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# **THE COLLOR PLAN EXECUTIVE OVERVIEW**

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**Governo  
do Brasil**

# THE COLLOR PLAN EXECUTIVE OVERVIEW



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Federative Republic of Brazil

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President Fernando Collor de Mello  
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Printed in Brazil  
Brasília, Distrito Federal  
1990

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# THE COLLOR PLAN EXECUTIVE OVERVIEW

The March 15<sup>th</sup>, 1990 inaugural date of the mandate of Brazil's new President Fernando Collor occurred against a background of unprecedented economic disorder. Inflation of over 70% per month, plummeting exports, an overvalued currency, unsustainable budget deficits, lack of investment and an inefficient bureaucracy all called for urgent corrective measures. By his refusal to take power before the date stipulated in the Constitution, Collor allowed his economic advisors, led by the new Finance Minister, Zélia Cardoso de Mello, time to prepare corrective measures. The resulting package, known as The Collor Plan, contains a series of Provisional Measures and other legislation dated March 15<sup>th</sup>, 1990.

In comparison with Brazil's previous economic stabilization plans, this one is more severe. If implemented in its entirety, it has the conditions to succeed. The plan attacks the basic cause of inflation, namely the government's deficit, by sharply increasing tax revenues and reducing the cost of financing the internal debt. An entirely new feature of this plan is the reduction of money supply, in the form of overnight deposits and short term savings, by approximately 80%. This is expected to avoid excess demand during the period of prices and wages freeze. Finally, learning from past mistakes, Collor Plan keeps the system of indexation by the BTN (Treasury's bonds), and doesn't interfere in the settlement of past debts.

Economic commentators have so far overlooked various provisions of the Collor Plan which are designed to promote a "Cultural Revolution" in Brazil. The informal economy is known to have grown substantially in recent years and is no longer restricted to small companies and individuals who provide professional services. If the new policies prevail and produce the intended effects, they will affect the lives of millions by inducing those individuals and firms operating in the informal economy to officialize their activities. This will substantially increase tax revenues.

The Provisional Measures had the force of law during 30 days. After this period most of them had been transformed into laws by the Congress. The following is a summary of the most important points contained in this legislation:

#### *Anti-inflation Measures*

- Introduction of the *cruzeiro* (Cr\$) as a new currency. One *cruzeiro* will be equivalent to one new *crúzado* (NCz\$).
- Conversion of new *crúzados* bank balances and deposit accounts into *cruzeiros* will be limited to NCz\$ 50,000 on current accounts and saving accounts and to 20% of overnight deposits.
- Unconverted balances are to be deposited within the Central Bank and will only be refunded in "*cruzeiros*" with monetary correction and interest of 6% p.y. in twelve installments commencing after 18 months (September 1991).
- Price freeze until April 30, except where government authorization for an increase is obtained. Subsequent automatic price adjustments are allowed every 30 days, limited to a maximum percentage set by the government at the beginning of each month.
- March salaries adjusted for February inflation. Subsequent increases in accordance with a minimum percentage determined as of the 15<sup>th</sup> of each month.



- Severe penalties for abuse of economic power through non compliance with price control legislation and for anti-free market practices.

#### *Measures to Reduce Government Expenditure*

- Reduction in the number of Ministries from 23 to 12.
- Extinction of 14 state companies and authorization to privatize or to extinguish other 9.

#### *Measures to Increase Government Revenues*

- Extensive privatization program, to be partially funded by a compulsory deposit levied on financial institutions, insurance companies and pension funds.
- Sale of government assets.
- Increased tax revenues through extensive application of IOF tax to financial transactions, increased IPI tax rates, increased income tax for activities previously subject to reductions in the standard rates (exports and agriculture), elimination of incentive deductions from taxable income both regional and sectorial, changes in the tax base of the social contribution tax, extensive indexing of Federal taxes and a new tax on large stocks of wealth, to be levied on individuals and foreign owners of Brazilian assets.

#### *Measures to Improve the Efficiency of the Tax Collection Process*

- Increased penalties for tax evasion by the taxpayer.
- Severe penalties for a tax inspector who accepts bribe, facilitates contraband, modifies records, etc.
- Extensive measures designed to bring the informal economy into the opening, including: elimination of all investment instruments

which do not identify the beneficial owner, prohibition of using bearer cheques for payments of over 100 BTN and concentration of nonresident bank accounts in branches to be designated.

