Payroll in Brazil

A complex system with frequently changing rules
Payroll in Brazil.

Extreme complexity despite a single federal labor law

In each country, payroll processing is driven by local labor laws, different layers of legislation and specific rules. This makes it a challenge for multinational companies or companies expanding internationally.

As the seventh largest economy in the world, Brazil is a very attractive country. But once established there, companies have to deal with one of the most complex payroll systems in the world due to constantly changing laws and the influence of labor unions. Using a local payslip as a reference point, this brochure deciphers the complexities of payroll in Brazil.

Brazilian Payroll Highlights.

• A single federal labor law
• Multiple agreements with labor unions
• Numerous changes to law and to statutory values each year
• Legislation subject to interpretation requiring support of a legal advisor
• Monthly salary plus various allowances and benefits
• Income tax withholding at source
• Mandatory social contributions for employee and employer
• A general-purpose social security and public healthcare system plus funds for accidents and unemployment
A variety of allowances and social benefits.

The rules that govern labor relations in Brazil are a complex combination of the federal labor law and agreements negotiated with unions, sometimes at the state and city level. This leads to a variety of allowances, social benefits and deductions on the payrolls of Brazilian employees. Companies must also calculate and withhold social contributions and income taxes from employee salaries.

Salary

Salaries are calculated and paid on a monthly basis, with advances usually disbursed between the 15th and 20th of each month. Employees are entitled to a 13th month of salary, which is paid in two installments. The federal law sets a minimum wage, but the minimum salary may be higher depending on the state in which employees work or their profession (negotiated by trade unions). It is also common for companies to include profit sharing (PPR/PLR) in the remuneration package on terms agreed to with labor unions.

Working time and overtime

In Brazil, work hours are capped at 44 per week. A regular shift cannot exceed 8 hours and a maximum of 2 hours of overtime is allowed per day. Overtime is paid at a minimum rate of 150% of the regular salary. The rate for extra night hours worked is at least 20% higher than the daytime overtime rate. Rates may be higher depending on the collective bargaining agreements negotiated with labor unions.

Every company must keep track of their employees’ working hours, recording both the start and end times, as well as meal breaks and rest granted during the work day. Employees are entitled to 30 consecutive days of paid vacation, with 1/3 extra salary. Employees can choose to forgo 10 of the 30 vacation days and receive a cash payment instead.

Allowances

In addition to cash (which must comprise at least 30% of the entire remuneration package), workers can be compensated for expenses such as housing or vacation/travel costs, which shall be regarded as salary for tax purposes. Transportation vouchers are provided to employees who commute by public transportation. The company can deduct up to 6% of the salary for this expense, limited to the value of the tickets.

Taxes

Employers calculate and withdraw federal income tax (IR) from the employee salary every month. IR is based on the employee’s number of dependents; the same rules apply throughout the country.

Companies submit annual information about income and benefits to the employee and the tax authority.

Social contributions

The Brazilian contribution-based social security system (INSS) grants insured employees coverage for retirement, public healthcare, accident assistance, family allowance, maternity leave, and in case of employee’s death (family monthly pension). Both employers and employees contribute to the social security system.

Companies also contribute to funds for work-related accidents and the early retirement of employees who work in hazardous conditions. Finally, companies contribute to a mandatory unemployment insurance fund (FGTS).

Additional benefits

Companies may also provide additional benefits that are not considered salary components: private health insurance and pension plans, life insurance, educational services for employees and their children, medical assistance, cultural bonuses, food stipends, and so on.

It is very common for larger companies to also offer such plans as part of their benefits package to remain attractive to employees in the labor market.

Multiple levels of agreements

The Consolidation of Labor Laws (Consolidação das Leis do Trabalho, or CLT) is the body of law that regulates labor relations in the private sector at the federal level in Brazil. It serves as the common legal base for negotiations between employer associations, labor unions and companies.

There are about 10,000 labor unions in Brazil, organized at the federal, state or city level, or by trade. Since most companies perform a variety of activities – for example, a food company may employ drivers and accountants – they must negotiate with multiple labor unions. A multi-site company may face negotiations with as many 20 or 30 unions.

Constantly changing rules

There are about 60 legislative changes and 5 statutory value adjustments each year that all impact payroll.

Frequent legislative changes and the multitude of company level agreements make payroll compliance a real challenge in Brazil. According to the World Bank, Brazil has one of the world’s highest rates of time-to-comply with labor taxes: 490 hours/year compared to 45 hours in the UK and 55 in the USA.

The challenge of eSocial

Brazil has engaged in continuous modernization initiatives to boost the competitiveness of its economy. Legislative changes have resulted in new programs with new obligations that directly affect payroll processes and HR structures. The two programs that currently require the most knowledge and expertise are Greater Brazil and eSocial.

Greater Brazil, active since 2013, is an initiative designed to boost the appeal of the Brazilian economy and create more jobs by reducing the tax burden on payroll. It shifted company tax rules so calculations would be based on company revenue and business activity instead of the previous calculation based on payroll totals.

