THE TAX MAGIC OF COCA-COLA

ACT Promoção da Saúde 20 ANOS

Centro Internacional de Transparência e Pesquisa em Fiscalidade Corporativa

SUMMARY

For the purposes of this report, the words "tax dodging", "tax avoidance", "tax privilege" and "aggressive tax behaviour" or other similar derivatives refer to a range of strategies, many of which are legal.

The report will provide evidence that Coca Cola has been investigated for having behaved illegally in the past, based on reports by the Brazilian Tax Authority for the beverage sector in the Manaus Free Trade Zone. And that there are strong grounds to suspect that Coca Cola is currently breaking the spirit, if not the letter, of the law in an unethical way which has deprived governments of vital tax income, and that its lack of transparency may be a way to disguise this behaviour

We mainly present two aggressive tax schemes used by Coca-Cola, one specific to Brazil and one international. The first, called Coca-Cola's Magic Cashback, refers to the tax credits received by companies connected to the Coca Cola Brazil System and others from the beverages sector. Although the Supreme Federal Court has ruled this practice legal, it poses potential harm to public finances, and its effectiveness in achieving the desired results of the tax incentive policy is questionable. The second, called phantom royalties, refers to the disguising of royalty payments to avoid taxes worldwide. Currently, it is unclear whether phantom royalties are legal; they have been tested by the courts, but there has been no definitive ruling in the countries presented in this report. In our view, their use deprives national authorities of revenue and contradicts the spirit of the legislation.The national authorities should take steps to investigate this and it is not a strategy which should be used by responsible companies.

We presented the main points of the report to Coca-Cola, who replied: "The Coca-Cola Company complies with all applicable tax laws everywhere we operate. We face ongoing tax matters in multiple jurisdictions in our normal course of business, and we engage constructively with fiscal authorities to resolve disputes."

EXECUTIVE SUMMARY

The growing concentration of income and wealth in the hands of the few is intrinsically linked to the power of large multinational corporations, which dominate entire sectors of the global economy, including the non-alcoholic beverage sector in Brazil. While these corporations accumulate massive profits, teams of employees and consultants are hired to reduce taxes levied on those profits. Brazil loses an estimated US$6.8 billion annually due to corporate tax avoidance and globally, this loss reaches US$347.6 billion. These strategies deprive governments of vital resources to finance essential public services while concentrating wealth in the hands of the very rich, exacerbating income inequality worldwide.

Coca-Cola, with annual global revenues of US$ 47.1 billion in 2024, is the largest beverage corporation in the world by market cap and is considered a "dividend king," distributing an average of US$ 7.9 billion annually to its shareholders in the last five years. Our research reveals a global pattern of aggressive tax behavior by Coca-Cola, which penalises governments worldwide and benefits billionaires and multinationals. This report analyses the case of Brazil, based on new tax incentives data made available by the Brazilian Tax Revenue Agency, and draws parallels with similar cases around the world.

Coca-Cola's tax avoidance is attracting attention globally. The company makes extensive use of tax havens in its corporate structure, such as Singapore, Guernsey, the Cayman Islands, Luxembourg, the British Virgin Islands, Cyprus, and Switzerland, potentially helping to reduce its tax obligations. Bloomberg reported the use of a Cayman Island subsidiary to sell syrup to customers in 75 countries and avoid tax payments in the US back in 2004.

Beyond tax havens, Coca-Cola frequently relies on disguising royalties for the use of its brand by the company's bottlers and subsidiaries, a strategy dubbed phantom royalties in this report. It would seem that Coca-Cola is selling its brand—the world's most valuable beverage IP, estimated at US$12.5 billion by the company in 2025—free of charge to companies to bottle and sell its products, many of them independent companies. But in reality, it may be using its close connections with these companies to disguise royalty payments in order to avoid its tax obligations. We will examine cases of phantom royalties in the United States, Israel, Brazil, and Australia.

Brazil is Coca-Cola's fourth largest market in the world, and the beverage sector in the country was assessed by the Central Bank as the sector that remitted the largest volume of profits and dividends abroad between 2013 and 2017. Part of this high profitability could be attributed to its tax strategies, which begins with maintaining, through strong lobbying of the beverage sector in the National Congress, federal tax incentives and credits that have drained billions from public coffers for more than half a century and have never been evaluated or reformed by the federal government, the most important of these being the Manaus Free Trade Zone (ZFM) and Sudam and Sudene.

Even with the recent Brazilian tax reform, which aims to reduce Brazilian tax incentives, the billion-dollar incentive structure benefiting Coca-Cola in the ZFM was maintained until 2073. This will make the ZFM 106 years old, as old as the benefits received by Coca Cola Recofarma - the fourth largest producer of Coca Cola in the world. The tax reform also created a sumptuary tax, also known as sin tax, which aims to increase taxes on harmful products to society and the environment. There were attempts by industry lobbyists to eliminate the tax in its conception and then reduce it to a limit of 2%, but these were unsuccessful.

The lack of transparency makes it impossible to know the total amount of incentives received throughout the decades; however, in 2024 alone, companies in the Coca-Cola Brazil System reported R$2.1 billion in tax incentives, nearly four fifths of the total amount granted under the Rouanet Law, the main public policy supporting the country's cultural sector which supported almost eight thousand cultural projects in 2024.

These figures were extracted from the Declaration of Tax Incentives, Waivers, Benefits, and Immunities (Dirbi), a new transparency register for Brazilian tax incentives that requires companies to disclose the amount received in waivers. This study collected this data for all companies in the Coca-Cola Brazil System, which includes manufacturers and bottlers involved in the production and sale of products. Estimates by the Brazilian Federal Revenue Service (Receita Federal) also compiled by this research point to R$5.2 billion in tax breaks for the Coca-Cola Brazil System between 2015 and 2023 - likely an underestimate given the R$ 2.1 billion declared by the companies in one year alone, 2024.

Beyond these incentives, another benefit granted to companies from the Coca-Cola System in the Manaus Free Trade Zone (ZFM) refers to the possibility for companies from other regions to take advantage of presumed IPI (Tax on Industrialized Products) credits that, in reality, were not collected by companies in the ZFM. This benefit grants what this report will call **Coca-Cola's Magic Cashback.** This mechanism takes advantage of exemptions in the ZFM and allows, in addition to the tax incentives, hundreds of millions of reais to be passed along to bottling companies as tax credits every year. This occurs because bottling plants outside the ZFM can obtain tax credits for the purchase of concentrates produced by Recofarma within the ZFM, even if Recofarma paid no tax due to the tax incentive.

This Magical Cashback has been challenged for decades by the Brazilian Federal Revenue Service and civil society organizations, including the Brazilian Soft Drink Manufacturers Association (Afrebras), which argues that the credits shield anti-competitive practices, creating market oligopolisation to the detriment of national and regional soft drink producers. However, the practice was deemed constitutional by the Supreme Federal Court in 2019, even though the decision was made by a divided court and may be questioned again with the changes to the tax reform rules.

In addition to receiving billions in tax incentives and credits, Coca-Cola uses aggressive tax maneuvers to further reduce its tax payments in Brazil. The Federal Revenue Service acknowledges that non-alcoholic beverage manufacturers in the Manaus Free Trade Zone are taking advantage of undue tax credits because they do not meet the conditions for using the benefit, since they do not comply with the tax classification of the inputs that generate the credits, and there is a lack of use of plant extracts from Western Amazonia during the production process, conditions for the utilization of the tax credits.

In this sector, the Federal Revenue Service also recognizes that there is inflation in the final price of beverage concentrates due to the inclusion of royalty expenses resulting from the permission granted to manufacturers to use and exploit the brand, and expenses related to the manufacturers' marketing programs—a practice that the agency calls abusive tax planning. Thus, there is evidence that the corporation could be using the phantom royalties strategy in Brazil.