### *Foreign Exchange Policy*

Although not included in the above mentioned legislation, the new government's economic team has announced that the foreign exchange rates for conversion of the *cruzeiro* will no longer be fixed by the Brazilian Central Bank. The currency will be allowed to float and its value will be determined by the market. Otherwise all regulations regarding foreign exchange will remain unaltered, including those restricting access to the foreign exchange market.

# MAIN POINTS OF THE LEGISLATION

## PRICES AND WAGES

### Law nº 8030

– Establishes a new system for the adjustment of prices and wages in general and other measures:

Art. 1 – Any new adjustment of prices of goods and services in general is prohibited without prior authorization, by ordinance of the Minister of Economy, Finance and Planning.

Art. 2 – The Minister of Economy, Finance and Planning will establish by an officially published act:

- I – On the first working day of each month, as from may 1<sup>st</sup>, 1990, the maximum monthly percentage authorized readjustment of prices of goods and services in general;
- II – On the first working day after the 15<sup>th</sup> of each month, as from April 15<sup>th</sup>, 1990, the minimum monthly readjustment for salaries in general, including the legal minimum salary;
- III – On the first working day after the 15<sup>th</sup> of each month, as from April 15<sup>th</sup>, 1990, the target for the percentage average price variation during the thirty days counted from the first day of the current month.

Paragraph 1 – The minimum monthly salary readjustment established in this article will be valid for the adjustment of

remuneration related to work performed in the current month.

Paragraph 2 – The maximum readjustment percentages for goods and services in general will have as reference period the thirty days subsequent to the date they are made public by the Minister of Economy, Finance and Planning, always observing the maximum period of thirty days between readjustments.

Paragraph 3 – The Minister of Economy, Finance and Planning will deliberate on requests for readjustment of specific prices on an exceptional basis, provided that the target established for the average variation in prices, referred to in Clause III, is not jeopardised.

Paragraph 4 – The restriction referred to in the previous paragraph does not apply to price readjustments authorized up to April 30, 1990.

Paragraph 5 – The Minister of Economy, Finance and Planning will request the Brazilian Institute of Geography and Statistics – IBGE, or other specialized research institute, to calculate price indexes appropriate for the measurement of the average price variation for the periods corresponding to the targets referred to in Clause III.

Art. 3 – Salary increases, beyond the minimum readjustment referred to in Article 2, may be freely settled between parties concerned, but will not be considered in the determination of price adjustment referred to in Paragraph 3 of the same Article.

Paragraph 1 – (vetoed).

Paragraph 2 – The wage increases referred in this Article are extensive to wages paid in daily or hour basis as well to temporary employees.

Art. 4 – Non-compliance with the readjustment limits for prices and salaries established in Articles 1 and 2 constitutes a crime of abuse of economic power, to be defined by law.

Art. 5 – As from April 1<sup>st</sup>, 1990, the legal minimum salary will be automatically readjusted, whenever the total sum of the previous readjustments happens to be less than the price change of a basic goods “basket” (*i.e.* an index of basic consumption goods) which incorporates items such as food, cleaning materials, health services, and other services like public fees and transport, to be precisely defined by the Minister of the Economy, Finance, and Planning, increased of a percentage.

Sole Paragraph – The price readjustments above, equivalent to the accumulated change of the price of the basic goods “basket”, will be applied to the salaries of June, 1990, and, subsequently, each two months, liquid from the monthly readjustments referred by Art. 2, Clause II. The increase percentage will be 5% (five percent) over the salaries of June and 6.09% (six and nine cents percent) from August, 1990, or and at each two months onwards.

Art. 6 – (vetoed).

Art. 7 – The readjustment of rents stipulated in real estate rental contracts in general, will be done, as from April 1<sup>st</sup>, 1990, in accordance with the average percentage price variation referred to in Clause III of Art. 2.

Sole Paragraph – On rents contracted up to the date of publication of this law, the calculation of the respective readjustment will be based on indexes agreed upon relative to the months prior to April 1990, established in accordance with pertinent legislation, except the one referring to March which

will be determined by the Minister of the Economy, Finance, and Planning.

Art. 8 – The readjustment of monthly school fees due as from April 1<sup>st</sup>, 1990, will be set in by the percentage readjustment of the minimum salary in accordance with Clause II of Article 2.

