

2024

# LABOR AND SOCIAL SECURITY PLAYBOOK

Presentation by HLB - July 2024



[www.hlb.com.br](http://www.hlb.com.br)

TOGETHER WE MAKE IT HAPPEN

# CONTENT

Employment Rules (e.g. - Standard hours of work, Minimum wages, Annual Leaves, Terminations etc)	04
Regulatory bodies	05
Payroll Compliance	08
Salary Slip	10
Wage tax	11
Statutory Deductions	13
Statutory Leaves (info pertaining to different types of leaves in Brazil)	15
Long term investment	17

## GENERAL OVERVIEW OF BRAZILIAN TAXES

#	Item	Description
1.	Employment Rules (e.g. - Standard hours of work, Minimum wages, Annual Leaves, Terminations etc)	General labor rights;
2.	Regulatory bodies	Name of labor, social security, IRS bodies involved on Payroll processes
3.	Payroll Compliance	Legal framework that an organization in Brazil must abide by in treating its employees. Example, state/central labor laws that organizations must comply with;
4.	Salary Slip	Common components of a salary slip in Brazil with description, sample pay slip format;
5.	Taxes	Taxes - all taxes regarding payroll
6.	Statutory Deductions	Statutory deductions that do not require the employees' authorization;
7.	Statutory Leaves (info pertaining to different types of leaves in Brazil)	i.e., vacation, maternity and paternity leave, among others;
8.	Payroll Implementation in Brazil	-
9.	Payroll Providers in Brazil	-

## EMPLOYMENT RULES

Salary in Brazil must be paid in Brazilian Reais (BRL\$), monthly and by the 5th working day of the following month;

Once a year, the salary must be increased – The percentage of the increase is defined by the Company's union and the Employee's union on the Union Collective Bargain Agreement;

The Union Collective Bargaining Agreement is designed to guarantee better working conditions for employees than those offered by Brazilian Labor Laws. (Such as Meal Vouchers, % Overtime, Legal Leaves, Fortnight, etc

Salary in Brazil cannot be decreased unless the work shift is also decreased proportionally;

All Companies must be registered to two Labor Unions : one union to represent the company itself and one union to represent its employees. (Company lawyers are responsible for defining which are the right unions);

Vacation plus additional 1/3-month salary: For every twelve months worked, the employee is entitled to a thirty-day vacation, which is remunerated with a month salary plus an additional bonus of one-third of the month salary;

An employee cannot work more than 44 hours per week, unless the exceeding time is considered overtime;

Companies in Brazil cannot have more than 1/3 of their workforce composed of foreigners;

13th month salary or Christmas Bonus (proportional): At the end of each year, the employer must pay the employee an annual bonus equivalent to one-month salary;

## EMPLOYMENT RULES

- **Remunerated weekly rest:** All employees are entitled to at least a 24-hour uninterrupted rest period, which should occur totally or partially on Sunday, except in cases of public convenience or for essential services;
- **Benefits:** Employees are given incentive in the form of meal subsidies. Meal vouchers are issued, which may be used in restaurants and other eating establishments;
- **Profit Sharing:** The Brazilian Federal Constitution expressly grants workers the right to profit sharing. The rules are defined in or with the employees' Union Bargaining Agreement;
- **Working time:** in Brazil is regulated by Brazilian Federal Constitution in article 7th (XII) and at article 58th on CLT, it cannot last longer than 8 hours daily (except in some situations we are going to explain ahead). Working time is considered as the period in which the employee is at the employer's disposal, waiting for or carrying out their requests at the company or at employee's house (in which case there are specific regulations, as we will see later on). Time spent on lunch breaks or commuting to work is not counted as working time (there are some exceptions on this case);;

- **Overtime:** The employer must pay for the overtime worked by the employee at a minimum of 50% of the remuneration paid for regular working hours;
- **Work Shift:** on a weekly basis the work shift cannot exceed 44 hours – 7 hours and 20 minutes per day from Monday to Saturday. Hours over that limit are considered over time unless there is a previous agreement between Union or employees

