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Brazil sets 4.2% selective tax on beer for 2027

The levy replaces the current industrial products tax, with any effect on shelf prices depending on the new tax base

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Brazil has set a temporary 4.2% selective tax rate for malt beer beginning February 2, 2027, under a new levy meant to discourage the consumption of products considered harmful to health or the environment.

The rate was set in Provisional Measure No. 1,399/2026, published on November 4, and is part of Brazil's broader tax overhaul. The selective tax, widely referred to in Brazil as a "sin tax," will replace the current industrial products tax, or IPI, for affected goods. For beer, the new 4.2% rate compares with an IPI rate of 3.9% today.

The change is one of several temporary rates set for 2027 across alcohol, tobacco and some sweetened drinks. Ordinary wines and other fermented beverages will move to 8% from 6.5%. Vermouth will be taxed at 12%. Port, Madeira and Sherry will face a 16% rate. Cachaça and sugar-cane spirits will be taxed at 20%, while other distilled drinks will face 24%, compared with a current 19.5% IPI rate for that group. Certain soft drinks and other sweetened beverages will be taxed at 2.6%.

Legal and industry specialists say those percentages should not be read as direct retail price increases. The selective tax is replacing an existing tax, and the tax base differs by product. Camila Tapias, a founding partner at Utumi Advogados, told Forbes Brasil that the government's proposal for 2027 is designed to roughly preserve the current overall tax burden, on average, rather than impose a uniform increase across every product or manufacturer.

That means a 4.2% rate on beer does not automatically translate into a 4.2% increase at the checkout counter. Tapias said the effect on final prices will depend on how the taxable base is calculated, how the previous IPI burden is removed and how each producer is treated under the new rules. In some cases, shifts in the tax base or in the treatment of certain manufacturers could still lead to higher costs that are later passed on to consumers.

Brazil's tax reform was approved in December 2023 through Constitutional Amendment 132. It will replace five taxes — IPI, PIS, Cofins, ICMS and ISS — with two main consumption taxes: the federal CBS and the state and municipal IBS. The selective tax sits on top of that redesign, with a different purpose. Instead of broadly taxing consumption, it is supposed to discourage products and activities seen as damaging to public health or the environment.

For the beverage industry, the measure matters beyond the headline rate on beer. It changes the structure of alcohol taxation, alters the treatment of smaller producers and could reshape margins and competition across Brazil’s brewing market. Companies with broad distribution, stronger cash flow and more pricing power may be better placed to absorb or pass through extra costs than smaller brewers operating with tighter margins.

Tapias said the law allows part of the tax on alcoholic beverages to be linked to alcohol content, but that specific component was set at zero for 2027. In the first year, the tax will depend mainly on product category and value. That reduces one potential source of immediate pressure on high-alcohol products, at least during the transition.

The treatment of small brewers is also likely to draw close attention. Tapias said craft breweries will not receive a tax break simply because they market themselves as artisanal. Any reduction depends on whether the producer meets the legal criteria, including measures tied to annual alcohol volume supplied. When those requirements are met, the reduction can reach 40%. That could become an important factor for smaller beer makers trying to defend margins against larger rivals.

Brazil’s bar and restaurant sector does not expect the 2027 rollout, by itself, to trigger an immediate wave of price increases. Paulo Solmucci, executive president of the Brazilian Association of Bars and Restaurants, or Abrasel, said the government’s initial design points to a tax burden close to current levels. But he also said the sector has little room to absorb higher costs if tax rates climb later or if implementation increases operating expenses in practice.

That matters because many businesses in the sector are already under financial strain. Solmucci said 60% of companies operate without profit and one in five is running at a loss. He added that bars with a large share of alcohol sales and snack outlets that sell soft drinks are among the businesses most exposed to the new selective tax. If effective costs rise over time, owners may be forced to choose between raising menu prices and protecting traffic.