Art. 9 – The provisions of this law are applicable to:

- I – All earnings and monetary benefits of public, civil and military personnel employed directly by the public administration or by its agencies, be it at federal, state, or municipal level, including also the respective retirement pensions and the pensions of their beneficiaries;
- II – All earnings and monetary benefits of employees of foundations and public companies, mixed economy corporations and all other entities contracted directly or indirectly by the Union or by States, the Federal District and Municipalities;
- III – Retirement benefits and pensions paid by social security.

Art. 10 – The Minister of Economy, Finance and Planning will issue the necessary acts for the implementation of this law.

Art. 11 – (vetoed).

Art. 12 – (vetoed).

Art. 13 – (vetoed).

Art. 14 – Decree-Law 808 dated May 18<sup>th</sup>, 1967; Law 7769 dated May 26, 1989; Articles 1 to 7 of Law 7788 dated July 1, 1989 and Article 2 of Law 7789 dated July 3, 1989, are revoked, together with

all other legal provisions, of a general or specific nature, which deal with price and salary readjustments in general and any other contrary disposition.

## PRIVATIZATION CERTIFICATES

### Law nº 8018

– Creates privatization certificates and addresses related matters.

Art. 1 – Privatization certificates, securites issued by the National Treasury, are created with the following characteristics:

I – Nominative and non-transferable, except with the express authorization of the Ministry of the Economy, Finance and Planning;

II – No redemption date.

Art. 2 – The holders of privatization certificates will have the right to use them for payment of shares of public sector companies that may be privatized:

Sole Paragraph – The use of privatization certificates may be restricted to auctions convened for the specific purpose of selling shares of public sector companies, at the discretion of the organ or authority specifically created for this objective, or in its absence, of the Minister of the Economy, Finance and Planning.

Art. 3 – The value of the privatization certificates will be corrected as follows:

I – The face value will be corrected by 100% of monetary correction, until the date of the first offering of shares of a public sector company eligible for purchase in exchange for certificates;

- II – From the date of the first offering mentioned in the preceding item, the monetary correction to be applied shall be reduced by 1% per month successively, for a maximum of 40 months;
- III – From the end of the period established in item III, the monthly variation in the value of the certificates will be restricted to 60% of monetary correction.

Sole Paragraph – For purposes of this law, monetary correction shall be measured by the daily variation of the BTN.

Art. 4 – At the end of 10 years from this date the National Treasury shall be obliged to redeem the difference between the total value of the privatization certificates issued and the total acquisition value of shares of public sector companies eligible for acquisition with these certificates.

Sole Paragraph – In this case, the correction of the value of privatization certificates shall be made by full monetary correction, counted from the date of issue to the date of redemption.

Art. 5 – The National Monetary Council will regulate the volume and terms of purchase of privatization certificates by pension funds, insurance and annuity companies, and financial institutions.

Art. 6 – This Law enters into force on the date of its publication.

## TAX ON INVESTMENTS

Law nº 8033

– Alters the legislation of IOF tax (tax on financial operations) creating taxable events of a transitory nature, and other measures.



**Art. 1 – The tax on financial operations, including credit, exchange and insurance transactions relating to financial instruments, will be due in the following cases:**

- I – Redemption of public and private securities, including those related to short term investments such as bills of exchange, term deposits either with or without a certificate, savings certificates, debentures and mortgages notes;**
- II – Transfer of sale of gold defined by the legislation as a financial asset;**
- III – Transfer or redemption of a financial investment representing gold;**
- IV – Sale of shares of publicly traded companies negotiated on stock exchanges and issues of bonus stock;**
- V – Withdrawal of funds from saving accounts.**

**Art. 2 – The tax instituted here-in will have the following characteristics:**

- I – It will only apply to transactions involving assets whose principal was owned by the taxpayer at the 16<sup>th</sup> of March, 1990;**
- II – It will only be payable once, on the first transaction with the financial instrument specified in each of the clauses of this Article, after the 16<sup>th</sup> of March, 1990, not being payable on subsequent transactions relating to the same financial instrument;**
- III – It will not alter the incidence of taxes already established in existing legislation, constituting, in such cases, an additional tax for those transactions already taxed by that legislation;**
- IV – It will not apply to shares when the total value of the shares held by the owner on the date of publication of this law are not in excess of 10,000 daily BTN's;**

V – It will not apply to savings accounts if the total value of the accounts held by the owner on the 16<sup>th</sup> of March, 1990, is no more than 3500 VRF;

VI – It will not apply to the sale of quotas of mutual funds, to the sale of interbank deposits made in accordance with current legislation or to the sale of financial instruments in the portfolios of financial institutions which are subject to repurchase agreements.

