

A CONVERSATION ABOUT THE MANAUS FREE TRADE ZONE

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Some doubts about the Manaus Free Trade Zone often arise during the meetings, gatherings, and presentations I conduct on the subject. Therefore, in this brief text, I have decided to compile the main questions and answers related to the practical aspects involving the ZFM.

What is the Manaus Free Trade Zone?

In practical and general terms, the ZFM encompasses a geographical area established in the State of Amazonas, covering the municipality of Manaus and its surroundings.

The ZFM was conceived to contribute to the sustainable development of the Amazon region by attracting companies to its interior. Companies established in this area enjoy a range of tax benefits, especially at the federal and state levels.

These tax benefits encourage companies to set up in the Manaus Free Trade Zone. The establishment of companies stimulates the state's economy, generates jobs, and improves infrastructure, promoting regional development.

How does the Manaus Free Trade Zone work?

The model was designed to attract and facilitate the installation, within its borders, of the entire industrial production cycle of consumer goods, especially durable ones. The Manaus Free Trade Zone's system ensures the exoneration of the pro-

duction chain, exempting a series of taxes on the shipment, import, and internal circulation of goods among the companies based there, mainly taxing the final product's exit to other regions of Brazil.

The regime of the Manaus Free Trade Zone supports everything from the industrialization of raw materials, including the use of regional products, to the production of the final consumer good (electronics, motorcycles, etc.).

It's worth noting that the production of final goods, in general, involves greater technical complexity, thereby adding more value to the product. Consequently, this type of production generates higher revenue, better-paying jobs, and more investments in technology, research, and development.

How does the ZFM work in practice?

Let's take the production and assembly of motorcycles as an example. The manufacturing of this type of product, in broad terms, involves at least three types of companies:

- The supplier of raw materials.
- The producer of components (brakes, rearview mirrors, etc.).
- The manufacturer of the final product (motorcycles).

For example, the company that manufactures rearview mirrors acquires plastic from a third party

(input), processes this product into rearview mirrors, which will later be sold to the company that will assemble the motorcycle.

Thus, three stages are developed by different companies: the company that supplies the plastic (input), the company that manufactures the component (rearview mirrors), and the company that assembles (produces) the motorcycle (final product).

Outside the Manaus Free Trade Zone, these companies would be subject to the following taxation when selling their products within this exemplified chain:

- The producer of plastic inputs: PIS/COFINS, IPI, and ICMS.
- The producer of components (rearview mirrors): PIS/COFINS, IPI, and ICMS.
- The producer of the final product (motorcycles): PIS/COFINS, IPI, and ICMS.

The Manaus Free Trade Zone model ensures the exoneration of these taxes when this production chain is developed in the region.

Within the ZFM, this example would work as follows: the producer of plastic inputs would not pay PIS/COFINS, IPI, and ICMS when selling their products to the component producer located in the Manaus Free Trade Zone. Similarly, the component company (rearview mirrors) would not pay these same taxes (PIS/COFINS, IPI, and ICMS) when selling its pro-

ducts to the company that will manufacture the final product (motorcycles).

Products manufactured in the ZFM are only taxed (PIS/COFINS, IPI, and ICMS) when leaving this location for other regions of the country.

It's important to note that even the exit of products from the ZFM enjoys benefits, including IPI exemption, reduced PIS and COFINS rates, and ICMS incentive credits (which can reach up to 100%).

What are the benefits that the model offers?

In general terms, the Manaus Free Trade Zone offers the following benefits:

- Exemption from PIS and COFINS on imports.
- Exemption of up to 88% of the Import Tax.
- Exemption from IPI on imports.
- Deferral of ICMS on imports.
- 75% reduction in IRPJ (Corporate Income Tax).
- Exemption from IPI on the exit of manufactured products from the ZFM.
- ICMS incentive credits on the exit of manufactured products from the ZFM.

Are only industries eligible for these benefits?

No. There are benefits directed toward commercial activities as well. For example, a presumed ICMS credit on the acquisition of products from other states with tax exemption.

Furthermore, currently, jurisprudence has recognized that the model's benefits should also apply

to service provision. There are numerous decisions recognizing that providing services to entities established in the ZFM is equivalent to exporting services abroad, which guarantees, for example, exemption from PIS and COFINS.

What can I gain from moving to the Manaus Free Trade Zone?

This depends on each company's scenario. For example, there are companies located outside the ZFM that already sell their products in the northern region of the country. By setting up in the ZFM, these companies would be closer to their consumer centers and would enjoy a range of benefits, especially from using products manufactured within the Manaus Free Trade Zone.

This guarantees the acquisition of inputs and intermediate products free from PIS/COFINS, IPI, and ICMS, which, in turn, ensures a more competitive price or higher profit margins.

The model makes economic sense even for companies intending to produce their products in the Manaus Free Trade Zone and sell them in other regions of the country (south, southeast, central-west, etc.). As mentioned earlier, the exit of products to other locations also enjoys significant tax benefits (IPI exemption, ICMS incentive credits, reduced IRPJ, etc.).

What are the steps to establish a company in the ZFM?

First and foremost, it is important for companies to have a well-defined plan for what will be manufactured in the ZFM, who the suppliers of raw materials and intermediate products will be,

which company will transport their goods, and where they will be distributed (internally or to other parts of the national territory).

For new companies in the ZFM to access the benefits offered by the model, they must submit their production processes to public agencies responsible for managing tax incentives. The production process is presented to these agencies in the form of an economic project. At the federal level, management is carried out by Suframa. In the state sphere, the management of incentives is carried out by Sedecti - the State Secretariat for Economic Development, Science, Technology, and Innovation.

The interested company must formulate and submit to these agencies, through a qualified professional, information about the production process they intend to develop in the Manaus Free Trade Zone. The necessary information for the project includes the investment value, labor involved, description of the products to be manufactured, expected revenue, and so on.

Once the projects are approved, both at the state and federal levels, the company will be eligible to carry out its activities in the Manaus Free Trade Zone while enjoying the tax benefits offered by the model. Of course, it is also necessary to obtain the licenses and permits required by other public agencies, which are commonly required for any type of business activity anywhere in the country.



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