## 2 - REGULATORY BODIES

### Social Security Body

- The National Institute of Social Security (INSS) was created on June 27, 1990, through Decree no. 99,350 (repealed by Decree 10,995 of March 14, 2022), as a result of the merger of the Institute of Financial Administration of Social Security and Assistance (IAPAS) with the National Institute of Social Security (INPS), as an autarchy linked to the Ministry of Social Security and Social Assistance (MPAS).
- The INSS is responsible for the operationalizing of the recognition of the rights of the insured persons of the General Social Security System - RGPS, which covers more than 50 million policyholders and approximately 33 million beneficiaries in 2017. Article 201 of the Brazilian Federal Constitution observes the organization of the RGPS, which is a contributory and compulsory affiliation, and where all the

INSS's activities fit in, respecting government policies and strategies from hierarchically superior bodies, such as ministries. The entity is currently linked to the Ministry of Economy. INSS is thus characterized as a public organization providing social security services for Brazilian society. It is in this context and seeking to preserve the integrity of the quality of service to this public that the Institute has been seeking alternatives for continuous improvement, with modernization programs and operational excellence, highlighting the optimization of results and tools that base the process of ideal service to the yearnings of citizens.

**Source:** [www.gov.br/inss/pt-br](http://www.gov.br/inss/pt-br)

### Labor Body

- According to Law No. 13,844 of November 1st, 2017, the Ministry of Labor is responsible for:

- I - policy and guidelines for the generation of employment and income and support for the worker;
- II - policy and guidelines for the modernization of labor relations;
- III - supervision of labor, including harbor work, as well as application of penalties provided for in legal or collective norms;
- IV - salary policy;
- V - training and professional development;
- VI - occupational safety and health;
- VII - labor immigration policy; and
- VIII - urban cooperatives' and associative.

**Source:** [www.gov.br/trabalho-e-emprego/pt-br](http://www.gov.br/trabalho-e-emprego/pt-br)





### IRS Body

- The Brazilian Internal Revenue Service is a specific body, subordinate to the Ministry of Finance, performing essential functions so that the State can fulfill its objectives. It is responsible for the administration of taxes of competence of the Union, including social security contributions, and those applicable to foreign trade, covering a significant part of the country's social contributions. It also subsidizes the Federal Executive Power in the formulation of Brazilian tax policy, prevents and combats tax evasion, smuggling, misappropriation, piracy, commercial fraud, drug trafficking, trafficking of endangered animals and other illegal acts related to international trade.

Source: [www.gov.br/receitafederal/pt-br](http://www.gov.br/receitafederal/pt-br)

### CEF Body

- Since it was created in 1861, Caixa has always sought to be more than just a bank, but an institution that is truly present in the lives of millions of Brazilians. It is, for example, the agent responsible for the FGTS (Severance Fund), the Social Integration Program (PIS) and the Unemployment Insurance, which are integral to the lives of formal workers. It is still in the moment of helping the population through social programs of the government, such as Bolsa Família - which benefits more than 13 million Brazilians, FIES and Minha Casa Minha Vida Program.

Source: <https://www.caixa.gov.br>  
<https://conectividadesocialv2.caixa.gov.br/sicns/>

## 3 – PAYROLL COMPLIANCE

- Labor relations in Brazil are governed by the Consolidated Labor Laws and numerous complementary laws and regulations. The 1988 constitution contains several labor provisions.
- Among other things, it legalizes unions, collective bargaining negotiations and the right to strike in both the public and private sectors. The constitution also sets overtime rates, provides for a monthly minimum wage and regulates working hours. It lists a variety of labor entitlements, including maternity leave, vacation, worker's compensation, social services, medical assistance and unemployment benefits.
- eSocial
- The eSocial is the digital bookkeeping of payroll and other ancillary documents related to hiring and any remunerated labor with or without employment relationship.
- The main objective of eSocial is to assemble the labor and social security ancillary obligations in one document. It is expected that all the current obligations will be gradually extinguished, being fully replaced by eSocial.

