

10-1-1973

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Recommended Citation

M. R. Altmann, *Investing in Brazil*, 5 U. Miami Inter-Am. L. Rev. 499 (1973)
Available at: <http://repository.law.miami.edu/umialr/vol5/iss3/5>

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INVESTING IN BRAZIL*

M. R. ALTMANN**

INTRODUCTION

These days it is difficult to get a hotel room in São Paulo and the international flights are sold out days and weeks in advance. Conditions in other Brazilian cities are much the same. Who are all these visitors? Most of them are foreign businessmen and technicians studying the possibilities of investments in Brazil for companies which are not yet here or they are engaged in appraising or executing additional investments for new projects for companies already established. Why is there such an unprecedented interest? The answer is easy. There is no other country in the world today with the political and economic stability and with the growth rates and potential of land and of labor, of power and of markets that Brazil has to offer. Still, there are a number of problems facing the potential investor. It is hoped that the following remarks will help in avoiding some and in resolving others.

KIND OF BUSINESS

Companies that manufacture only one product have little trouble deciding what product to make in Brazil. Other companies, however, must make a decision as to the product to be made in Brazil. A few ground rules should be kept in mind.

1. Do not make a product with which you are not familiar.
2. Do not make a product without a thorough market survey.

Both of the above seem obvious. Still, they have not always been followed and intuition is expensive in Brazil. The prospective investor will

*This article and the one immediately following on "Brazil's Law on Foreign Capital" are reprinted from *Brazilian Business* whose cooperation in promulgating articles of timely interest to the lawyers of the Americas is gratefully acknowledged.

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frequently find that he faces not only the competition he does at home, but that many of his international competitors are also active here. Very often a relatively small market is shared by more suppliers than a large market at home.

A word of caution also about the size of the market: Yes, Brazil has 100 million people with an annual increase of three percent and a gross national product expanding at about 10% per year. But that means that there may be a 100 million market for the most basic commodities only. Even for appliances, considered a necessity in developed countries, the market may be only 20 or 30 million, and for any more expensive or luxury items the whole Brazilian market may be smaller than that of a major city in the U.S., Europe or Japan. On the other hand, generally the smaller the market, the larger the growth. Automobile sales have been growing at close to 20% a year and some appliances at even higher rates. Therefore, anyone who starts a project without a market survey is taking a big chance indeed.

No project of any kind should be started without a thorough feasibility study. Feasibility studies tend to be optimistic and the writer very often has a vested interest in the project he is studying. The result is that overruns of actual expenditure in comparison with budget, rather than the exception, are the rule and the bigger the project and more sophisticated the experts who drew it up the greater the overruns seem to be.

When studying a project, inflation must be considered. This is particularly true if the expenditures will be in Brazil and the financing will come from abroad. In recent years internal inflation has exceeded the decline in value of the cruzeiro measured in terms of the U.S. dollar by over five percent a year, in a 100 million dollar project, when extended over three years, this will cause a loss of 5-10 million dollars.

When the feasibility study is made price controls must be kept in mind. The government is trying to contain inflation and most price increases must be approved by the government. More often approval is granted only for part of the increase in costs.

Labor is still cheap in Brazil although not as cheap as it appears. Various labor benefits add up to 80% of the direct cost of unskilled labor. Indirect labor costs decline in percentage as the basic wage increases.

EXECUTIVES

This is a question invariably asked by the prospective investor. The answer will largely depend on company policy unless some special skill not locally available is involved.

Generally, local executives are preferable, if for no other reason than that they or, more often, their wives will not get homesick after two years. However, the economy has been booming, executives are in short supply and good ones are hard to find and expensive. There are a number of reputable firms operating in the big cities which are active in executive procurement. Salaries very often exceed those paid in New York (but then rent paid is higher than in New York) and it is particularly difficult to get a man (or his wife) to move away from the larger cities.

WHERE TO LOCATE

The same factors encountered elsewhere—nearness of market, raw materials, availability of labor and a few additional factors must be considered.

Most foreign investors are attracted to the São Paulo or Rio de Janeiro regions because they are the most developed in the country. They are also the ones where land is most expensive, wages are highest, tax incentives are least and the traffic jams are worst.

The smaller cities on the other hand may not be attractive because of communication problems. Telephone services, though improved, may still not be available in some places. Trains are slow, there are few railways and service is poor. Foreign executives may refuse to locate away from the big cities because of schooling problems. Brazilian executives may refuse to relocate because they or their wives prefer to be near their families.