Paragraph 1 – The settling of the total value of shares held by the owner, mentioned in Clause IV will be determined by taking as basis:

a) The value of the share observed in the last trading before the 16<sup>th</sup> of March, 1990, monetarily corrected until that date, in accordance to the change of the stock exchange index from the most representative trading center in the country and converted to the value of the fiscal BTN from that date; and

b) In case it is not possible to follow the procedures stated above, the patrimonial value of the share, recorded in the last balance sheet of the respective firm shall be taken as reference.

Paragraph 2 – The total value of the saving accounts mentioned in Clause V, will be determined by considering the sum of the balances of the accounts on the respective dates on which earnings are credited during the month of March, 1990, including the deposits made during this month, converted into BTN's.

Paragraph 3 – Concerning the financial assets mentioned above in Clause I, Art. 1, the tax on financial operations will not be due for those belonging to financial institutions having liabilities of the same type.

**Art. 3 – The calculation basis for the tax stipulated in this law is:**

- I – The value redeemed, in the cases pre-empted by Art. 1, Clause I;**
- II – The value of the transaction, in the cases pre-empted by Art. 1, Clauses II and III;**
- III – The value of the transaction on the stock exchange, in the cases foreseen by Art. 1, Clause IV, after taking into consideration the reduction pre-empted in Paragraph 1 of Art. 7;**
- IV – Concerning Art. 1, Clause V, the value redeemed is liquid from deduction pre-empted in Paragraph 1, Art. 7.**

**Sole Paragraph – In the case of acquisition of gold or shares as a result of the exercise of an option, the calculation basis will be obtained by using the average price observed in trading on the day the option was exercised, being assured, for shares, the reduction pre-empted in Paragraph 1 of Article 7.**

**Art. 4 – The taxpayer is required to file a declaration, until the 28<sup>th</sup> of May, listing the investments mentioned in clauses II, III, IV and V of Art. 1, when at least one of the following situations has occurred:**

- I – The taxpayer owns gold;**
- II – The total value of shares exceeds 10,000 daily BTN's;**
- III – The total value of saving accounts balances exceeds 3500 VRF.**

**Sole Paragraph – The federal income tax authorities will establish the way by which the information stipulated in this Article is to be presented.**

**Art. 5 – The rates at which the tax stipulated in this Article will be levied are:**

- I – 8% for those cases pre-empted in Art. 1, Clause I;**

- II – 35% for those cases pre-empted in Art. 1, Clauses II and III;
- III – 25% for those cases in Art. 1, Clause IV;
- IV – 20% for those cases in Art. 1, Clause V.

Art. 6 – The rates pre-empted in Clauses II, III and IV will be reduced, respectively, to 15%, 8% and 8% if the taxpayer choses to pay the tax pre-empted in Art. 1, until the 18<sup>th</sup> of May, 1990, which will entitle him to pay the tax in five equal monthly installments, corrected by the daily BTN.

Paragraph 1 – The taxpayer must declare his intention to prepay the tax in the declaration required by Art. 4.

Paragraph 2 – The option for prepayment may be related to any kind of asset individually, buy its total value.

Paragraph 3 – In the case of prepayment, the basis for tax calculation will be:

- a) The value of the gold, based on the March, 1990, average price converted into BTN, recorded in The Country's most representative commodity exchange;
- b) Concerning the cases listed in Art. 1, Clauses IV and V, the criterium is determined by Art. 2, paragraphs 1 and 2.

Art. 7 – Payment of the first installment of the prepayment must be made until the 18<sup>th</sup> of May, 1990, at the time of filling the declaration required by Art. 4, using the Federal Tax Payment Document-DARF.

Paragraph 1 – The values mentioned in Clauses IV and V of Art. 2 for shares and savings accounts respectively, are deductible in the determination of the amounts to be prepaid.

Paragraph 2 – The prepayment may be made in new *cruzados*, but in this case the installment plan cannot be used;

Paragraph 3 – The payment will be due in *cruzeiros*, by the amount evaluated in BTN, following the criteria given by Art. 6, paragraph 3.

Art. 8 – In those cases where the taxpayers have not made option to prepay the tax, the Federal Tax Authorities will issue regulations allowing the reduction pre-empted in paragraph 1 of the preceding article.

Sole Paragraph – In the cases pre-empted in this article, payment will only be accepted in *cruzeiros*.