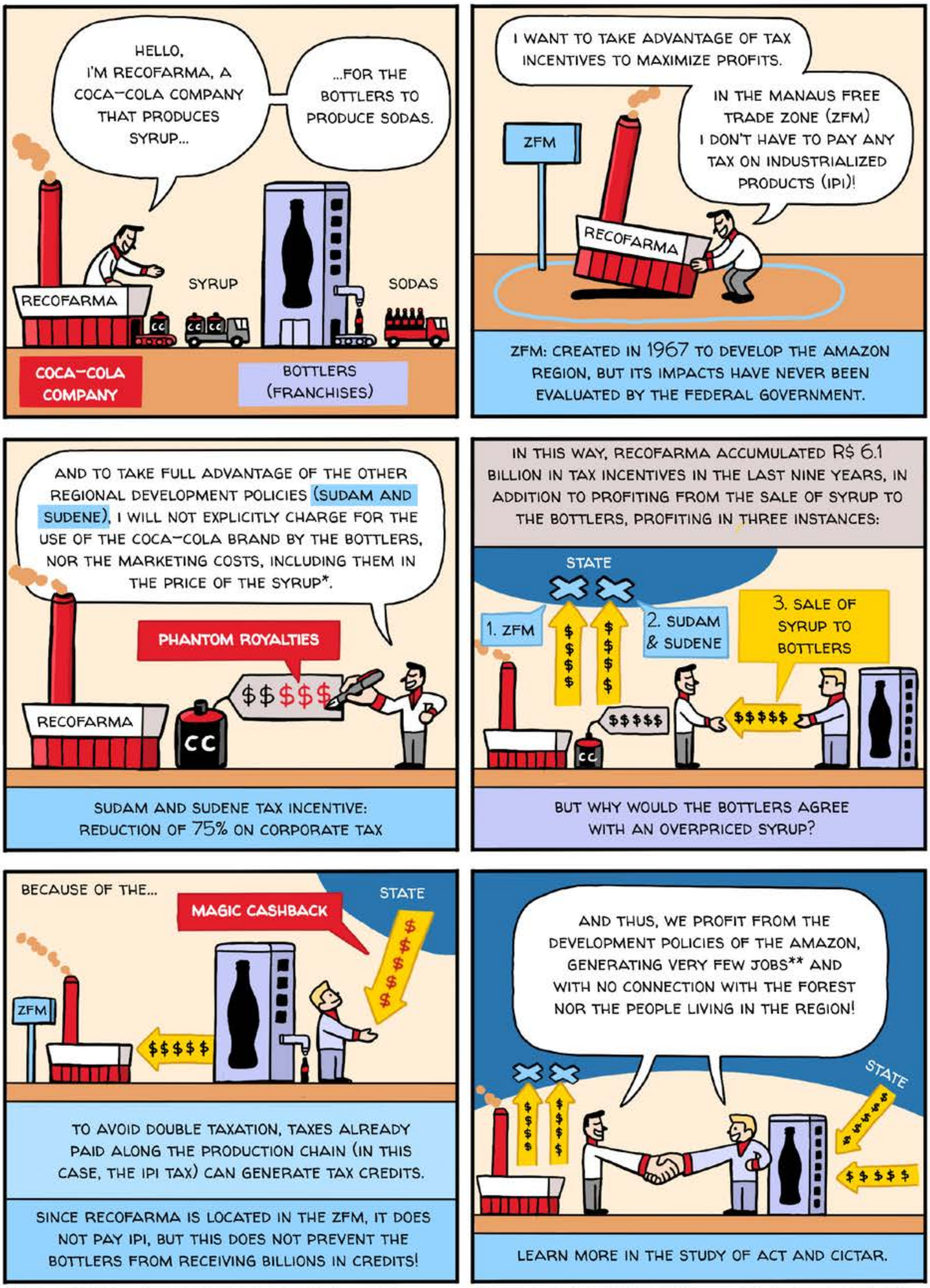
All these strategies are carried out in a context of no transparency, given that there are no consolidated financial results for the Coca-Cola Brazil System or for TCCC's main subsidiaries in Brazil. It is impossible to know how much tax Coca-Cola in Brazil is actually paying, nor how many employees it employs, nor how much profit it makes, making any more substantial assessment of its results impossible. The corporation launched in 2025 a campaign about its impact on job creation and the dynamism of the Brazilian economy, but the study on which it is based has not been publicly released, which prevents it from being evaluated, and it does not seem to reference any information about tax payments.

In short, not only does Coca-Cola sell unhealthy products, increasing public health costs, but it also reduces its responsibility to contribute to a fairer and healthier society through a tangle of tax schemes. By exposing these corporate schemes, which are trivialised in a world where half-a-trillion dollars is diverted from public coffers every year, we can develop strategies to combat these harmful practices in Brazil and around the world and ensure that multinationals pay the taxes needed to fund public services.

The report recommends an urgent evaluation and reform of federal tax incentives in Brazil, especially those that have already cost the public coffers dearly. At the state level, the situation is more complex, as improvements in transparency are still needed. Finally, tackling domestic and international tax avoidance requires progress, both in Brazil and worldwide, in implementing curbs on profit shifting and minimum tax rules for multinationals, as well as creating new standards for transparency in tax and financial data.

The Tax Magic of Coca-Cola

How the world's largest beverage company and the Coca-Cola System in Brazil reduce their contribution to the financing of social policies in Brazil



*Explanation based on the Federal Revenue Service's analysis of the soft drink sector in the Manaus Free Trade Zone (2018); can also be applied to other companies in the sector.

** The latest estimate of jobs in the beverage sector in the Manaus Free Trade Zone (ZFM) was 798 people, according to data from the Federal Revenue Service (2018).

GLOSSARY

ABIA	Brazilian Food Industry Association
ACT	ACT Health Promotion
AFREBRAS	Brazilian Soft Drink Manufacturers Association
ATO	Australian Taxation Office
BEPS	Base Erosion and Profit Shifting
BILL	Bill
CCAA	Coca-Cola Amatil Australia
CCEP	Coca-Cola Europacific Partners
CCHBC	Coca-Cola HBC
CICTAR	Centre for International Corporate Tax Accountability and Research
CIDE-Royalties	CIDE-Royalties Economic Intervention Contribution – Royalties
CMAP	Public Policy Monitoring and Evaluation Council
COFINS	Contribution to Social Security Financing
CSLL	Social Contribution on Net Profit
CTN	National Tax Code
DIRBI	Declaration of Incentives, Waivers, Benefits and Immunities of a Tax Nature
ETR	Effective Tax Rate
FGV	Getúlio Vargas Foundation
FPA	Agricultural Parliamentary Front
GDP	Gross Domestic Product
HDI	Human Development Index
ICMS	Tax on the Circulation of Goods and Services
II	Import Tax
IOF	Financial Operations Tax
IPEA	Institute for Applied Economic Research
IPI	Tax on Industrialised Products
IRPJ	Corporate Income Tax
IRRF	Withholding Income Tax
IRS	Internal Revenue Service
IS	Sumptuary Tax
OECD	Organization for Economic Cooperation and Development.
PIS/PASEP	Contribution to the Social Integration and Public Servant Asset Formation Program
PRODEPE	Pernambuco Development Programme
PRODESIN	Integrated Development Programme
PRONAC	National Culture Support Program
PROVIN	Industrial Development Incentive Programme
SINCOEX	Maranhão State Industry and Foreign Trade Support System
STF	Federal Supreme Court
SUDAM	Amazon Development Superintendence
SUDENE	Northeast Development Superintendence
SUFRAMA	Superintendence of the Manaus Free Trade Zone,
TCCC	The Coca-Cola Company
TCU	Federal Court of Accounts
UNAFISCO	National Association of Federal Revenue Auditors of Brazil
USA	United States of America

1. Introduction

In recent decades, the growing concentration of income and wealth in the hands of the very rich has been intrinsically linked to the increasing power of large multinational corporations, which have created oligopolies with control over ever larger sectors of the economy. This is already the case in the Brazilian drinks sector. Beer and soft drinks account for almost 80% of the volume produced and around 75% of sales in the drinks manufacturing industry. Production is mainly concentrated in large companies, which produce at large scale, compete via brand and generate high profit margins even in times of economic slowdown.[1]

As well as dominating markets, multinationals have large teams of consultants, lawyers and accountants whose sole mission is to reduce the taxes levied on their operations around the world. A study by the Tax Justice Network shows that countries lose an estimated US$492 billion in taxes a year to multinationals and individuals who abuse tax havens to pay less tax, with the majority (US$347.6 billion) being lost to corporations that transfer profits abroad to pay less tax. For Brazil, the study estimates that US$6.8 billion is lost annually to corporate tax avoidance.[2] This dynamic deprives governments of valuable resources to finance essential public services and further increases income inequality around the world.