INVESTMENT INCENTIVES

In the Northeast area (SUDENE) and in the Amazon area (SUDAM), companies will normally receive exemption from income tax for 10-15 years and a refund of 60% of the sales tax (ICM). These tax deductions will have to be capitalized. In addition, companies locating in these areas may receive funds from other parties provided their project has been approved by the authorities.

Manaus, the capital of the state of Amazonas, has a free port and companies locating there, with an approved project, enjoy exemption from income tax and excise tax (IPI). Sales tax (ICM) is payable except on certain products. Companies can also import materials duty-free. However, if the project is then shipped to another region in Brazil many of these differences will be largely cancelled.

Many other cities and states are trying to attract industry. Land may be had at little or no cost and there may be reductions or exemption from sales and real estate taxes.

The only way to measure the comparative advantages is to construct several models in which cost and tax incentives applicable to each location are considered. As a very rough general rule, small expensive items subject to a high excise tax may well be manufactured in Manaus. Companies with projects for which freight, markets and executives are not quite as important or where capital input from outsiders may be desirable should consider the SUDENE and SUDAM areas. However, where sizeable exports are contemplated, most of these advantages will be nullified.

Tax incentives are also available for fishing, tourism and reforestation projects.

For projects considered of national interest, the Industrial Development Commission (CDI) may grant exemption from import duties, excise tax (IPI) and allow accelerated depreciation.

KIND OF COMPANY

The normal commercial or industrial company has a choice between two forms of legal entity: the Sociedade Anónima (S.A.) and the Sociedade de Responsabilidade Limitada por Quotas (Limitada). The S.A. is somewhat similar to a corporation in the U.S., to a public limited company in the U.K., or the A.G. in Germany although a number of important aspects are different. The Limitada has no U.S. or U.K. equivalent, there is some similarity with the German G.m.b.H. The major advantages of the S.A. are the ease of transfer of shares and the fact bearer shares are permitted. They are certainly advantageous if there are a relatively large number of owners, in majority-owned subsidiaries, and they are required under certain circumstances, such as for investments in the Northeast or Amazonas area where equity capital of others is to be admitted.

Limitadas can be formed somewhat more easily than S.A.'s and do not require formal stockholders' or directors' meetings and they need not

publish financial statements, as do S.As. They are governed by a partnership contract ("contrato social") which must be drawn up with certain care. They often may be more advantageous in the case of wholly-owned subsidiaries or when there are very few partners (the legal obstacle to wholly-owned companies can easily be resolved).

Companies that have shares on the stock exchange must be S.As. They must conform to certain requirements of the Central Bank.

Different forms of organization may be of interest for professional firms or for others under special conditions.

The formation of a Limitada or an S.A. should normally not take more than one to two months. The cost of formation may be about US\$ 2,000 consisting mainly of legal and "despachante" fees. A "despachante" is a special agent qualified to deal with various and specific government departments. The new investor will need good "despachantes" and should use them. It will save much time and frustration.

A word of warning: Expenses incurred for the formation of the company and paid for by the parent company will not normally be reimbursable. Therefore, it is better to send some money to the new company as soon as possible and have it pay its own organization expenses. Incidentally, a Company may start disbursing money even while in process of formation.

All funds sent to the company either as loans or as capital must be remitted through a bank authorized to deal in foreign exchange. They must be registered with the Central Bank. Failure of registration will make it impossible to remit interest or dividends or principal.

One question frequently asked is that of the optimum difference between loans and capital in the financing of a new company. One fixed rule may be applied in all cases. Investors who expect relatively large profits in the early years and who are not interested in building up equity in Brazil will obviously prefer to supply a larger proportion of the funds required as loans. Investors who are not interested in more immediate repayments will do the opposite. Reinvested earnings may be added to the registered capital and therefore will allow the repayment of greater dividends subject to normal withholding taxes in the future (see table in later section "Getting your money out").

At present the influx of loans has been such that the government has set minimum repayment terms and has asked for a quarter of the loan to be kept on deposit with the Bank of Brazil. This deposit in effect increases the interest expense by one-third.