Art. 9 – The taxpayers of the tax pre-empted in this law are:

- I – Whoever effects the redemptions, in those cases pre-empted by Art. 1, Clause I;
- II – Whoever effects the transfer or sale, in those cases preempted by Art. 1, Clause II;
- III – Whoever effects the transfer or redemption, respectively, in those cases pre-empted by Art. 1, Clause III;
- IV – Whoever effects the transfer in those cases pre-empted by Art. 1, Clause IV.
- V – The withdrawer, in the cases pre-empted in Art. 1, Clause V.

Sole Paragraph – In the cases pre-empted by Art. 1, Clause 1, the retention and custody of the due taxes is a responsibility of the financial institution, except in cases in which the recipient is another financial institution. In that case, the recipient is responsible for the tax collection.

Art. 10 – In order to simplify the implementation and control of the present law, without prejudice to the confidentiality requirements of current legislation, the inspectors of the Brazilian Central Bank and the

Federal Tax Authority will be allowed to perform inspections on the work of agents of the savings and loan system and in any of the entities which operate, directly or indirectly, in the financial securities markets including financial agencies, brokers and dealers, who are obliged to provide such information as requested by the authorities.

Art. 11 – Custody of financial assets and gold may only be lifted on proof of payment of this tax.

Art. 12 – The Brazilian Central Bank and the Federal Tax Authorities, together, will issue the regulations necessary for the effective application of this law, specially those relating to the determination of the terms for payment of the tax.

Art. 13 – (vetoed).

Art. 14 – This law enters into force on the date of its publication.

## REDUCTION IN TAX INCENTIVES

Law nº 8034

– Alters income tax legislation, and other measures.

Art. 1 – Beginning with fiscal year 1991, relative to base year 1990:

I – The income tax rate applicable to profits on the export of Brazilian manufactured goods and services becomes 30% (currently 18%);

II – The income tax rate surcharge (5% and 10%) established by Art. 39 of Law 7799 dated July 10, 1989 will apply to the export profits referred to in the previous clause (currently nil);

III – The fiscal benefits introduced by the following legislation will be extinguished:

- Law 6297 of December 15, 1975 (employee training program)
- Art. 21 of Law 7232 of October 29, 1984 (purchase of shares in computing companies)
- Law nº 7554 of December 16, 1986
- Law 7505 of July 2, 1986 (cultural activities – Sarney Law)
- Art. 32 of Law 7646, of December 18, 1987 (acquisition of software) and
- Law 7752 of April 14, 1989 (amateur and sports incentives), as well as the incentive for training individuals for computing-related activities, provided in Law 7232/84, Art. 13, Clause V.

IV – The option to apply for a portion of income tax due in the following incentives is suspended for an indeterminate period:

a) *Fundo de Desenvolvimento do Nordeste (FINOR)*, *Fundo de Desenvolvimento da Amazônia (FINAM)* (Decree-Law 1376, Art. 11, Clause I) and *Fundo de Recuperação Econômica do Estado do Espírito Santo* (Decree-Law 1376/74, Art. 11, Clause V);

b) The deposits for reinvestment, established by Art. 23 of Law 5508, of October 11, 1968 and Art. 29 of Decree-Law 756 of August 11, 1969 and subsequent changes.

Paragraph 1 – Prepayments of corporate income tax payable in accordance with Decree-Law 2354 of August 24, 1987, should be calculated considering the effects of the reductions or elimination of fiscal incentives, the changes of income tax rates and rate surcharges referred to in this article.

Paragraph 2 – The fiscal benefits which, in accordance with Clause III of this article, have been suspended, will be

revaluated during the suspension period, to permit appropriate corrective measures.

Paragraph 3 – The fiscal incentives, which in accordance with Clause IV of this article, have been suspended, will be revaluated during the suspension period, to permit appropriate corrective measures.

Art. 2 – Art. 2, paragraph 1 of Law 7689, of December 15, 1989 (instituting the Social Contribution Tax) will read as follow:

Art. 2 ...

Paragraph 1 ...

- c. The profit of the base year, determined in accordance with commercial legislation, will be adjusted by the:
  - 1. Addition of negative equity pick-ups;
  - 2. Addition of the amortization of revaluation reserves not credited to income of the base year;
  - 3. Addition of provisions not deductible in computing taxable income, except for the income tax provision;
  - 4. Exclusion of positive equity pick-ups;
  - 5. Exclusion of profits and dividends included in income and derived from investments carried at cost;
  - 6. Exclusion of the monetarily corrected value of nondeductible provisions added in accordance with item 3 above, which were written off during the base year.