With 2024 annual revenues of US$47.1 billion, Coca-Cola is the largest beverage corporation in the world by market cap.[3] It markets more than 500 brands of non-alcoholic drinks in more than 200 countries, including carbonated and still drinks. Headquartered in Atlanta, USA, it is one of the most famous brands in the world, selling 2.2 billion servings (cans or bottles).[4]

The company is known in the market for being a "dividend king", distributing an average of US$ 7.9 billion a year to its shareholders over the last five years[5]. The company's largest shareholder is Berkshire Hathaway,

1 Figures for 2017. Banco Nacional do Desenvolvimento. A indústria de bebidas no Brasil. https://agenciadenoticias.bndes.gov.br/blogdodesenvolvimento/detalhe/A-industria-de-bebidas-no-Brasil/#:~:text=Que%20bebidas%20movimentam%20a%20produ%C3%A7%C3%A3o,as%20companhias%20com%20atua%C3%A7%C3%A3o%20mundial.

2 The state of tax Justice 2024.https://taxjustice.net/reports/the-state-of-tax-justice-2024/

3 CompaniesMarketCap. Largest beverage companies by market cap. https://companiesmarketcap.com/aud/beverages/largest-beverage-companies-by-market-cap/

4 The Coca Cola. About us. https://www.coca-colacompany.com/about-us

5 Data gathered from The Coca Cola Company last 5 financial statements, available here: https://investors.coca-colacompany.com/financial-information

Warren Buffet's company, which has owned 9% of the company since the 1980s and received US$816 million in dividends in 2024 alone; followed by two of the world's largest investment funds, Vanguard and BlackRock.[6]

Where are these high dividends coming from that go straight into Warren Buffet's pocket? **The aim of this research, based on examples in Brazil and around the world, is to show a global pattern of aggressive tax behaviour by Coca-Cola, which penalises governments all over the world and benefits billionaires and their multinationals.**

A common thread in these practices is appearing to hide or omit royalty payments for the use of the Coca-Cola brand by the company's bottlers and subsidiaries. Looking at its operations, it seems like Coca-Cola is selling its brand, the world's most valuable beverage IP, estimated at US$12.5 billion in 2025,[7] for free to independent companies to bottle and sell its products. But in reality, it may be using its very close connections with the bottlers to disguise royalty payments as dividends payments or hide them inside the price of Coca-Cola's syrup to avoid its tax obligations worldwide. We will see cases of phantom royalties in the United States, Israel, Brazil, and Australia.

Brazil is the fourth biggest market for The Coca-Cola Company in the world, and the beverage sector in the country was assessed by the Central Bank as the sector that remitted the largest volume of profits and dividends abroad between 2013 and 2017[8]. Part of this high profitability is due to this global tax behaviour, as not only does the company enjoy billions in federal and state tax incentives and credits, but it adopts practices that seem to dissimulate royalty payments within Brazil and between Brazil and the parent company in the United States.

In 2024 alone, companies in the Coca-Cola Brazil System, which includes Coca-Cola subsidiaries and bottlers, declared R$2.1 billion in tax incentives. To get a sense of the value and its importance for financing public policies, the tax incentives received by the Coca-Cola system alone come

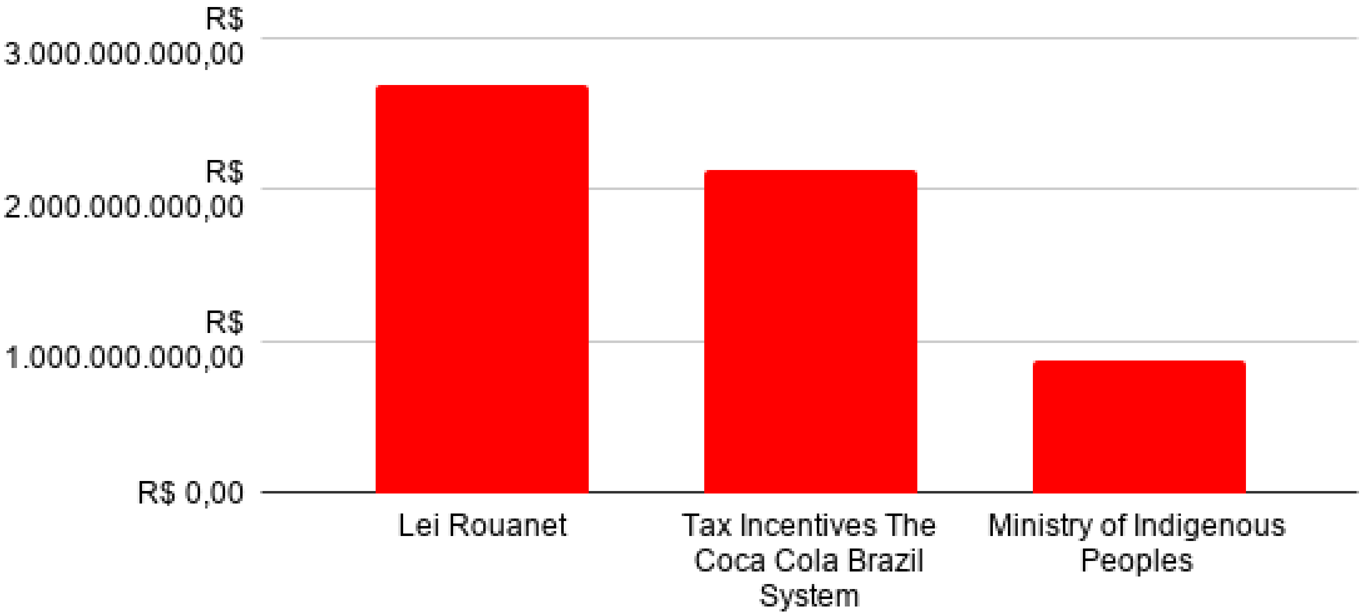
6 Market Screener. The Coca Cola Company. https://www.marketscreener.com/quote/stock/THE-COCA-COLA-COMPANY-4819/company-shareholders
Warren Buffett's Berkshire Hathaway Earns $93,150 Every Hour from Coca-Cola Dividends Alone https://finance.yahoo.com/news/warren-buffett-berkshire-hathaway-earns-223524289.html

7 The Coca-Cola Company. 10K. 2025, p.63 https://www.sec.gov/Archives/edgar/data/21344/000162828026010047/ko-20251231.htm#ia2cb76fa2c6c4a82a91d7a0d2310cb54_124

8 Receita Federal. Análise da tributação do setor de refrigerantes e outras bebidas açucaradas.https://tributosaudavel.org.br/analise-da-tributacao-do-setor-de-refrigerantes-e-outras-bebidas-acucaradas/392/.

to 80% of the total cost of the Rouanet Law, the main public policy supporting culture in Brazil, estimated at R$2.6 billion in 2024.[9] It funded 7,887 projects promoting the country's cultural sector which employs millions of workers.[10] It is also more than double the budget of the Ministry of Indigenous Peoples for the same year,[11] as presented on Graph 1.

Graph 1: Coca-Cola Brazil System Tax Waivers and Selected Policies, 2024



Sources: Demonstrativo de Gastos Tributários (see note 9); DIRBI (see note 47); Siga Brasi (see note 11 - Valores Pagos)

According to estimates from the Federal Revenue Service, R$5.2 billion were given as tax incentives to the Coca-Cola Brazil System between 2015 and 2023, mainly due to the Manaus Free Trade Zone and the Amazon and Northeast development policies (Sudam and Sudene) – tax incentives that have been in effect in Brazil since the 1960s.