SOURCE OF FUNDS

Brazilian companies rely largely on equity capital as their source of operating funds supplemented by discounting of receivables which is the most common and least expensive source for working capital. For new companies loans from the federal or state development banks and from a number of special governmental entities are available. However, many of these are not open to the foreign investor.

For medium-term funds (two to five years, but terms have recently lengthened) the main source are investment banks. Rates, however, tend to be high (2-4% a month). Sales of consumer products such as automobiles, appliances and other installment sales are commonly financed through finance companies at very high rates of interest which are passed on to the customer.

At present, most foreign subsidiaries will be able to obtain funds from abroad at a lower cost than in Brazil.

The Brazilian stock market, after being dormant for many years, tripled its averages in 1971 to unrealistic heights. Since then the market has steadily declined until at present (February 1973) it is unrealistically low. Under present conditions new stock issues are unattractive. However, even if the market recovers, foreign companies should not expect to finance major amounts through stock issues in Brazil as the Brazilian government is concerned that foreign entities may absorb too large a portion of the relatively small amounts of available equity funds.

BRAZILIAN PARTNERS

It is impossible to answer the question of partnership versus wholly-owned subsidiaries in the same way for all situations. In some cases the government will insist on Brazilian control such as in mining or in investment banks and in some cases the government will not allow any foreign participation such as in new commercial banks, radio or television stations, newspapers, communications and transport. Other restrictions apply to ownership of large areas of land. However, for the vast majority of enterprises no laws apply regarding foreign participation although new projects must be approved by the government. Such approval is normally easily obtainable and there are firms that specialize in obtaining government approval for new projects.

Therefore, the choice as to local partnership is up to the investor. There should be a good reason for joining up with a local entity such as:

Capital, know-how, facilities, personnel, access to suppliers or markets and saving in time to start Brazilian operations. If no good reason exists or if likely disadvantages are apt to outweigh the advantages then a partnership should be avoided. Disadvantages may include the following: Inability of local partner to participate in future capital requirements, differences in business, aims, disputes regarding dividend policy (including application of tax incentives), disputes regarding selection of management and possibility that after a split-up technical know-how is used by future competitors.

Most important is the selection of the partners. All care should be taken to ascertain their reputation. No decision should be made before a thorough investigation has been completed which includes all aspects of the business in which an investment is going to be made.

The purchase agreement should be carefully drawn up by a lawyer with experience in this field and gone over by public accountants with international experience. It should provide for the adjustment of the purchase price in the event that liabilities are subsequently discovered which originated before the date of the purchase but which were not reported in the company's books. Part of the purchase price should be paid at the time of the purchase, the remainder should be paid over as long a period as possible. It may be advisable to keep the acquired shares or the unpaid purchase price in escrow.

An agreement should be made with the Brazilian partners which should foresee and eliminate as many of the points as possible which may give rise to future friction. These would include: Appointment of executives, decision regarding introduction of new products, erections of new plants, increases of capital or loans, agreements as to markets (see word of caution on export markets) and agreements as to royalties, license fees, dividend policy and split-up.

The last point is probably the most important of all. Someone once said that a divorce agreement should be entered into at the time of marriage while the partners are still in love with each other. The same thing applies to corporations. The buy-out agreement should indicate the conditions under which it may take place and define the price to be paid.

It may be advisable for the foreign investor to form a holding company in Brazil. The funds will be remitted to the holding company which will receive a capital registration, the holding company then buys the shares of the operating company. If the holding company does not serve

any further useful purpose it may be merged subsequently with the operating company. Under present laws, the premium paid for such shares would become a tax deductible expense upon the merger. The Brazilian stockholder will normally prefer to sell shares as capital gains are tax free to the individual. The sale of assets by a company at a gain would result in taxable income.

FINANCIAL STATEMENTS

The average businessman has enough trouble understanding financial statements in his own country, he has even more trouble doing so in Brazil and that is not only due to the language.

The main problem to be remembered is that Brazil has undergone severe inflation over the last few years and that inflation, although much reduced, still continues. Therefore, any amounts shown at their historic value on the financial statements will have little or no significance.

In order to overcome the effect of inflation and relieve the taxpayer from paying income taxes on fictitious profits the Brazilian government has authorized certain adjustments to be made in the financial statements.