Art. 3. – The credit facilities related to the IPI (tax on industrialized goods) levied on raw materials, intermediate goods, and packaging of industrialized goods, to be sent to the Tax Free Zone of Manaus and Occidental Amazon, are canceled.



Art. 4 – (vetoed).

Art. 5 – This law enters into force on the date of its publication (April 12, 1990).

Art. 6 – Dispositions to the contrary are revoked.

## MONETARY CORRECTION OF FEDERAL TAXES

Law n° 8012

– Relates to the payment of federal taxes.

Art. 1 – In relation to taxable events occurring as from April 1<sup>st</sup>, 1990 the following tax liabilities will be converted into daily BTN's:

- I – Industrialized Products Tax (I.P.I.) on the first day of the 15 day period subsequent to that in which the taxable event occurred;
- II – Income tax withheld at source (I.R.R.F.) on the first day following that on which the taxable event occurred, except as provided by Article 7 of Law 7799 dated July 10, 1989 (professional service companies);
- III – Tax on credit operations, exchange and insurance, and on transactions with negotiable securities (I.O.F.):
  - a) On the first day of the month following that in which the taxable event occurred, in the cases of transactions with gold or financial assets;
  - b) In all other cases, on the first day following the collection or accounting for the tax.
- IV – Sugar and alcohol contribution as legislated in Decree-Law 308 dated February 28, 1967 and 1712 dated November 24,

1979 and the additional provided for in Decree-Law 1952, dated July 15, 1982, on the first day of the month following that of its incidence;

- V – contributions to the Social Fund (FINSOCIAL), to the Social Integration Program (PIS) and to the Public Servants Capital Formation Program (PASEP) on the first day of the month following that in which the taxable event occurred.

Paragraph 1 – The conversion of the amount of tax or contribution will be made by the division of the amount due by the value of daily BTN on the dates fixed in this article.

Paragraph 2 – The value in *cruzeiros* of the tax or contribution will be determined by the multiplication of its value expressed in daily BTN's by the daily BTN value on the date of payment.

Art. 2 – The values of the tax in accordance with Arts. 8, 23, 25, 40 and 45 of Law 7713 dated December 22, 1988 (personal income tax) with subsequent alterations will be converted into daily BTN's by the value of the daily BTN on the first day of the month following that in which the taxable event occurred.

Art. 3 – Law 7713 dated December 22, 1988 with the modifications introduced by Laws 7799 dated July 10, 1989 and 7859 dated December 21, 1989, will now have the following alterations:

Art. 24 ...

Paragraph 2 – The difference in tax calculated monthly will be converted into a number of daily BTN's through its division by the value of the daily BTN on the first day of the following month.

Paragraph 5 – No installment will be less than thirty-five daily BTN's and tax liabilities of less than seventy daily BTN's should be paid at once.

Paragraph 6 – The number of daily BTN's in accordance with this article shall be reconverted into national currency by the value of the daily BTN on the date of payment of the tax or installment.

Art. 4 – The individual taxpayer who has exercised the option referred to in Article 24 of Law 7713 of 1988, will determine the value in *cruzeiros* of the installments or balance of tax payable in relation to base year 1989 through the multiplication of the value expressed in number of BTN's by the value:

- I – Of the BTN in the month of payment, if totally paid by the last working day of the Month of April 1990;
- II – Of the daily BTN on the date of payment when the payment is made subsequent to the date referred to in I above.

Sole Paragraph – the criteria for converting the value of the tax into *cruzeiros* referred to in Clause I are applicable in relation to the tax relating to the months of January to March 1990, which the taxpayer with more than one source of income (Law 7713/88 article 23) pays by the last working day of the month of April 1990.

Art. 5. – The income tax on capital gains by individuals at disposal, to individuals or corporate entities, of assets or rights of whatever nature, referred to in Paragraphs 2 and 3 of Article 3 of Law 7713 of December 22, 1988, converted into a number of daily BTN's in the form of Article 2 of this law, must be paid by the last working day of the first 15 days period of the month following the receipt of the gain subject to the provision of Article 21 of Law 7713 of 1988.

Art. 6 – The amounts corresponding to the payment of payroll contributions and other contributions and any surcharges due to the Social Security Institute (IAPAS) will be transferred by the banking system on the second working day after payment.