9 Demonstrativo de Gasto Tributário, Bases Efetivas 2022. Sum of values of "PRONAC - Programa Nacional de Apoio à Cultura - Dedução Despesa Operacional" and "PRONAC - Programa Nacional de Apoio à Cultura - Dedução IR." https://www.gov.br/receitafederal/pt-br/centrais-de-conteudo/publicacoes/relatorios/renuncia/gastos-tributarios-bases-efetivas/dgt-bases-efetivas-2022-serie-2020-a-2025-quadros.xlsx/view

10 Governo Federal. Rouanet captou, até o momento em 2024, R$ 2,3 bi em recursos (e não R$ 16,9 bilhões) https://www.gov.br/secom/pt-br/fatos/brasil-contra-fake/noticias/2024/12/rouanet-captou-ate-o-momento-em-2024-r-2-3-bi-em-recursos-e-nao-r-16-9-bilhoes ; CNN. Número de projetos submetidos à Lei Rouanet bate recorde em 2024 ttps://www.cnnbrasil.com.br/politica/numero-de-projetos-submetidos-a-lei-rouanet-bate-recorde-em-2024/

11 Siga Brasil. Painel Especialista. Authorized values for 2024 by Ministry (Valores autorizados para 2024 por Órgão Superior). https://www9.senado.leg.br/QvAJAXZfc/opendoc.htm?document=Senado%2FSigaBrasilPainelEspecialista.qvw&host=QVS%40www9a&anonymous=true

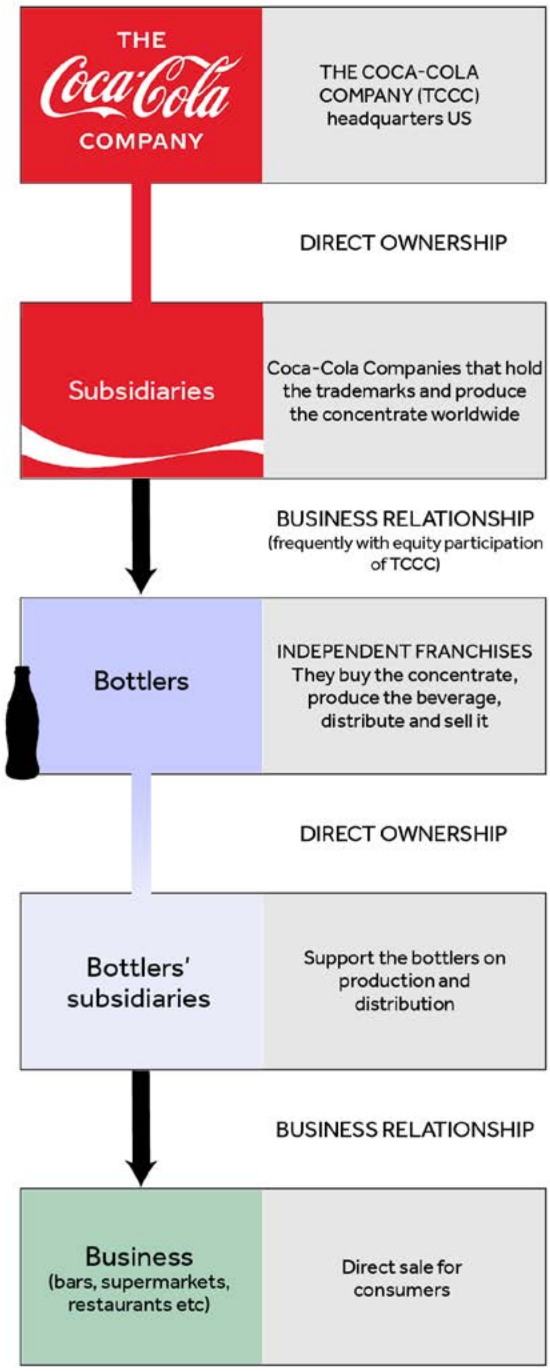
In addition to providing updated data on all Brazilian tax incentives received by companies in the Coca-Cola System in Brazil and analysing their impacts to date, this report presents how companies in the Coca-Cola System in Brazil and around the world exploit fragilities in the tax system to profit even more. First, in the Brazilian case, this involves receiving tax credits for taxes never paid, referred to here as the **Coca-Cola Magic Cashback**. These credits were considered legal, but this report criticises their social and fiscal impact. The second maneuver used is **Phantom Royalties**, which disguise royalty payments in Brazil and around the world by bottlers to concentrate manufacturers. Currently, the legality of the phantom royalty scheme is being contested, but there has not yet been a definitive decision in the courts of the countries covered in this report—Brazil, Australia, the United States, and Israel, although in the Brazilian case the concealment of royalties was termed by the Federal Revenue Service as abusive tax planning.

By identifying these behaviors, it is possible to develop strategies to combat them in Brazil and worldwide and ensure that multinationals pay tax where profits are generated. In this sense, the research begins in chapter 2 by outlining Coca-Cola's corporate structure in Brazil and the relationship between TCCC and the bottlers, including the tax payments of the Coca-Cola Brazil System. Chapter 3 aims to explain to the non-specialist public what tax planning is and where the legal and moral limits of tax avoidance lie. Beginning in chapter 4, the company's various tax planning strategies are analysed, starting with tax incentives and continuing through to more aggressive strategies. The study concludes with recommendations for Brazil and the world.

2. Coca-Cola's corporate structure and tax payments in Brazil

The Coca-Cola Company organises its operating structure around subsidiaries and bottlers. The subsidiaries are companies owned by TCCC and have the right to use the brand and the formula for the company's product concentrates. Spread across various regions of the world, the subsidiaries manufacture the concentrates and sell them to bottlers, companies that use them to produce Coca-Cola branded drinks and bottle and distribute them. Bottlers are companies that are independent of TCCC's corporate structure, but are often part-owned by the parent company, especially when it comes to the largest bottlers of Coca-Cola products in the world.

Image 1: How Coca-Cola Produces and Sells its beverages around the world

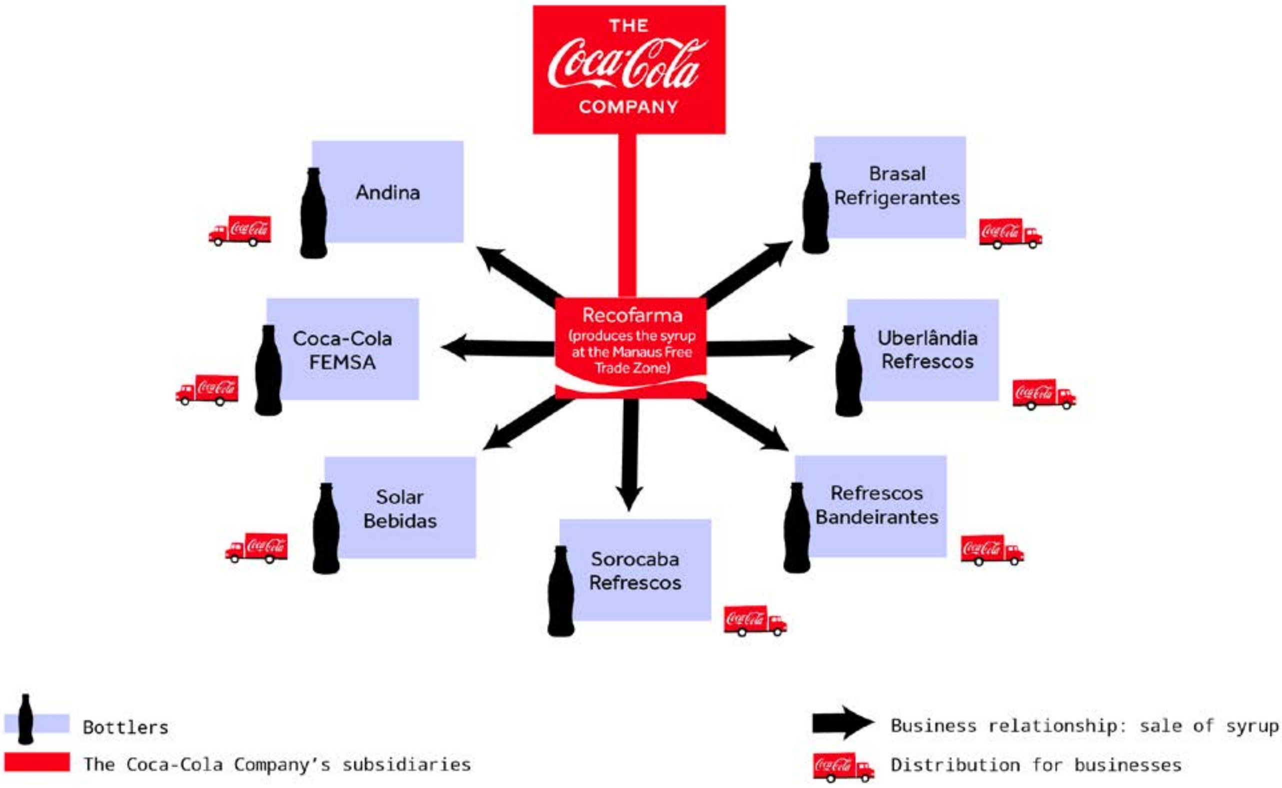


Source: Own work.