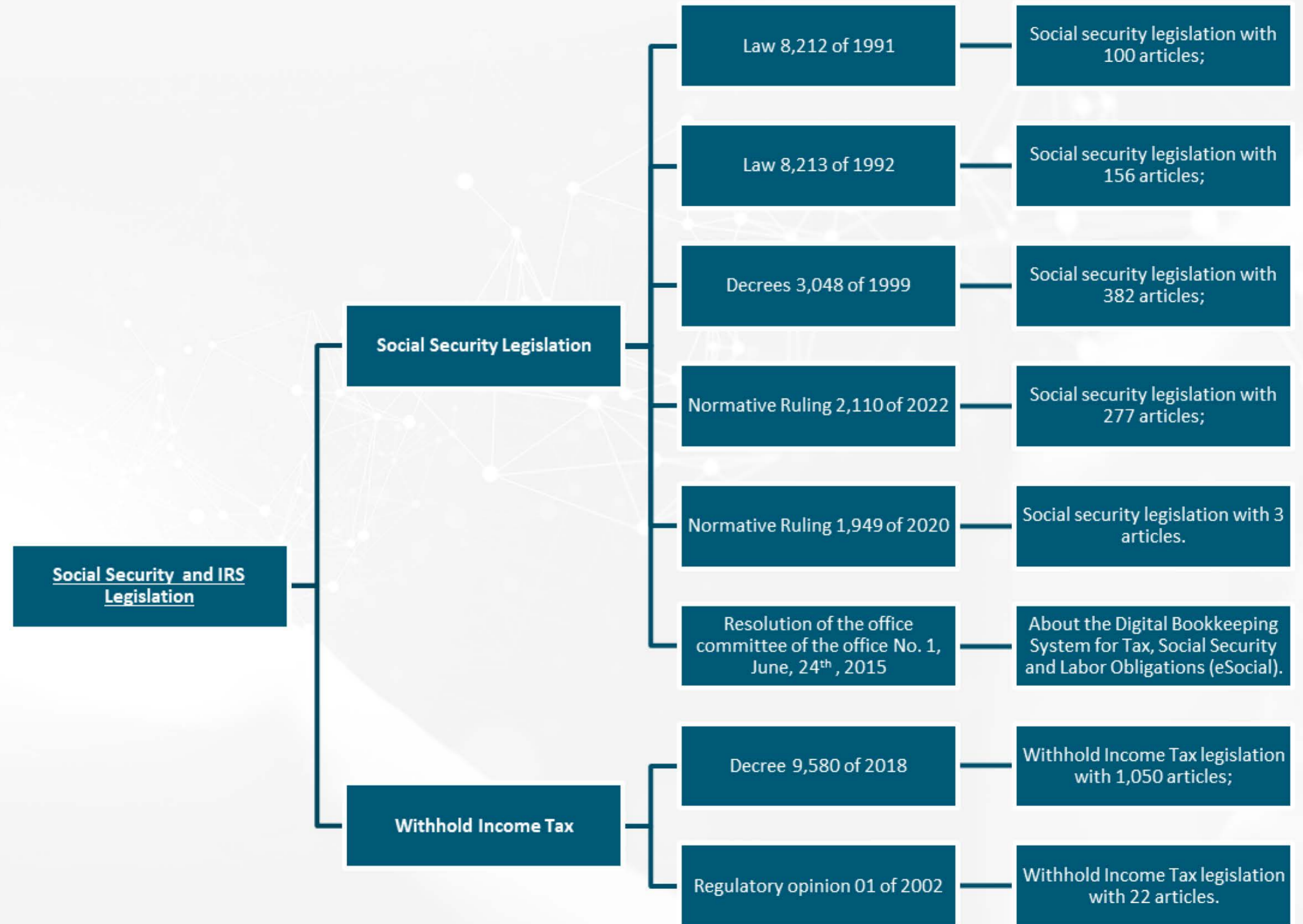
- Due to its multidisciplinary nature, the eSocial implementation will impact different functional areas within the organizations (Human Resources, IT, Legal, Finance and Accounting).
- Companies with revenues exceeding \$78,000,000 in the year 2016 must be prepared for the eSocial as of January, 2018.
- See below some details about Brazilian Labor and Social Security Legislation.