They are mainly:

1. Compulsory annual revaluation of fixed assets and accumulated depreciation and charges for depreciation based on revalued amounts against income. However, the indices on which these adjustments are based are at least one year in arrears and the method by which the adjustments are applied are not those accepted for price level restatement in other countries. Therefore, even the adjusted amounts do not necessarily produce currently significant accounting information.
2. A provision for maintenance of working capital may be computed and charged as a deduction from taxable income. This provision is limited to 20% of taxable income and is frequently not shown as a charge to income in the published statements but rather as a charge against accumulated earnings.
3. Stock dividends received, often based on items 1 and 2 above, are recorded and normally credited to a capital reserve although some companies may also show them as a credit to income.
4. Certain receivables and payables, particularly as to taxes, must be adjusted for inflation (monetary correction adjustments).

The results are statements that are partly expressed in historical figures and are partly adjusted for price-level changes. The only way that data understandable to the investor may be obtained is to translate these statements into foreign currency. To do this by using the exchange rate of the date of the balance sheet or the average rate for the year is obviously wrong. The translations should be made by someone familiar with accounting principles governing translation of financial statements prepared in foreign currency.

In addition, certain items encountered in Brazilian statements differ from those in other countries, such as:

1. A reserve equal to three percent of outstanding receivables is normally allowed by tax authorities and recorded on the books.
2. LIFO inventories are not allowed for tax purposes nor are they normally used.
3. Buildings are normally depreciated at two percent.
4. Machinery and equipment, except in certain industries, are normally depreciated at 10% a year.
5. Investments are normally stated at cost plus dividends received.
6. Income taxes are frequently recorded on a cash basis.
7. Directors' remuneration is frequently charged to retained earnings.
8. Exchange losses may be added to the cost of fixed assets or shown as a deferred charge or charged to income depending on the nature and timing of such losses.

Disclosure of underlying data often is not as complete as that in other countries. Information regarding sales is frequently omitted. Comparative statements are rarely provided and consolidated statements are quite infrequent. Notes to financial statements are only now being used in the case of companies on the stock exchange.

In addition to these inherent problems there are unfortunately a decreasing but still considerable number of businesses which record incorrect financial information. Those wishing to decrease their profits may show arbitrarily reduced inventory amounts, omit some sales or record fictitious expenses. Those with unfavorable results may inflate their income and overstate their assets.

Contingencies are rarely if ever disclosed. The main one arises from the labor severance indemnities which must be paid to employees dismissed without just cause. This can add up to a substantial amount. Further contingencies mainly are for discounted receivables and for taxes, particularly for those companies which have not prepared proper tax declarations.

Many of the smaller family-owned Brazilian enterprises do not have auditors. Even where audit certificates are produced care should be taken as many auditors do not have the same standards as those required in developed countries and do not qualify their opinions for deficiencies in the financial statements.

It goes without saying that any foreign investor who wishes to do business in Brazil should insist that his subsidiary comply in all respects with legal requirements. Should he invest in a company that has not done so in the past he should seek legal and accounting advice on how to rectify this situation as soon as possible.

TAXES

The most important taxes levied on Brazilian legal entities are income tax, a value added manufacturers' excise tax (IPI) and a value added sales tax (ICM). In addition, there are taxes on certain services, financial transactions, real estate transfers and a single tax on petroleum and mining products. Further, withholding taxes are payable on dividends and certain services paid locally and on remittances abroad of dividends, interest, royalties, technical services and for virtually any other purpose, except for the payment of importations or return of principal. The withholding taxes are paid by the disbursing entity in the name of the recipient.

It is not the purpose of this publication to go into the laws and regulations of all these taxes. Suffice it to say that as in any other country these regulations are complex and must be adhered to not only in spirit but also as to the letter as Brazilian regulations are more particular as to form than those of Anglo-Saxon countries. Any company operating in Brazil should have the best possible tax advice and this applies especially to newly formed companies. Many tax contingencies must be considered. One matter to be avoided particularly is use of a Brazilian subsidiary also as agent for direct sales from a foreign affiliated company. Under Brazilian law this would make the subsidiary liable to income tax at an arbitrary rate on these sales. Normally, steps can be taken to minimize exposure to this contingency but the matter should be studied carefully and discussed with lawyers and accountants.