Latin America, although not Coca-Cola's biggest market, is an important region for the company, since it has the highest operating profit margin at 59,1% in 2025.[12] TCCC does not disclose data on its operations by country in its annual reports, but Brazil is the company's fourth largest market.[13]

TCCC uses the same structure of subsidiaries and bottlers in Brazil as it does in the rest of the world. The main subsidiaries are **Coca-Cola Indústrias Ltda**, based in Rio de Janeiro and which controls brands bought by the company in Brazil - such as Leão Alimentos and, until 2024, Laticínios Verde Campo[14] - and **Recofarma**, the main manufacturer of beverage concentrates in Brazil based in the Manaus Free Trade Zone. Recofarma sells the concentrate to seven manufacturers, the bottlers. In the bottlers' factories, the concentrate is diluted to produce the drink, and the product is packaged, distributed and sold. Beyond Brazil, Recofarma also supplies bottlers in Argentina, Colombia, Venezuela, Uruguay and Bolivia[15].

Image 2: How the Coca-Cola Brazil System Works



12 The Coca-Cola Company. 10K. 2025, p.48 https://www.sec.gov/Archives/edgar/data/21344/000162828026010047/ko-20251231.htm#ia2cb76fa2c6c4a82a91d7a0d2310cb54_124

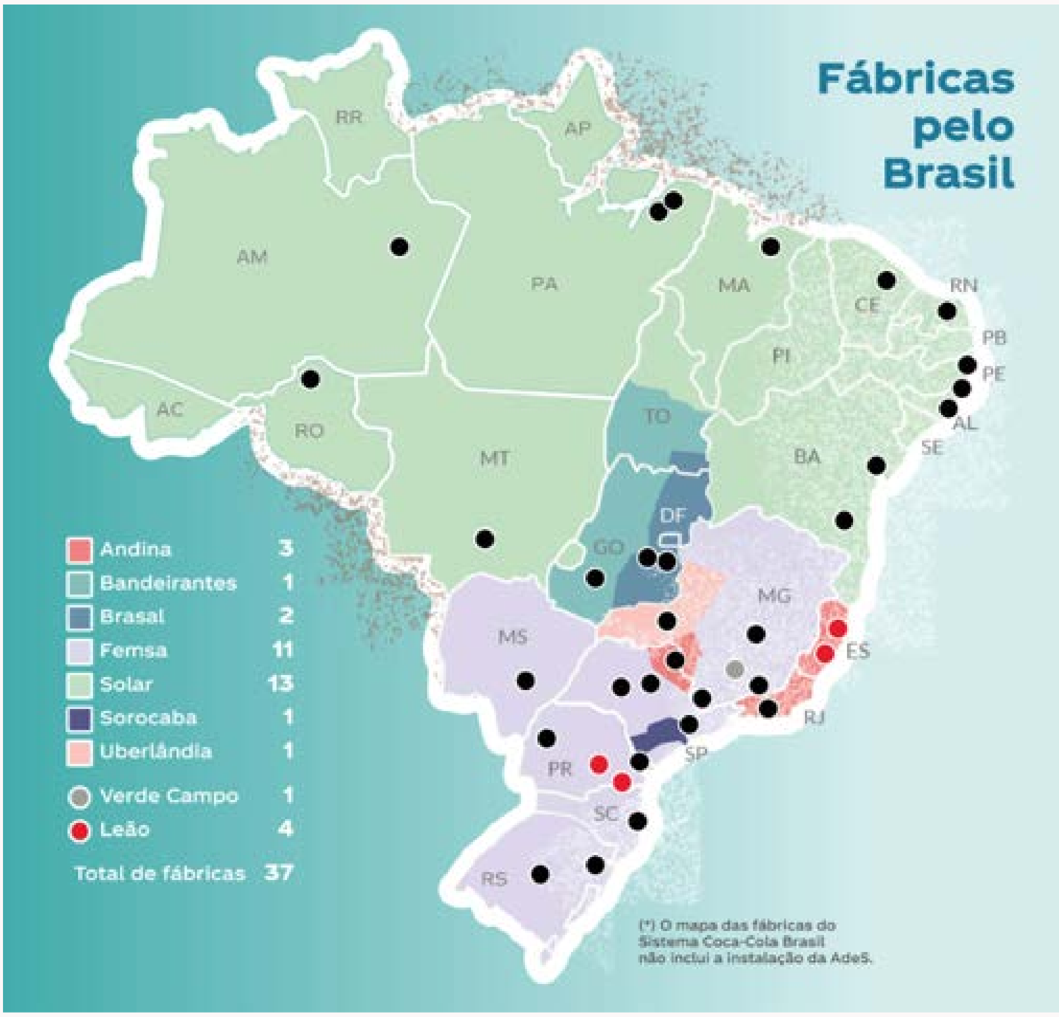
13 CNN. Coca-Cola injeta R$ 7 bi no Brasil e reforça papel estratégico da operação. https://www.cnnbrasil.com.br/economia/negocios/coca-cola-injeta-r-7-bi-no-brasil-e-reforca-papel-estrategico-da-operacao/

14 Vendida pela Coca para a multinacional suíça Emmi. Mais informações em: Coca Cola vende a Verde Campo para o Laticínios Porto Alegre. https://www.revistafatorbrasil.com.br/2024/04/18/coca-cola-vende-a-verde-campo-para-o-laticinios-porto-alegre/

15 Coca-Cola é investigada por esquema bilionário para não pagar impostos. https://ojoioeotrigo.com.br/2018/12/coca-cola-e-investigada-por-esquema-bilionario-para-nao-pagar-impostos/

There are seven manufacturers that make up the Coca-Cola Brazil System, the Bottlers: Andina, Bandeirantes, Brasal, Femsa, Solar, Sorocaba and Uberlândia. The map of where they operate (Image 3) shows the importance of three of them: **FEMSA**, which controls the South and Southeast; **Solar** with the entire North and Northeast; and **Andina**, which is present in most of the state of Rio de Janeiro, all of Espírito Santo and parts of the states of São Paulo and Minas Gerais.

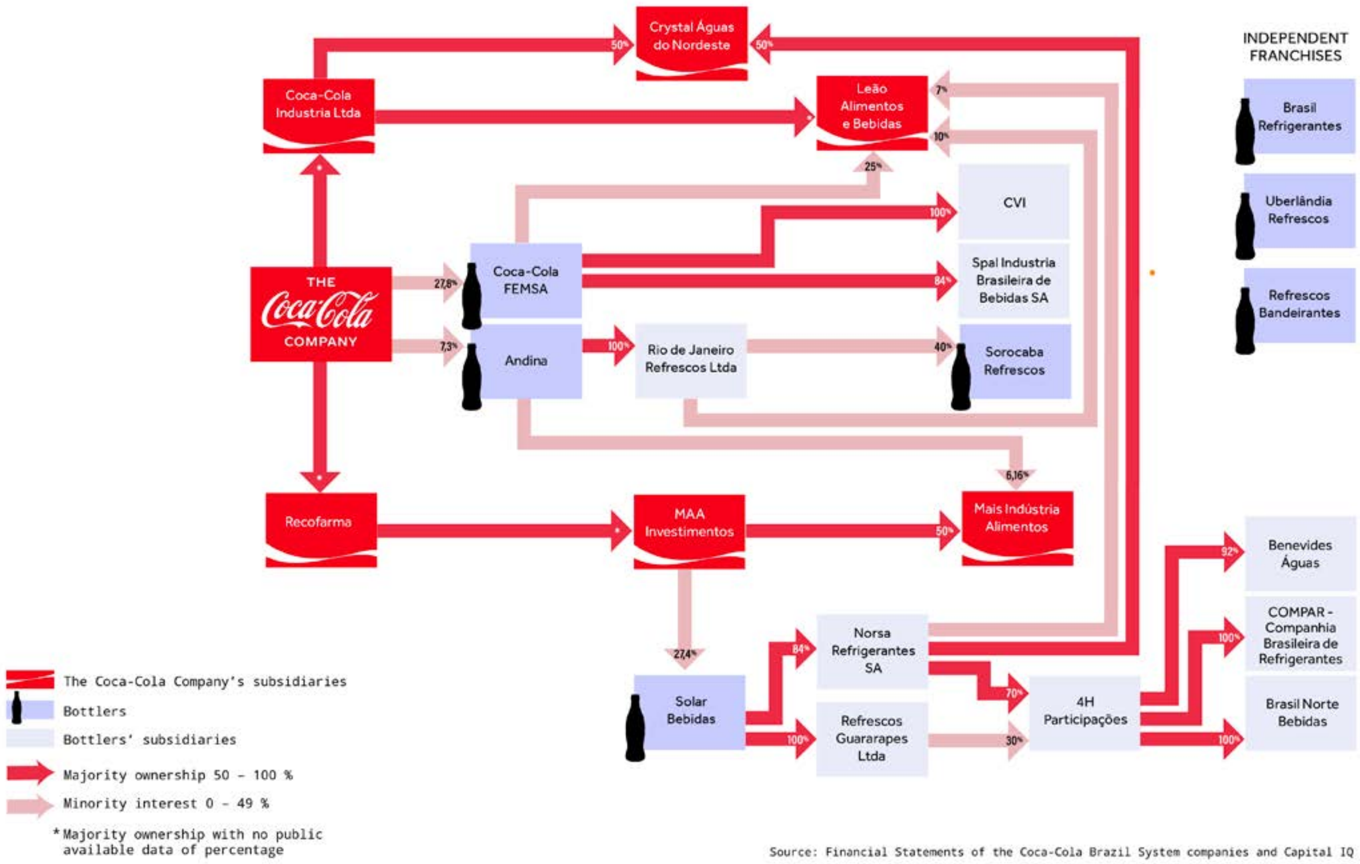
Image 3: Factories of Coca Cola products in Brazil, divided by Bottler's companies.



