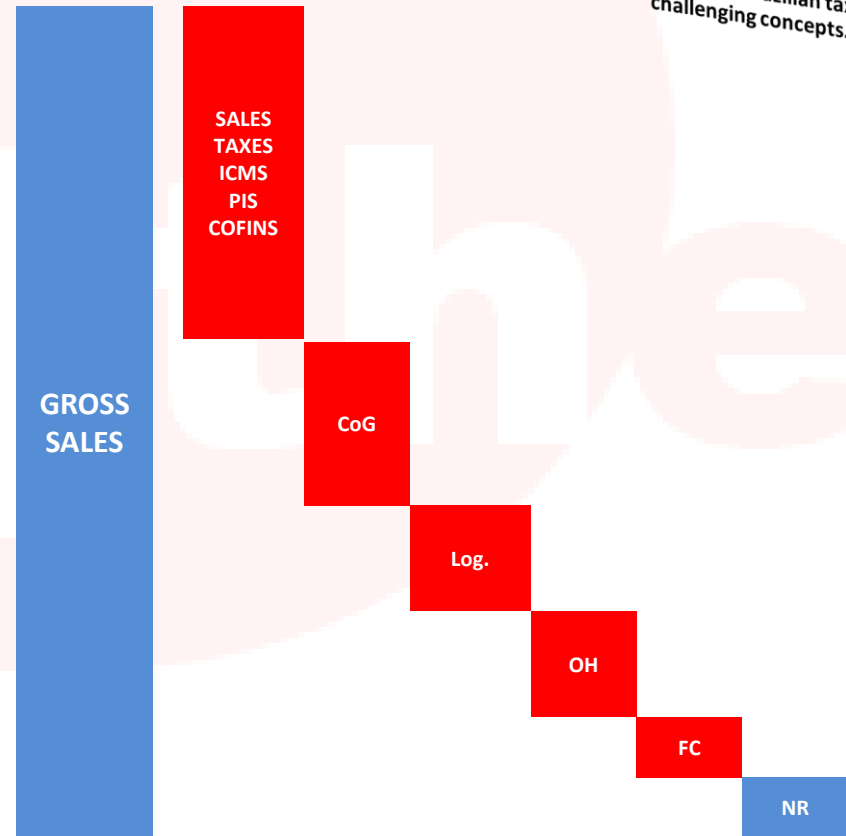
# Supply Chain and Tax Strategies in Brazil

## P&L Impact



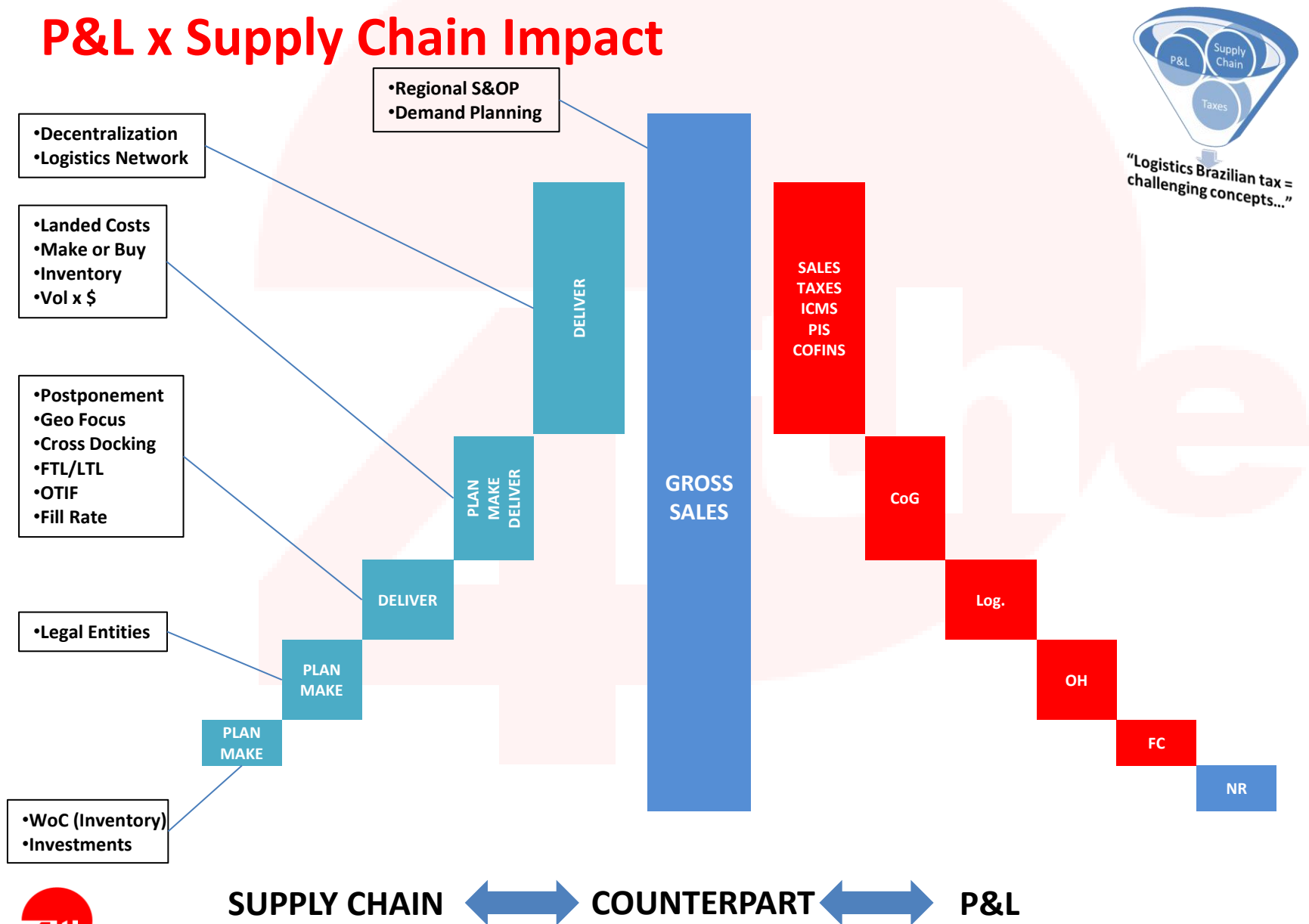
# Supply Chain and Tax Strategies in Brazil