Paragraph 1 – Amounts due of whatever nature to the Social Security Institute as from April, 1990, will be converted in daily BTN's on the first day following the occurrence of the taxable event.

Paragraph 2 – The value in *cruzeiros* on the date of payment will be determined in the form by Paragraph 2 of Art. 1.

Art. 7 – This law enters into force on the date of its publications.

## MONETARY REFORM

### Law nº 8024

– Establishes the *cruzeiro*, addresses to the liquidity of financial assets and other measures.

Art. 1 – The national currency is now the *cruzeiro* which becomes the unit of the Brazilian Monetary System.

Paragraph 1 – The *centavo* is maintained to designate the 100<sup>th</sup> part of the new currency.

Paragraph 2 – One *cruzeiro* corresponds to one new *cruzado*.

Paragraph 3 – Monetary values will be written preceded by the symbol Cr\$.

Art. 2 – The Brazilian Central Bank is responsible for the acquisition of notes and coins in new *cruzados* and the printing of new notes in *cruzeiros* in sufficient quantity to substitute those in circulation.

Paragraph 1 – The notes and coins in new *cruzados* will circulate simultaneously with those in *cruzeiros*, in accordance with the parity established in Paragraph 2 of Art. 1.

Paragraph 2 – Notes and coins in *cruzeiros* issued prior to this law lose their value as of this date and will no longer be legal tender.

Art. 3 – All values in financial and accounting statements, balance sheets, cheques, securities, prices, notifications, and all monetary expressions in national currency, will be expressed in *cruzeiros*.

Art. 4 – Cheques issued in new *cruzados* and not get deposited within the banking system will only be accepted for compensation and credit to the account of the depositor of the cheque, in new *cruzados*, up to a date to be fixed by the Brazilian Central Bank.

Sole Paragraph – In cases where the depositor of the cheque has no bank account the Brazilian Central Bank will establish a limit in new *cruzados*, which can be drawn immediately in *cruzeiros*.

Art. 5. – Balances of demand deposits will be converted to *cruzeiros* in accordance with the parity established in Paragraph 2 of Art. 1, up to a limit of NCz\$ 50,000.00:

Paragraph 1 – Amounts which exceed the limit fixed in the introduction of this Article will be converted as from September 15, 1991, in twelve equal and successive monthly installments.

Paragraph 2 – Amounts mentioned in the previous paragraph will be monetarily corrected by the daily variation of the BTN between March 15, 1990, and the date of conversion, plus interest equivalent to 6% per annum or fraction “pro rata”.

Paragraph 3 – Compulsory and voluntary deposits held in Brazilian Central Bank of funds which originated from saving accounts will be converted and adjusted in accordance with regulations to be issued by the Brazilian Central Bank.

Art. 7 – Fixed term deposits, with or without certificates, acceptances, interbank deposits, debentures and other financial assets as well as funds borrowed by the financial institutions under repurchase agreements will be converted into *cruzeiros* in accordance with the parity established in Paragraph 2 of Art. 1, observing the following:

- I – For repurchase agreements (overnight) on the original due date of the investment; NCz\$ 25,000.00 or 20% of the value due on maturity, whichever is greater, will be converted;
- II – For all other assets and investments, excluding interbank deposits, on the original maturity date, 20% of the maturity will be converted.

Paragraph 1 – Amounts which exceed the limits fixed in Clauses I and II of this Article will be converted from September 15, 1991, in twelve equal and successive monthly installments.

Paragraph 2 – The amounts mentioned in the previous paragraph will be monetarily corrected by the daily variation of the BTN between the original maturity date of the deposits, and the date of conversion, plus interest equivalent to 6% p.a. or fraction “pro rata”.

Paragraph 3 – The securities mentioned in the introduction of this article whose maturity dates are subsequent to September 15, 1991, will be totally converted into *cruzeiros* on their maturity date.

Art. 8 – The total conversions made in name of the same person at the same financial institution is the amount to be considered for the purpose of applying the conversion limits established in Arts. 5, 6 and 7.

Art. 9 – Balances in new *cruzados* not converted in the form of Arts. 5, 6 and 7 will be transferred to the Brazilian Central Bank and will be held in individual accounts in the name of the depositing financial institution.

Paragraph 1 – The financial institutions must keep records of the financial assets denominated in new *cruzados*, identifying the owner of each account. These records must be available for audit by the Brazilian Central Bank whenever requested.