Source: The Coca-Cola Brazil System website

The subsidiaries and bottlers make up the Coca-Cola Brazil System. Despite not having direct control, Coca-Cola has a shareholding in the three largest bottlers. Their largest stake is 32.9% of the voting shares in Coca-Cola Femsa, the largest bottler of Coca-Cola products in the world, with operations in Brazil, Mexico, Argentina, Venezuela, Colombia, Uruguay and Central America. 27.49% of Coca-Cola Solar's shares are owned by TCCC[16] and as are 7.3% of shares in Coca-Cola Andina, a company based in Chile.[17] **This means that, in addition to having a monopoly over the raw material on which the entire bottler's business depends, Coca-Cola owns part of the companies and receives some of their profits, further increasing its power over the bottlers' decisions.**

Image 4: Shareholder relations of the Coca-Cola Brazil System



This great power and influence of TCCC in the Coca-Cola Brazil System may suggest that the companies act together. Solar, for example, states in its annual report:[18]

> On 31 December 2024, Recofarma indirectly owned [...] 27.4% of the share capital of the Company's [Solar] parent company. Exclusive supplier of the main input for the Company and its subsidiaries, which is concentrate [...]. Additionally [...] the Company has agreed strategic

16 Composição Acionária - Solar Coca Cola.https://ri.solarbr.com.br/governanca-corporativa/composicao-acionaria/

17 Coca Cola Andina. 2024 MEMORIA ANUAL INTEGRADA. p. 153. https://www.koandina.com/en/investors/financial-information/.

18 Demonstrações Financeiras Individuais e Consolidadas Solar Bebidas S.A. 31 de dezembro de 2024. https://ri.solarbr.com.br/informacoes-financeiras/central-de-resultados/.

> plans with Recofarma to develop points of sale with the placement of refrigerators (multi-brand) and investments in large national "Key Accounts" clients, in which **Recofarma negotiates the contractual conditions nationally and makes the payment centrally, subsequently passing on the portion relating to the Manufacturers' participation according to their respective territories** [...] (emphasis added).

In sum, Coca-Cola maintains very close relations with its bottlers, which go beyond the purchase and sale of concentrates and involve joint action in the market and profit sharing. These close relationships are also evident in their tax practices in Brazil and around the world.

Coca Cola's tax behaviour in Brazil

Despite acting jointly and having a shareholding relationship in Brazil, there is no consolidated data on the Coca-Cola Brazil System's operations. We don't know its profitability, the taxes it pays or the number of workers it employs.

This is because only companies listed on the Stock Exchange are obliged to present annual reports in Brazil and Coca-Cola is only represented by TCCC in B3, the Brazilian stock exchange. Therefore, neither Recofarma nor Coca-Cola Indústrias Ltda publish annual reports. The Brazilian results are scattered throughout the bottlers' annual reports, when they are published, and are usually linked to other activities of the bottlers, or other countries of operation, as in the case of Coca-Cola Femsa and Coca-Cola Andina.

In 2025, the company launched the campaign "Made with all of Brazil", which recalls Coca-Cola's long history with Brazil and advertises that the Coca-Cola Brazil System generates R$87.5 billion annually and creates 570,000 jobs across its value chain.[19] The study, conducted by the multinational consulting firm Steward Redqueen to estimate the impacts of Coca-Cola's operations in Brazil and more than 40 countries,[20] is not available to the public, so its methodology is not transparent, and it lacks any

19 CNN. Coca-Cola injeta R$ 7 bi no Brasil e reforça papel estratégico da operação. https://www.cnnbrasil.com.br/economia/negocios/coca-cola-injeta-r-7-bi-no-brasil-e-reforca-papel-estrategico-da-operacao/

20 Steward Redqueen. Impact assessment for Coca-Cola. https://www.stewardredqueen.com/what-we-do/coca-cola/

historical basis for comparison. News reports about the report do not mention the amount of taxes paid. Therefore, it in no way replaces the company's financial reporting.

Due to limitations in transparency in Brazil, it is currently impossible to know how much Coca-Cola is profiting, selling, and paying in taxes in Brazil. However, new tax transparency standards for US multinational corporations, which began to be implemented in 2026, show that Coca-Cola paid US$238 million, or R$1.2 billion, in corporate income tax in Brazil in 2025. The lack of reporting in Brazil, however, prevents a comparison with the company's profits or income, making an analysis of this figure difficult.[21]

It is possible to know that the taxes being paid are reduced by the billions in incentives received by Coca-Cola companies in Brazil and by the bottlers, for which data is presented in Chapter 4 of this report. In the case of Solar, the only Brazilian bottler that publishes reports with information about the tax incentives received, it is noticeable a strong reduction in the tax paid due to these waivers. From 2021 to 2025, the company reports paying R$ 542.1 million in taxes, which represented an Effective Tax Rate (ETR) of 8.43%, which is the value of these paid taxes divided by pre-tax profits that were R$ 6.4 billion in the period. The ETR calculates how much a company is actually paying in taxes and typically is compared to the official tax rate, which is the one determined by law. **If Solar had paid the official 34% rate of income tax and social contributions (IRPJ and CSLL) that would be due in these four years, the total amount paid would be R$2.1 billion, meaning that if Solar had paid the headline rate of income tax on its earnings it would have contributed an extra R$1.6 billion with an ETR of 8.43% to public coffers.[22]**

With an ETR of 9.5%, Solar would not even be paying the minimum floor set by international organisations. In 2024, more than 50 countries began implementing a minimum tax on corporations, including Brazil.[23] The

21 UNITED STATES SECURITIES AND EXCHANGE COMMISSION. FORM 10-K. THE COCA-COLA COMPANY. https://www.sec.gov/Archives/edgar/data/21344/000162828026010047/ko-20251231.htm#ia2cb76fa2c6c4a82a91d7a0d2310cb54_184 p. 102. Values converted on 05/28/2026 - $1 USD = 5.055 BRL

22 DFP - Demonstrações Financeiras Padronizadas - 4T25 (p. 15); 4T24 (p. 97) e 4T22 (p. 117) - Solar Bebidas S.A. https://ri.solarbr.com.br/informacoes-financeiras/central-de-resultados/

23 Governo Federal. Lei que institui tributação mínima para grandes multinacionais é sancionada
https://www12.senado.leg.br/noticias/materias/2024/12/30/sancionada-lei-que-estabelece-tributacao-minima-de-15-sobre-lucro-das-multinacionais

measure seeks to implement an ETR of 15% on corporate income and is in line with the global agreement to prevent tax avoidance, as set out in Pillar 2 of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project. This mechanism seeks to ensure that multinationals are taxed fairly on the income they generate in each country where they operate and, although 15% is a very low figure when compared to the average corporate tax rate in the world, 23.5%.[24] However, the viability and effectiveness of Pillar 2, is now in as the Organisation for Economic Co-operation and Development (OECD) has announced that US-based multinationals will be exempt from key elements of the negotiated global minimum tax, representing a regrettable setback in the global fight against corporate tax evasion.[25]

The biggest factor explaining such a low ETR from Solar in Brazil is the tax incentives provided by the Brazilian government, which go beyond Solar to several Coca-Cola Brazil System companies, as explored in Chapter 4.

