

New Tax Deductions Possibilities

Holding Companies - Real Estate Developers

A recently enacted Federal Law 11.727 has brought some interesting benefits for holding companies. From 2009 on, Brazilian Holding Companies will be allowed to deduct from the basis of Income Tax (IR) and from the Social Contribution over Net Profit (CSLL), investments realized under the controlled subsidiaries by way of financing.

Costs such as payment of interests and financial fees are eligible for deduction upon the sale of the equity held by the holding company with capital gain.

The financing of such operations, that apply for such deductions, include issuance of bonds, debentures, loans, etc...

We draw attention to article 31 of Law 11.727, that opens the possibility to defer the deductibility of such costs to the moment when the equity is sold and the capital gain is acquired. This means that at that moment the deductibility can reach 100% of the income tax (IR).

Such deductibility is also applicable to other areas of economy, but we believe that real estate developers will profit the most from the new deduction rules.

Although the new deduction possibility is quite attractive, there are some requirements that must be met and might demand a case by case study.

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