ROYALTIES AND FEES

In the past, some foreign subsidiaries abused the availability of royalties in order to accomplish what in reality were profit remittances. As a result, severely restrictive legislation has been introduced covering all royalties, license fees, technical assistance fees, payment for administrative services and the like. These restrictions may be briefly summarized, as follows:

- 1) The percentage of fees is limited according to the type of industry.
- 2) Fees remitted to an affiliated company are not tax deductible if the remitting company is foreign controlled.
- 3) Royalties may not be remitted by a foreign controlled company to an affiliate.
- 4) Fees, other than royalties, may only be remitted by a Brazilian company to a foreign company (regardless of affiliation) for a period of not more than five years, starting from the introduction of a new product (an extension for an additional five years may be obtained).
- 5) All remittances will be considered as dividend remittances for the purpose of additional withholding taxes under the profit remittance law.
- 6) All contracts must be locally registered in Brazil.
- 7) There must be evidence that services for which fees are being paid have actually been rendered.
- 8) Fees that cannot be remitted may be paid into a cruzeiro account in the name of the foreign entity.

In brief, there is no advantage for a wholly-owned foreign subsidiary to pay royalties or other types of fees. In the case of a partly-owned subsidiary the payment of such fees will merely act as a factor changing the allocation of profit distribution. For minority-owned subsidiaries royalties and other fees may be of advantage.

REMITTANCES

All foreign exchange transactions must conform to certain specific requirements. While there is no free exchange market, current regulations enable foreign business operating in Brazil to operate normally but they must do it within the rules.

All capital and loans entering Brazil must be registered. Provided they have been registered there is no difficulty in remitting funds either as a reduction of capital or as repayment of loans. The loan repayments must conform to the original terms of which the Central Bank was informed. One word of caution: If the capital reduction takes place within five years of the tax free capitalization of earnings, the tax free status is lost and tax must be paid.

There is no problem in the remittance of interest provided the interest rates conform to those stated in the loan registration. Interest rates must generally be in line with those charged in similar conditions in the country of origin. Interest remittances or credits are subject to a 25% withholding tax, except for (1) certain of those countries with which Brazil has a tax treaty (2) loans of at least ten year maturity and (3) remittances to governmental agencies and other special circumstances.

There is a profit remittance law which is widely misunderstood as limiting the remittance of profits. This is not so. An unlimited amount of profits may be remitted (always, of course, if there is registered capital) but additional withholding taxes will be levied if the rate of profit remittance to registered capital exceeds 12% (after the 25% withholding tax) on an average in a three year period. These additional withholding taxes start at 40% and rise to 50 and 60% of the excess remittance.

Profit earned in Brazil and remitted abroad is therefore subject to the following taxes:

- 1) Income tax of 30% (of which about one-quarter may be applied in tax incentive investment).
- 2) Withholding tax on dividends plus additional withholding taxes on excess remittances.
- 3) A distribution tax of five percent on remittances made in the preceding year (open capital companies are exempt from this tax).

The following table illustrates the incidence of these taxes:

Taxes:

Taxable income	100.00
Income tax 30% (26% of the 30%, i.e., 7.8% may be invested in tax incentive projects)	30.00
Distribution tax 5% of amounts distributed in preceding years — 5% of 66.67	3.33
Net income	66.67
Assuming full distribution:	
Dividends	66.67
Basic withholding tax 25%	16.67
	50.00
Additional withholding tax on excess of remittances over 12% of registered capital (capital plus reinvested profits)	

<i>Average remittance as % of registered capital (1)</i>	<i>Tax</i>	<i>Amount subject to tax</i>	
0-12%	—	12.00	—
12-15%	40%	3.00	1.20
15-25%	50%	10.00	5.00
Over 25%	60%	25.00	15.00
		50.00	

(1) Assumed registered capital 100.00

Net remittance	28.80
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NOTE: For new concerns, additional withholding taxes would be due but would be payable in fourth year of operations only.

The term registered capital means cash or other assets brought into Brazil as a capital investment which has been registered with the Central Bank. In addition, capitalized earnings are added to the registered capital.

The registration is represented by a certificate issued by the Central Bank showing the hard currency value of the registered capital.

As a practical matter very few industrial companies find the additional withholding taxes burdensome. Most of them are satisfied with remitting a dividend not exceeding the 12% limit (it is really 16% before withholding tax) and leaving any additional earnings in Brazil. Problems arise, however, for commercial or professional organizations which may have a relatively small capital and relatively high earnings. There is no way for these companies to avoid the additional withholding taxes if they wish to remit all their earnings.