### Labor Legislation:

- Labor Legislation Consolidated – May 1943;
  - Mainly labor legislation with 922 articles;
- Others regulation;
  - Decrees – about 1,086;
  - Decree-laws – about 15,686;
  - Joint Ministerial Ordinance – about 855;
  - Ordinance – about 13,554;
  - Precedent;
- Unions Agreements
- Collective Convention and Collective Bargaining Agreements executed with the respective unions - As many as the Company typically engages in.



# 3 - PAYROLL COMPLIANCE TAX LEGISLATION



## 4 - SALARY SLIP

- Article 464 of the CLT states that the company must provide a receipt, which must be signed by the employee. If the professional is illiterate, the fingerprint must be considered. There is also the possibility of "signing on request", which is when, at the request of the worker, another person signs the document, in the presence of two witnesses.
- All information regarding receipts and discounts must be shown on the paycheck. That is, the values of the base salary, overtime, extra night, transport voucher and meal, for example, must be detailed in the document.
- Article 463 of the CLT stipulates that the worker's salary must be paid only in cash. This practice was common in the past but is not used today.
- With the advancement of technology, new resources have emerged. In order for the remuneration to be passed on in a practical and safe way to employees, other mechanisms are being used. In 1984, the Ministry of Labor established, through Administrative Rule no. 3.281(Repealed), that companies are authorized to make payment to workers by means of a check or bank deposit.

- It is worth remembering that the receipt of a deposit in a bank account, which has been opened with the consent of the employee and in a branch near the place of work, also has the validity of a receipt.



## 5 – WAGE TAX

### Social Security

- Both employers and employees pay social security contributions. These contributions are used to fund government pensions paid to retired citizens. Individuals who receive compensation from a Brazilian source are subject to the local social security tax, which is withheld by the employer or the source of income. Contribution rates range from 7.5% to 14%, depending on the amount of the compensation. There is a cap to the individual contribution, which represents 14% applied upon the maximum contribution income (R\$7,786.02 per month) as of January 2024, thus resulting in a maximum R\$908.86 of contribution for the employee.
- The employer contribution usually ranges from 26.8% to 28.8% (20% are allocated to the National Social Security Institute, or INSS, and up to 8.8% to other social security taxes), depending on the type of activity, calculated on each employee's monthly salary. There is no cap to the employer's contribution.
- Note that due to some incentives granted by the Brazilian government to boost the economy, some temporary measures were introduced in order to replace the 20% employer social security contribution on

payroll to a fixed percentage on gross income (excluding cancelled sales and unconditional discounts) for entities engaged in certain sectors of the economy. This tax regime was named as Social Security Contribution over Gross Revenue (CPRB).

- Self-employed workers have the option of participating in the official social security program. If they are not enrolled and they use the social security services, they must contribute with 20% of the amount of the service rendered. Self-employed workers who are enrolled must pay, every month, 20% of their base income, even when not working, and their employers may choose to pay 20% of the base income or 20% of the amount of the service rendered. The amount of the base income depends on when the self-employed worker joined the social security system. In this case, also, the cap contribution also applies: R\$608,44 .
- With few exceptions, all companies subject to the INSS tax also must contribute 0.2% of payroll to the National Institute of Agrarian Settlement and Reform. An additional 0.6% wage tax is levied to support the activities of the Small Business Administration.

### Deduction of social security on payroll

Law 13,043/2014 made permanent the replacement of the 20% employer

social security contribution on payroll with certain percentages on gross income, which was originally set to be valid until 31 December 2014. The percentages of 2% and 1% of gross income were effective as from 1 March 2015. Law 13,043/2014 expanded the scope of the reduction in rates, including as potential beneficiaries, taxpayers engaged in activities such as storage, training, hospitality, transportation, construction, infrastructure, etc, as well as companies that manufacture several products under specific IPI codes, such as food, commodities, cosmetics, personal hygiene, etc.

Law 13,202/2015 increased the percentages on gross income to 4.5% for most of taxpayers, 3% to call centers and 2% for railway, road and subway transportation companies. These new percentages are valid as from December 1, 2015.

### Severance Fund

Employers are required to make contributions to the Federal Severance Pay Fund (FGTS), in an amount corresponding to 8.0% of an employee's monthly compensation. Employees, under certain circumstances (namely, dismissal with no cause, retirement, severe diseases) may withdraw these contributions made by employer.