Paragraph 2 – When the balances mentioned in this article are government securities, the Brazilian Central Bank will arrange to exchange them for new securities issued by the National Treasury or by States and Municipalities, as applicable, with term and remuneration equal to that of the account created by the Brazilian Central Bank.

Paragraph 3 – In the case of repurchase agreements, involving government securities, these securities will be transferred to the Brazilian Central Bank and the issuers will arrange for their substitution by new securities in new *cruzados* whose value, term, and remuneration are identical to the original deposits under the repurchase agreements.

Art. 10 – Quotas of fixed interest and short term money market investment funds will be converted into *cruzeiros* in the form of Art. 7. However, the percentage of conversion may be less than that established in Art. 7 if the fund does not have sufficient liquidity in *cruzados*.

Art. 11. – Funds, in new *cruzados*, of the Federal, State and Municipal Treasuries and of the Social Security Institute will be totally converted on the date of maturity being inapplicable Arts. 5, 6 and 7 of this law.

Art. 12 – During the period of 180 days from the publication of the Provisional Measure which gave origin to this law, accounts and deposits denominated in new *cruzados* are transferable, in compliance with the conditions specified in Arts. 5, 6 and 7 for the purpose of settlement of debts and financial transactions demonstrably contracted prior to March 15, 1990.

Sole Paragraph – The Brazilian Central Bank will stipulate the documentation necessary for the recognition of obligations, defining the instruments and mechanisms for deposits ownership transfer.

Art. 13 – For the next 60 days, the payment of duties, taxes, contributions and social security charges results in the immediate and automatic authorization to convert the new *cruzados* to *cruzeiros* in the amount equivalent to the credit of the government entity on the respective due date of the obligation.

Art. 14 – The periods mentioned in Arts. 12 and 13 may be increased by the Ministry of Economy, Finance and Planning as a function of the necessity of monetary and fiscal policies.

Art. 15 – The Brazilian Central Bank will define rules for the preparation of balance sheets by financial institutions as of March 15, 1990, in new *cruzados*, as well as for new balance sheets expressed in *cruzeiros* as from that date.

Art. 16 – The Brazilian Central Bank may authorise the placement of interbank deposits, in new *cruzados*, under conditions to be established.



Art. 17 – The Brazilian Central Bank will use the funds deposited within it in new *cruzados* to provide loans for the financing of financial institutions' assets which were contracted in new *cruzados*, as registered in the balance sheet mentioned above.

Sole Paragraph – Interest rates and terms of loans from the Brazilian Central Bank will be compatible with those of the assets mentioned in this article.

Art. 18 – The Minister of Economy, Finance and Planning may alter the period and limits established in Arts. 5, 6 and 7 or authorize auctions of early conversion of new *cruzado* assets held by the public, in accordance with the objectives of monetary policy and of the liquidity requirements of the economy.

Art. 19 – The Brazilian Central Bank will submit for approval of the Minister of Economy, Finance and Planning within a period of 30 days from the publication of the Provisional Measure which gave origin to this law, quarterly targets for monetary expansion, in *cruzeiros*, over the next twelve months explaining the means and instruments to achieve these targets, including auctions of early conversion of new *cruzados* to *cruzeiros*.

Art. 20 – The Brazilian Central Bank using attributes established by Law nº 4595 and complementary legislation will issue regulations to adapt the normatization of the financial and capital markets as well as the national housing system, in relation to this law.

Art. 21 – In the form of regulations to be issued by the Minister of Economy, Finance and Planning, conversion to *cruzeiros* of funds in new *cruzados* in amounts and percentages different from those established in this law may be permitted if the beneficiary is a person who depends solely on income from pensions and retirement benefits.

Art. 22 – The nominal value of the Brazilian Government Treasury Bond (BTN) will be updated each month by an index calculated by the same methodology used for the index referred to in Art. 2, Paragraph 5 of Provisional Measure nº 154 (presently, Law nº 8030) of this date, reflecting the variation of prices between the fifteenth of that month and the fifteenth of the previous month.

Sole Paragraph – Exceptionally, the nominal value of the BTN for the month of April, 1990, will be equal to the value of the BTN on April 1<sup>st</sup>, 1990.

Art. 23 – The daily value of the BTN will be determined by the Federal Tax Authority projecting the monthly evolution of the rate of inflation.

Art. 24 – This law enters into force on the date of publication.

Art. 25 – Dispositions to the contrary are revoked.

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