Even though it's impossible to know how much tax Coca-Cola pays in Brazil today, there's a good chance it will start paying more due to the implementation of Brazil's 2023 Tax Reform,[26] which created the Sumptuary Tax (Imposto Seletivo, IS), aimed at discouraging the consumption and production of goods and services that are harmful to health and the environment. It will begin to be levied in 2027 and includes soft drinks like those sold by Coca-Cola.

The lobbying efforts from the beverage and food sectors in the National Congress, however, are ongoing and could still overturn or weaken the IS. During the Tax Reform regulations, the agribusiness, retail, and industrial lobbies —in the case of Coca-Cola, represented by the Brazilian Food Industry Association (ABIA) — joined forces to exclude ultra-processed foods from the Sin Tax and include them in the basic food basket, but were unsuccessful due to public pressure.[27] After this defeat, an amend-

24 Tax Foundation. "Corporate Taxes Rates Around the World, 2024." https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2024/

25 Fact Coalition. Under U.S. Pressure, OECD Agrees to Deal Allowing Continued Tax Abuse by Big U.S. Corporations. https://thefactcoalition.org/oecd-side-by-side-agreement/

26 The approved reform replaces five existing taxes (IPI, PIS, COFINS, ICMS, and ISS) with two value-added taxes—the CBS (Contribution on Goods and Services), a federal tax, and the IBS (Tax on Goods and Services), a state and municipal tax—in addition to a federal Sumptuary Tax (Imposto Sletivo, IS).

27 Repórter Brasil. Lobby de ultraprocessados uniu agro, varejo e indústria contra 'imposto do pecado'. https://reporterbrasil.org.br/2025/03/lobby-ultraprocessados-agro-varejo-industria-imposto-pecado/#:~:text=Lobby%20de%20ultraprocessados%20uniu%20agro%2C%20varejo,ind%C3%BAstria%20contra%20'imposto%20do%20pecado'&text=REP-

ment by Senator Eduardo Braga, a historical defender of the Manaus Free Trade Zone, in the regulation of the tax reform, sought to establish a 2% limit on the Selective Tax in relation to soft drinks, but the proposal was removed from the text approved by the Chamber of Deputies and sanctioned by the president without a maximum limit.[28]

The sector's lobby was formerly organised by the Joint Parliamentary Front in Defense of the Brazilian Beverage Industry —known in Congress as the "Coca-Cola Caucus"[29] —but today it is strongly integrated with the Agricultural Parliamentary Front (FPA), the largest legislative group in Brazil, with 354 representatives. The FPA has attempted to intervene in six bills over the past five years to benefit ultra-processed food manufacturers, succeeding in four of the six bills, according to research by Repórter Brasil.[30] There is also evidence that Coca-Cola may have acted to bury the bill that bans soft drinks in schools.[31]

The corporation's lobbyists also work to maintain the Manaus Free Trade Zone, the main tax incentive that the Coca-Cola Brazil System benefits from.[32] The Brazilian tax incentives, however, are just one piece in Coca-Cola's international game of tax avoidance. Before delving into Brazilian tax incentives and other tax avoidance strategies, it is important to understand the legal and moral implications of aggressive tax planning.

3. The legal and moral implications of aggressive tax planning

Tax planning, or tax avoidance, is a tool used by companies and individuals to obtain a lower tax rate on operations or products, using legal means.

RESENTANTES%20da%20ind%C3%BAstria%20de%20alimentos,sa%C3%BAde%20e%20ao%20meio%20ambiente.

28 Reforma Tributária: Câmara mantém imposto seletivo sobre refrigerantes sem teto de alíquota https://oglobo.globo.com/economia/noticia/2025/12/16/regulamentacao-da-reforma-tributaria-camara-retoma-teto-de-2percent-para-imposto-seletivo-sobre-refrigerantes.ghtml

29 Relatório Reservado. Lobby com gostinho de Coca-Cola. https://relatorioreservado.com.br/noticias/lobby-com-gostinho-de-coca-cola/

30 Outras Palavras. Como o lobby dos ultraprocessados "convence" o Congresso. https://outraspalavras.net/outrasmidias/como-o-lobby-dos-ultraprocessados-convence-o-congresso/

31 Intercept Brasil. Como a Coca-Cola ajudou a enterrar PL que proíbe refrigerante em escolas. https://www.intercept.com.br/2024/07/29/coca-cola-refrigerante-em-escolas/

32 O Joio e o Trigo. O lobby pela Zona Franca de Manaus, o "paraíso fiscal" dos refrigerantes. https://ojoioeotrigo.com.br/2021/11/o-lobby-pela-zona-franca-de-manaus-o-paraiso-fiscal-dos-refrigerantes/

A company's tax planning can be the result of a law, the biggest example being taking advantage of tax incentives, or it can be the result of loopholes or gaps in the law that the company takes advantage of in order to pay less tax. When illegal methods are used to avoid these payments, it is called tax evasion or tax fraud.

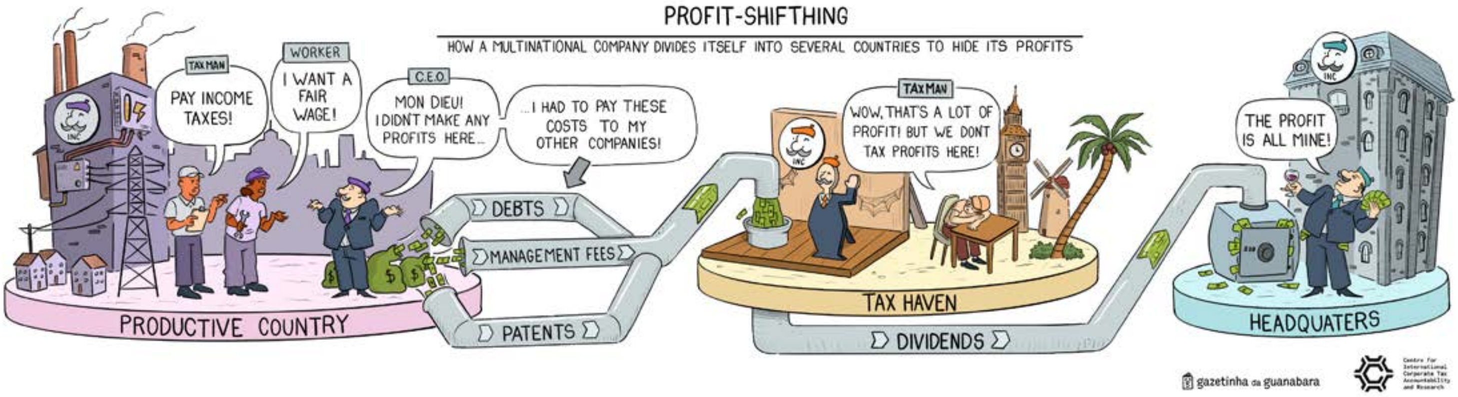
However, between legality and illegality, loopholes and gaps in national and international laws create a grey area that is disputed between tax authorities and corporations around the world. **Aggressive tax planning** refers to the practice of using sophisticated strategies to reduce or eliminate tax payments by exploiting loopholes, ambiguities, or flaws in tax legislation—loopholes often created through strong corporate lobbying.

The easiest example to understand is the creation of fictitious operations and entities. **When a company breaks up into several parts and carries out operations between them only to avoid paying taxes, the tax authorities can assess this tax planning as abusive and order the company to pay the taxes due**. In other words, the corporation needs to present real reasons, related to the company's business, for organising its operations.

Multinationals are best equipped to carry out aggressive tax planning to exploit legal loopholes because, as well as having large teams of lawyers and accountants, they can use subsidiaries in tax havens or locations with favourable tax regimes. The most common method is *profit shifting*, which consists of a multinational corporation using a subsidiary in a tax haven to charge costs to the company's subsidiaries in other countries. These costs can be of various kinds, such as interest on a debt at high rates; costs for the use of a brand, patents and other "intangible" assets; and consultancy, management, administration or other generic names. By paying these costs, companies reduce the profits available to be taxed in the countries in which they operate, an operation known as base erosion. OECD estimates suggest that profit shifting and other methods of tax base erosion lead to global annual losses of 100 to 240 billion dollars.[33]

33 OECD. Base erosion and profit shifting (BEPS). https://www.oecd.org/en/topics/base-erosion-and-profit-shifting-beps.html.