## P&L x Supply Chain Impact



# Supply Chain and Tax Strategies in Brazil

## P&L x Supply Chain Impact



# Supply Chain and Tax Strategies in Brazil

## P&L x Supply Chain Impact



"Logistics Brazilian tax = challenging concepts..."

Tax load...Logistics

High conversion cost  
will impact on CoG...

Logistics...complex and costly x GDP

Demand Management  
80% don't know...



# Supply Chain and Tax Strategies in Brazil

## P&L x Supply Chain Impact

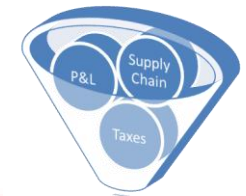


Related Supply Chain challenged concepts...

CHALLENGED CONCEPTS	•KEY DRIVERS & QUESTIONS
Scale Effect	•Centralization
Incoterms	•Landed Costs
Production and Distribution Network	•Legal Entities
Make or Buy	•Outsourcing/Full Services/ Labor Sourcing
Postponement	•Geographical Focus / Costumer Driven
Freight Management	•Demand Clusters/ Milk Run/ FTL/ LTL
Cross Docking	•Transference Points/ Picking
DRP	•Multiple Distribution points
Demand Management	•Regional S&OPs
OTIF / Fill Rate	•Customer Oriented
Inventory Management	•Value x Quantity

# Supply Chain and Tax Strategies in Brazil

## P&L Impact



"Logistics Brazilian tax = challenging concepts..."

Building up an Imported CoG – from Ex Works to landed cost

Sun Screen Protector SPF Full 20' Container

Exchange rate US\$		R\$	1,7000	
			R\$	100 basis EXW
EXW Amount	USD	45.000,00	R\$ 76.500,00	100,0
Inland Freight	USD	850,00	R\$ 1.445,00	1,9
FOB Amount	USD	45.850,00	R\$ 77.945,00	101,9
International Freight	USD	1.235,29	R\$ 2.099,99	2,7
Insurance	USD	-	R\$ -	-
Total CIF	USD	47.085,29	R\$ 80.044,99	104,6
Sub Total 1		R\$ 80.044,99	R\$ 80.044,99	104,6
Adm. FEE		R\$ 240,00	R\$ 240,00	0,3
Harbour Extra FEEs (release)		R\$ 2.000,00	R\$ 2.000,00	2,6
Local Freight		1.700,00	R\$ 1.700,00	2,2
Sub Total 2		R\$ 3.940,00	R\$ 3.940,00	5,2

TAXES & DUTIES	TAX RATE			
II	18,00%	R\$ 14.408,10	R\$ 14.408,10	18,8 18% on CIF!!!
IPI	5,00%	R\$ 4.722,65	R\$ 4.722,65	6,2 5% on CIF + II
PIS	1,65%	R\$ 1.851,19	R\$ 1.851,19	2,4
Cofins	7,60%	R\$ 8.526,68	R\$ 8.526,68	11,1
ICMS	18,00%	R\$ 23.011,67	R\$ 23.011,67	30,1 18% on CIF + II + IPI + PIS + Cofins
Sub Total 3		R\$ 52.520,29	R\$ 52.520,29	68,7
Grand Total		R\$ 136.505,29	R\$ 136.505,29	178,4
Net Grand Total		R\$ (23.011,67)	R\$ 113.493,61	148,4 ICMS (Credit)

**In cascade tax!**



# **Supply Chain and Tax Strategies in Brazil**

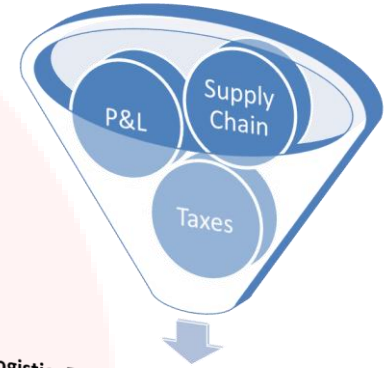
## **Cases**

- 1 – Inventory Management**
  - 2 – Distribution Network**
  - 3 – Manufacturing Site Location**
- Consumer Goods**
  - Health Care**
  - Agro Chemicals**

**Ask for + information about the Cases...**

# Supply Chain and Tax Strategies in Brazil

## Final Learnings



"Logistics Brazilian tax = challenging concepts..."

- 🚀 Taxes are a business tools;
- 🚀 Understand your taxes and how it affects your costs and competitiveness;
- 🚀 Understand what is the impact of tax in your products/services;
- 🚀 Know the tax on your business and competitor;
- 🚀 Take advantage of tax laws complexity and develop a Fiscal Engineering Project;
- 🚀 Supply Chain will implement the actions, is a FOLLOWER!
- 🚀 Evaluate the result by checking the P&L bottom and do not just the costs lines;
- 🚀 Traditional and consolidated SCM concepts MUST be challenged;
- 🚀 SCM is a Strategic Player on the Business context.

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## Q&A...

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**Thank You !**