The consumer backdrop is also weak. Solmucci said disposable income available for consumption has fallen to 21%, the lowest level in 15 years. Serasa's delinquency map showed 84.2 million Brazilians had overdue debts in September, the highest level recorded by the credit bureau. In that environment, industry executives say it will be difficult to push through real price increases without hurting demand.

If beverage prices rise faster than inflation, operators expect many consumers to adjust by visiting less often, spending less per visit or choosing cheaper drinks. For beer, that could widen the divide between mainstream brands, where buyers are more price sensitive, and premium labels, which usually have more room for price increases.

Fábio Murad, managing partner at Wiser Avaliações, told Forbes Brasil that the selective tax's main impact on the beverage industry is likely to show up in operating margins and sales volumes. He said the additional burden in 2027 should be limited if the government keeps the transition close to the current tax load. The larger risk, in his view, comes from 2028 and beyond, if final rates move meaningfully higher.

Murad said brewers would face a basic dilemma if effective taxation rises: pass the cost on and risk losing volume, or absorb part of it and accept lower profitability. He said the most likely outcome would be a partial and gradual pass-through combined with efforts to improve productivity and shift product mix. The ability to do that will vary by brand and by company size. Low-priced beers are more exposed because their buyers tend to react quickly to even small increases, while premium labels often have stronger pricing power.

Smaller companies may be more vulnerable. Murad said businesses with lower margins and less diversified portfolios are likely to face greater pressure, while large beverage groups benefit from scale, distribution networks and operational efficiency. That dynamic could sharpen competitive differences in the beer market even if the 2027 tax burden stays broadly stable on paper.

One possible winner is non-alcoholic beer. Tapias said beer without alcohol that is correctly classified under tax code NCM 2202.91.00 is not on the current list of products subject to the selective tax. That could give those products a competitive advantage over traditional beer, which will face the temporary 4.2% rate in 2027. Still, that does

not mean non-alcoholic versions will automatically be 4.2% cheaper. Final pricing will continue to depend on production costs, other taxes and company strategy.

Murad said the tax could reinforce an existing shift in the market toward moderation, health and wellness if alcoholic drinks become relatively more expensive. Abrasel is more cautious. Solmucci said he does not expect a broad migration from alcoholic to non-alcoholic options. In his view, consumers facing higher prices are more likely to trade down to cheaper brands or reduce consumption than switch categories.

The selective tax also reaches sweetened drinks in ways that may surprise some consumers. Tapias said the law uses tax code NCM 2202.10.00, which covers soft drinks and certain sweetened or flavored waters. Because the classification includes drinks sweetened with substances other than sugar, some zero-sugar soft drinks may still be taxed at 2.6%. At the same time, some energy drinks under a different code are currently outside the list, even if they contain sugar. She said that raises questions about how closely the tax design matches its stated health goals.

Cigarettes face the heaviest temporary rate among the consumer goods covered in the measure. They will be taxed at 66.7%, plus R$3.50 per pack of 20, although the percentage is applied to a base equal to 15% of the listed retail price rather than to the full price. Other smoking products will face 37.5%.

Tobacco companies say the main risk is not only pricing but also the illegal market. Omar Teixeira, director of corporate affairs and communications at Japan Tobacco International in Brazil, said the final financial impact cannot be measured yet because the provisional measure still has to be reviewed by Congress and could change. Ipsos-Ipec data cited by the company show that 30% of cigarettes consumed in Brazil are illicit. In 2019, that share exceeded 50%. Industry groups warn that if legal cigarette prices rise too far above inflation, the gap with smuggled or counterfeit products could widen.

Analysts are also looking at how the tax could affect listed companies. Murad said the new levy adds a regulatory risk factor to projections for beverage groups such as Ambev, especially from 2028 onward. He noted that Ambev’s beer business in Brazil reported 4.8% growth in net revenue in the third quarter, while normalized EBITDA rose

just 1% on an organic basis, a sign that revenue growth already exceeds the pace of profit expansion. If effective taxes increase and cannot be offset by pricing or efficiency gains, he said, investors may cut estimates for EBITDA, cash generation and future growth, which could weigh on valuation.