The companies' contributions are made as deposits in a restricted access bank account, in the name of each employee, and these accounts are managed by a Federal Government Institution (Caixa Econômica Federal). The deposits made yield annual interest of 3% plus inflation. If an employee is dismissed without cause, the employer must also pay to the employee an additional fine, equal to 40% of the deposits made in the employee's FGTS account during the time of his or her employment with the company.

The employee receives a statement from the Bank bimonthly, stating the amounts deposited by the employer as well as the corresponding financial restatements.



## 6 – STATUTORY DEDUCTION

**Social Security** – as mentioned above, Individuals who receive compensation from a Brazilian source are subject to the local social security tax, which is withheld by the employer or the source of income. (See below the wage tax table - 2024)

Wage tax Salary Rates – BRL\$	Rates %	Deduction - BRL\$
Up to 1,412.00	7.50%	-
From 1,412.01 to 2,666.68	9%	21.18
From 2,666.69 to 4,000.03	12%	101.18
From 4,000.04 to 7,786.02 (908.86 – CAP)	14%	181.18

**IRS** – It is levied on the income and proceeds of taxpayers' resident in Brazil or resident abroad who receive income from sources in Brazil. It presents variable rates according to the income of the taxpayers, so that those of lower income are not reached by taxation. Monthly deduction per dependant - BRL\$189,59 (See below the wage tax table - 2024)

Wage tax Salary Rates – BRL\$	Rates %	Deduction – BRL\$
Up to 2,259.20	-	-
From 2,259.21 to 2,826.65	7.5%	169.44
From 2,826.66 to 3,751.05	15%	381.44
From 3,751.06 to 4,664.68	22.5%	662.77
Over 4,664.68	27.5%	896.00

### Others statutory Deductions

- Absences and delays – the discount depends on how many days the employee is absent or how many hours they are late;
- Transportation voucher – 6% on salary base;
- Union agreement – some union agreements define some discounts regarding payroll contributions as well as some benefits;
- Alimony – the discount depends on the judicial office;
- Other discounts like fortnight, loans or if authorized by employee.

## 7 – STATUTORY LEAVE

### Paid Leave

- **Maternity Leave** - Maternity leave is one of the allowances provided in the CLT, granting a woman the right to take a period of leave after the birth of the baby. The period varies between 4 and 6 months. During this period, the employee has the right to continue receiving her salary, as if she were working.

- **Paternity leave** - Fathers also have the right to leave as provided by the CLT, through paternity leave. Years ago, the law stipulated that a father could be absent for 1 day during the week of his child's birth. However, article seventh of the 1988 Constitution provides for a leave of up to 5 days. If the company is part of the Citizen Company Program this period can be extended to up to 20 days.
- **Death license** - The death license or disgust, as it is known, is also cited among the licenses provided for in the CLT. Article 473, Section I, allows for an absence of up to two days in case of the death of a spouse or relative, without any loss of salary.
- **Military Service** - Officials who are summoned for military service are entitled to a leave of up to 90 days, with the assurance that their position will be available upon their return.
- **Marriage License** – Among the licenses provided in the CLT is the marriage license. Under the law, workers who marry are entitled to three days of absence from work. This period will be counted from the day after the wedding and the signing of the legal papers.

- **Unpaid leave** - Unpaid leave refers to a period of absence for an extended duration, during which the employee does not receive remuneration, but the employment contract remains active.
- **Illness Leave** - In case of illness leave, the company pays for the first 15 days of leave, and Social Security Department covers the remaining days;
- **Work Accident License** - when an employee suffers an accident inside the company or acquires an illness due to their tasks, resulting in the need for time off, it is classified as work accident leave. This kind of sick leave must be informed immediately to the government. The company will pay for the first 15 days of leave, while the Social Security Department will cover the remaining days.