An indirect way of accomplishing remittances is through export commissions. Brazilian companies exporting manufactured goods are allowed to specify that a reasonable percentage of the sales price be remitted by the buyer direct to an agent who is assumed to have been instrumental in accomplishing the sale. This agent may be an affiliated company abroad.

Individuals living in Brazil may not send out money freely. They may obtain permission to send out US\$ 300 each, a month.

EXPORTS

One of the special attractions for investing in Brazil is the large subsidies being given for the export of manufactured products. Not only are profits derived from exports exempt from sales tax, excise tax and income tax but an excise tax that has been forgiven, up to certain limits, can be used as a reduction of such taxes payable on domestic sales, or, in some cases be passed on to suppliers or even refunded in cash. This means that, depending on the excise tax rates, it is possible to earn the same amount of profit on exports although the export sales prices may only be 50% to 60% of the domestic price. Other incentives are also available such as drawback facilities on importation of equipment and low cost financing.

Under a recently introduced law whole factories may be imported duty-free provided the project is approved by the government and a certain minimum percentage of the production is exported.

Also under new legislation it is possible to form so-called trading companies which may pass export incentives received to their suppliers.

One word of caution: Some international companies have restricted the export markets of their Brazilian subsidiaries. This is not tolerated by the Brazilian government which is prepared to deal severely with offenders.

CONCLUSION

It is hoped that the foregoing will help prospective investors and not frighten them away. To be sure, investing in Brazil must be done with great care. However, for the well planned and well executed investment the prospects are excellent.

BRAZIL'S LAW ON FOREIGN CAPITAL

People everywhere talk and argue about foreign capital in general terms. In Brazil there has been a great deal of discussion about the whole subject, and especially about the difficulties and facilities encountered here by foreign investments. The truth is, however, that very few people are really familiar with the details of Brazilian legislation on foreign capital. And if Brazilians themselves do not understand the subject very well, it is hardly surprising that foreigners seeking to invest capital here should be even more confused.

The whole topic needs to be better understood before people can discuss it and offer opinions on it. I have talked with many businessmen, Brazilian as well as foreign, with students and employees working in the financial and economic sections of government departments. Most of them knew very little about the actual regulations which govern capital entering and leaving Brazil.

Today Brazil is one of the countries arousing the most interest among international investors, because of her ever strengthening economy and her future prospects. The proof is that Brazil has never enjoyed so many credit facilities as she does now, or aroused so much interest and so many inquiries about investment possibilities.

In various capitalistic countries there are not only abundant offers of credit, but innumerable questions regarding the possibilities for investing in Brazil, the sectors where foreign capital can or cannot be applied, the existence of restrictions on remittance of profits and transfer of royalties, the degree of freedom to contract loans and financing, etc.

These same questions are posed in Brazil and few people know the correct answers. It is not possible, in a brief article, to discuss and clarify all the aspects of Brazilian legislation on foreign investment. But we have tried, in the following brief resumé, to give some idea of the standards which regulate foreign investment in Brazil.

LEGISLATION

Whoever is sufficiently curious to read Law 4.131/62, revised by Law 4.390/64, regulated by Decree 55.762/65, will find that they are simple and easy to understand. The basic outlines of the policy established in the legislation can perhaps be resumed as follows:

§ With the obvious exception of those sectors of the economy where only the government can operate (oil, communications, exploration of certain minerals, etc.) foreign capital invested in Brazil enjoys the same treatment under law as national capital, in equal conditions;

§ Firms must register with the Central Bank (Banco Central) in order to ensure the repatriation of capital which entered the country either as money or goods, and to ensure permission for the payment of debts contracted for the use of trademarks and patents, technical services, etc. In the case of trademarks, patents and the importation of technology, it is well to seek the opinion of the National Institute of Industrial Property (Instituto Nacional de Propriedade Industrial) before registering with the Central Bank;

§ Reinvestment and eventual monetary correction of such capital, as stipulated under Brazilian law, must be registered with the Central Bank;

§ There is no limitation on remittance of profits. However, they are subject to a progressive income tax when they exceed an average of 12% of the registered capital for three successive years.