But the Brazilian modernization initiative that is causing the biggest stir in payroll and HR is eSocial, which digitizes the process of submitting labor and payroll events and sends all information to a single government database. eSocial opens companies up to broader, more detailed auditing and demands strict adherence to reporting deadlines that incur steep fines if not met. It affects 100% of employers in Brazil.

Although eSocial was designed to reduce bureaucracy by minimizing manual processes, it increases the workload of payroll professionals, who are tasked with entering not just payroll-related information, but HR and Occupational Health and Safety data as well. Timing is also strict – as same-day reporting is required for most employee-related events – and this means continual fines for companies that cannot stay on top of reporting.

At the structural level, companies need to adapt their internal processes to comply with government SLAs, and also need to update their databases to be able to collect the new data required by eSocial.

Compliance is a constant challenge.

The Brazilian payroll system is one of the most complex in the world. Legislation is ever changing, and companies must reach agreements with multiple labor unions. New programs aimed at modernization also greatly impact the way companies manage payroll in the country.

Do you know approximately how many legal changes happen in Brazil every year?

922

60% of which have an impact on payroll

How ADP resolves the eSocial challenge

ADP provides companies with a single provider solution that adapts easily to changing needs for data, and helps companies fulfill their eSocial compliance obligations. Its team of local and global payroll and legislative personnel are well-versed in eSocial requirements and timelines. ADP’s integrated technology ensures that all information required by the government is captured and updated in your system.

ADP can help you get a handle on payroll operations in Brazil, so that your business in the region is sure to contribute to the overall profitability of your organization.
Behind a Brazilian payslip.

An in-depth description of the most specific categories on a Brazilian payslip offers additional keys to understand the country's payroll system.

**Employee & Company information**
- Company | Company ID (C.N.P.J.) | Page no.
- Establishment ID | Employee ID | Employee name | Position
- Cost center | Bank | Bank branch | Account no. | Base salary
- Payroll month
- Pay date
- Hire date

**Earnings**
- **Salário Base**: base salary
- **Quinquenio**: seniority bonus for every five years worked at the company. Not mandatory: depends on company's policy and the collective bargain agreement with the labor union
- **D.S.R.**: weekly paid leave compensation for extra or night hours
- **Average adjustment** – 13th month
- **Horas Extras**: overtime, whose rate must be at least 50% more than regular hours; rate can be negotiated with trade unions (here, 100%)

**Reference values/Other**
- Income tax reference for 13th month salary
- Income tax reference
- Social security contribution reference
- Base salary for contributions
- Unemployment compensation fund contribution by the employer
- Unemployment compensation fund contribution
- Unemployment compensation fund contribution – over 13th month salary
- Social security contribution reference – 13th month

Reference salaries for various contributions and taxes:
- IR (income taxes), INSS (social security), FGTS (unemployment insurance).
- The December payslip includes bases for regular salaries as well as the 13th month bonus (13 Sal).

FGTS: “Fund for Guaranteed Time of Service”
- Companies contribute 8% of the employee’s salary to the FGTS, a government fund that provides unemployment insurance to workers. In case of employer-initiated termination, the employer pays additional 40% over the whole accumulated FGTS contribution

**Deductions**
- **Adiantamento quizenal**: bimonthly advance payment of salary
- **Desconto Idioma**: employee contribution to language lessons (when companies have an agreement with language institutes)
- **Combustível**: deductions of fuel purchases (if the company has an agreement with gas stations)
- **IR Retido 13° Sal**: income tax withholding on 13th month salary
- **IR Retido**: income tax withholding
- **INSS**: social security contribution
- **Other contributions (not visible on payslip)**: Companies also contribute to a fund for work-related accidents at a rate (1% to 3%) that depends on their line of business and investments in occupational safety. An additional contribution (6%, 9% or 12%) is paid to cover earlier retirement when employees work in hazardous conditions.
- **Refeições**: employee contribution toward meal vouchers – up to 20% of actual value
- **Mensalidade Sindic**: monthly union dues
- **Assist Médica**: contribution to private health insurance plan (company specific)
- **Contrib Asistencial**: union assistance contribution
- **Farmacia**: deductions of medication purchases, (if the company has an agreement with drugstores/pharmacies)
- **Pensão Jud. Salário**: alimony and child support in Brazil are deducted directly from wages when court ordered

**Totals**
- **Earnings**
- **Deductions**
- **Net pay**
ADP Global Payroll Services.

Serving you wherever you do business

As a leader of a multinational organization managing a global workforce, you face multiple challenges every day. Disparate HR systems add complexity to your global employee data management, and thousands of legislative updates every year increase your organization’s risk of non-compliance.

ADP has been in the business of managing some of the world’s most complex payroll processes and fast-changing compliance challenges for over 65 years. Drawing on this vast experience, we offer a unified solution that goes far beyond just technology to help you achieve scalability and reliability. ADP Global Payroll Services gives you global visibility across 111 countries and territories through a centralized cloud-based software solution, and supported by thousands of on-the-ground, dedicated local experts.

Whatever the size of your workforce, ADP Global Payroll delivers comprehensive management standards, alongside continuous innovation, and a cutting-edge user experience for profound new levels of workforce engagement.

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