## 8 – LONG TERM INVESTMENT

- The objective of these plans should be the alignment of professionals (generally executives and/or key professionals) with long-term strategic objectives. Therefore, they are widely used by start-ups and companies undergoing expansion and diversification.
- Mature companies also use this tool, but often for different reasons. While in the first case it is expected to involve those eligible for the award in the value generation process, creating resources for future incentive payments, in the second case, there is both the possibility of using the LTI as a retention tool and as a way to seek new upside opportunities that bring shared gains.
- LTI plans can be divided into 2 main categories: Cash-based plans and equity-based plans. Any of these models can be used by both publicly traded and privately held companies.
  - Within the cash-based plans we can highlight:
    - Long Term Bonus
    - Profit sharing
    - Phantom Plans
  - For equity-based plans we have:
    - Restricted Shares/Stocks Unit (RSU)
    - Stock Option
- Performance Share In action plans, those eligible are seen as partners. The future issuance and/or custody of shares in the Treasury is required and the plan must be approved by the CVM and the General Meeting. These are plans that require a physical operation of buying and selling shares (Treasury or partnership with a brokerage firm).
- The Stock Option model was widely spread as it was taxed as capital gain, while Restricted Stock plans were taxed as salary. (as well as cash plans).
- Since law no. 12,973/14, this practice was regulated as remuneration, causing many companies to migrate their models, but there are still many questions generating legal uncertainty.
- For the purpose of comparison with the market, plans in action are valued at their fair value (“Fair Value”), needing to be recognized as an expense (IFRS from 2010 onwards).
- In the case of cash plans, those eligible are viewed as salaried professionals.
- These plans do not require the use of shares and typically requires approval by the Board of Directors. They are plans taxed as a salary and require an accounting provision throughout the plan's cycle at the full amount of the expected gain, impacting the operating result.

### Phantom Plans

- Premium for the incremental result generated from a pre-established moment.
- Numerous value creation indicators can be used in this model.
- On the positive side, it has high retention power, simulates the real effect of society without using shares, is strongly aligned with value creation and shareholder gains.
- However, it can be difficult to design, manage and communicate, valuation has to be consistent and reliable, and values without gain limits can be difficult to budget.

### Stock options (Stock Option)

- It gives the employee the right to buy shares at a certain price for a certain time.
- It has the advantages of greater alignment of interests, no pre-defined gain limit (high perception of value) and taxation as capital gain on gains above fair value (although this is a topic under discussion based on the new legislation).
- Its disadvantages are the possibility of turning to dust, reducing motivation and the retention factor, in addition to being a model that requires the greatest number of actions.

### Restricted Stocks Unit (RSU)

- It gives the employee the right to receive shares if pre-established conditions are met (e.g., permanence in the company).
- Its advantages are the alignment of interests, the fact that it pays, even in difficult times, predictability in cost, greater retention potential and sense of ownership, in addition to lower dilution compared to Stock Options.
- Its disadvantages are the possibility of shareholders seeing it negatively due to the low correlation with results, being taxed as a salary and having less leverage potential.

### Performance Shares

- It pays restricted shares but conditions the receipt to performance requirements.
- Its advantages include a better balance between risk and reward (“shareholder friendly”),
- the fact of tying results other than just the value of the share (relative performance)
- and it has been a worldwide trend – new plans.
- Its disadvantages are the fact that below-minimum performance reduces motivation and the retention factor, it requires very precise targets for horizons  $\geq 3$  years and the lowest leverage potential.

# TOGETHER WE MAKE IT HAPPEN



[www.hlb.com.br](http://www.hlb.com.br)  
[deals@hlb.com.br](mailto:deals@hlb.com.br)

## São Paulo, SP

Rua Tabapuã, 627, 9º andar, Itaim Bibi,  
04533-012 - São Paulo, SP

## Florianópolis, SC

Rod. José Carlos Daux, 5500, km 05, Saco Grande II, Edifício SC  
401 SQUARE CORPORATE, Torre Campeche A - 88032-005  
Florianópolis - SC



HLB Brasil is an independent member of HLB International, a global network of advisory and accounting firms. HLB refers to the HLB International network and/or one or more of its member firms. For more information on HLB International and its legal structure, please visit [www.hlb.global/legal](http://www.hlb.global/legal)

HLB International is a global network of independent advisory and accounting firms, each of which is a separate and independent legal entity, and as such HLB International Limited has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International network but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International network, and vice versa and expressly disclaims all warranties, including but not limited to fitness for particular purposes and warranties of satisfactory quality.