§ Since reinvested profits are also registered as foreign capital, they can in turn generate additional profits whose repatriation is similarly guaranteed by said registration;

§ Cash loans and financing for importation of goods (for which no national equivalent is registered with CACEX) must be authorized by the Central Bank before they are contracted. The bank will examine the conditions of payment to be sure that the interest rate is within the levels prevailing in the markets of origin for similar operations;

§ Prior authorization of the Central Bank is also required for the entrance of risk capital either through the financial market or in the form of goods (machinery and equipment for which no national equivalent is registered with CACEX) to be imported without exchange coverage as a foreign investment, when the intention is to register such capital.

It is evident that there is no distinction between foreign and national capital, nor any limit for the remittance of profits resulting from capital invested and registered. It is important to understand that it is registration with the Central Bank, which assures the remittance of profits, repatriation of capital, payment of principal and interest on loans and financing and remittance of royalties for the use of trademarks and patents.

In the specific case of risk capital, Law 4.131 does not oblige any one who brings money into the country to register it. Entrance is practically free, when it is effected through the financial market, and capital coming in may remain anonymous, if that is the intention. However, such capital will not have the right to repatriation or remittance of profits. Therefore it is to the investor's own best interests to register his capital, since it is registration which guarantees him the rights specified in Law 4.131.

Another point on which there are many queries is: is there no ceiling or limitation on the remittance of profits on investments made in risk capital? No, there are none. The only restriction is a higher rate of taxation on the value of the remittance when, during three consecutive years, the average profits exceed 12%. Normally such remittances are taxed at 25% income tax. However, above that profit percentage of 12% average over three consecutive years, such transfers are subject to an additional tax, discounted and collected at the time of the first remittance after the three-year period, in accordance with the following scale:

between 12% and 15% of profit on invested capital	40%
between 15% and 25% of profit	50%
above 25% of profit	60%

Thus it is clear that, although the income tax increases progressively on such remittances, there is nothing to prevent them from being made, no matter how high the rate of profit is on the value of invested capital. However, since profits which are reinvested rather than remitted abroad increase the value of registered capital, it is much more interesting for investors to reinvest rather than remit profits, especially if the profits remain at a high level.

REGISTERED CAPITAL

One other point about which there is considerable confusion is that relating to capital invested in Brazil and registered capital. Perhaps the total of foreign capital invested in Brazil will never be known, but the total of foreign capital registered is always known. When the Central Bank announces that foreign investments registered in the country on a certain date (December 31, 1971, for example) totalled, cumulatively, US\$1.78 billion which, added to reinvested profits (US\$1.12 billion), attained a total registered of US\$2.91 billion, this doesn't mean that these figures include all the capital which has come into Brazil.

It must be remembered that much of the capital which has come into the country has not yet been registered with the Central Bank. Innumerable requests are still under study or awaiting complete documentation. In order to register foreign capital and ensure the right to repatriate it at any time or remit the profits accruing from it, it is necessary to present effective proof that the capital has actually entered Brazil either in the form of currency or goods.

The figures published periodically by the Central Bank in its bulletins on foreign investments, do not represent, as many people believe, the total volume of capital which has actually entered the country. Taking into account those requests which are still pending, and capital which could never be registered because of insufficient proof of entry (lost documents, non-existence of necessary documents, etc.), it can be estimated that the total volume of foreign investment in Brazil today must be about US\$4 billion.

It is evident that, despite the liberal treatment accorded foreign capital, and despite the realization abroad that Brazil enjoys a political stability and a rate of economic growth perhaps unparalleled in the present world economy, the fact is that the flow of foreign investments has not yet reached a level compatible with the potential and the realities of the Brazilian economy.

If we agree that Brazil has received about US\$4 billion in direct foreign investment since her birth as a sovereign nation a century and a half ago, of which only US\$2.91 billion (US\$1.78 billion in investment plus US\$1.12 billion in reinvestments) we realize that so far we have received only a modest share of the sum, far in excess of US\$100 billion, which has been invested abroad by international private capital just since

the Second World War. The United States alone has invested almost US\$80 billion, followed by Great Britain with over US\$15 billion, while West Germany and Japan have each channelled about US\$5 billion into foreign undertakings.

In conclusion, then, we must point out that although there is no strict policy for direct investments in Brazil, since all sectors enjoy the same privileges, the fact is that the preference of foreign capital for basic sectors of our economy shows that it has been directed selectively into undertakings which, while effectively contributing to the development of Brazil, also offer investors attractive profit prospects in view of the potential demands of the Brazilian market.

DELIO DE SEIXAS