Image 4: Profit Shifting



Prepared by CICTAR and Gazetinha da Guanabara

In the case of Coca-Cola, the company uses tax havens in its corporate structure, mainly in Asia and Europe. After Coca-Cola FEMSA, Coca-Cola's second largest bottler is **Coca-Cola Europacific Partners (CCEP)**, which covers 31 countries in Europe and the Asia-Pacific region, following the acquisition of Coca-Cola Amatil (CCA) in Australia.[34] For its Australian operations, the manufacturer who sells the concentrates of The Coca-Cola Company in Singapore, one of Asia's biggest tax havens.[35] TCCC's tax behaviour in Australia and the Asia-Pacific region is discussed in chapter 5.

Coca-Cola's third largest bottler is called **Coca-Cola HBC (CCHBC)** and covers much of Central and Eastern Europe, as well as Nigeria.[36] CCHBC is partly owned by TCCC, whose stake in CCHBC is held through Atlantic Industries, a Coca-Cola subsidiary based in the Cayman Islands. In 2004, Bloomberg reported that Coca-Cola makes syrup at two Irish plants owned by Atlantic Industries and used the Cayman Islands subsidiary to sell syrup to customers in 75 countries and avoid paying taxes in the US on profits of more than $1 billion in revenue in 2003.[37]

34 Coca Cola Europacific Partners: "CCEP is a global business with a local footprint". em:https://www.cocacolaep.com/news-and-stories/new-company-name-revealed-as-coca-cola-european-partners-proposed-acquisition-of-coca-cola-amatil-nears-completion/ ; CCEP - WHO WE ARE https://www.cocacolaep.com/who-we-are/

35 Investopedia. What Makes Singapore a Tax Haven? https://www.investopedia.com/ask/answers/060716/why-singapore-considered-tax-haven.asp. Singapore ranks fifth on the Corporate Tax Haven Index's global ranking of tax havens with a score of 86/100: https://cthi.taxjustice.net/full-list.

36 Coca Cola HBC. https://www.coca-colahellenic.com/en/about-us

37 Evans, D. (2004, June 21). Coke, Intel Use Cayman Islands to Reduce U.S. Taxes. Bloomberg. https://www.bloomberg.com/news/articles/2004-06-21/coke-intel-use-cayman-islands-to-reduce-u-s-taxes-iooz0zfn

But it is not only the Cayman Islands that are used by TCCC and CCHB. In 2004, CCHBC held a 50% stake in a subsidiary in Guernsey, a British crown dependency and notorious tax haven.[38] The two shareholders of this subsidiary were listed as Atlantic Industries (Luxembourg) SARL in Luxembourg and CC Beverages Holdings in the Netherlands, representing TCCC and CCHBC based at the time in Athens.[39]

Additionally, a billionaire family's 23% stake in CCHBC is still held by Kar-Tess Holding in Luxembourg.[40] Until 2010, this Luxembourg holding company enjoyed wide-ranging tax exemptions. Before the changes in tax legislation, with the assistance of PwC (as revealed by Lux Leaks), a new structure was created using companies in the British Virgin Islands, Luxembourg and Cyprus to continue avoiding taxes.[41]

In 2012, CCHBC – then Greece's largest company by market capitalisation – moved its headquarters to Switzerland and its public listing to the London Stock Exchange.[42] The IUF trade union federation, which represents CCHBC workers in several countries, commented on the move to Switzerland, declaring that the company "already devotes considerable ingenuity to reducing its global tax burden through transfer pricing and careful invoice routing. The tax burden as a percentage of its profits has decreased over the years of crisis, but that hasn't stopped it from complaining."[43]

Due to the new US tax transparency standards, approved in 2023 by the Financial Accounting Standards Board (FASB) and effective from 2026, it appears that Coca-Cola's participation in tax havens continues to this day. As will be analysed in the Coca-Cola v. IRS case in chapter 5, Ireland was designated, for the period between 2007 and 2009, as a preferential tax jurisdiction that is central for the distribution of TCCC concentrate to bottlers in 90 countries, thus reducing taxes paid in the US. According to its

38 Coca-Cola HBC Annual Report 2004, pp.104-105. https://www.annualreports.com/HostedData/AnnualReportArchive/c/NYSE_CCH_2004.pdf

39 Dorna Investments Limited, Annual List of Dorna Investments Limited drawn up to 1 January 2004 in accordance with the Companies (Guernsey) Law, 1994, p. 2. Obtained from the Guernsey Corporate Registry.

40 Coca-Cola HBC. Shareholder Structure. https://www.coca-colahellenic.com/en/investor-relations/shareholder-centre/shareholder-structure

41 The Press Project, Coca-Cola Zero… Tax and the Greek media's deafening silence. https://thepressproject.gr/coca-cola-zero-taxbr-and-the-greek-medias-deafening-silence/ ; Lux Leaks: https://projects.icij.org/luxembourg-leaks/viz/companies/coca-cola-hbc.html

42 Reuters.Greece's biggest company flees, bottler CCH to Switzerland https://www.reuters.com/article/us-greece-coke/greeces-biggest-company-flees-bottler-cch-to-switzerland-idUSBRE89A17P20121011

43 IUF. Austerity rewards corporate tax evasion. https://pre2020.iuf.org/w/?q=node/2102

2025 report, TCCC still maintains two Irish subsidiaries among its main subsidiaries, Beverage Financial Centre Unlimited Company and European Refreshments Unlimited Company, whose names suggest the country's continued role as a distribution center. Furthermore, Ireland and Puerto Rico (a US territory but considered a foreign jurisdiction for US federal income tax and widely abused as a tax haven), despite being small jurisdictions and clearly not among the corporation's largest consumer markets, appear as the main countries reducing the Effective Tax Rate paid in the US. Given that this data was published after the implementation of transparency requirements, the role of these jurisdictions in TCCC tax payments may have been larger in the years prior to 2025.[44]

How do states fight aggressive tax planning?

In addition to the legal issue, there is a moral debate to be had about aggressive tax planning. The non-payment of taxes, especially when carried out by large companies and the wealthiest, has consequences for the state and the Brazilian population.

For the state, non-payment of taxes has a direct impact on the funding of public services such as health and education. In addition, the difficulties of taxing the richest and the multinationals are usually offset by increases in taxes that are "easier" to collect, such as taxes on consumption, which affect the entire population. For society, when the richest and the biggest corporations avoid obligations and the middle class and the poorest pay their taxes, income and wealth inequality increases.

Finally, when multinationals transfer profits to tax havens, a supposed lack of resources at the national level justifies denying increases in workers' salaries or improvements to the quality of service delivery and increasing prices for consumers.

It is up to the tax authorities to monitor the behaviour of multinationals to see if they are conducting business in the spirit of the law or creating strategies to pay less tax and putting the proceeds into shareholders' pockets. Until recently, each state had its own strategy for determining whether or not multinationals were crossing the line in tax planning, and

44 United States Securities and Exchange Commission. Form 10-K. The Coca-Cola Company. https://www.sec.gov/Archives/edgar/data/21344/000162828026010047/ko-20251231.htm#ia2cb76fa2c6c4a82a91d7a0d2310cb54_184%20p.%20103%20(effective%20tax%20rate);%20https://www.sec.gov/Archives/edgar/data/21344/000162828026010047/a20251231exhibit211.htm%20list%20of%20subsidiaries

what that line was. As a result of a push from the Organisation for Economic Co-operation and Development (OECD), dozens of countries are standardising these transfer pricing rules by applying the arm's length principle. Brazil, which was known for having simple and effective transfer pricing legislation, adopted the OECD rules with the approval of Law 14,596 in 2023.

The arm's length principle states that companies that are part of the same multinational (related parties) must establish commercial relations with each other on terms and conditions similar to those that would apply if such commercial relations took place in the market between unrelated companies.

The application of this principle encounters a number of practical difficulties. The main criticisms, coming mainly from Global South countries, are the frequent difficulty in determining what market conditions would be in an arm's length situation and in identifying comparable transactions for its application; and the complexity of the methods provided for determining the fair price of transactions, which increase the costs of supervision by under-resourced tax authorities.

Despite the limitations of applying the arm's length principle, it is notable that there is a global movement to curb the abuse of power by these large multinationals. From the next chapter onwards, we will see various tax planning mechanisms implemented by Coca-Cola in Brazil and around the world, starting with tax incentives and going as far as aggressive tax planning with phantom royalties. By putting the various cases together, it is possible to build up a picture of billions in taxes not being paid globally by the company, and which are being investigated by tax authorities around the world. **It's time for Brazil to step up to the plate and demand that Coca-Cola contribute to Brazilian development by paying its taxes.**

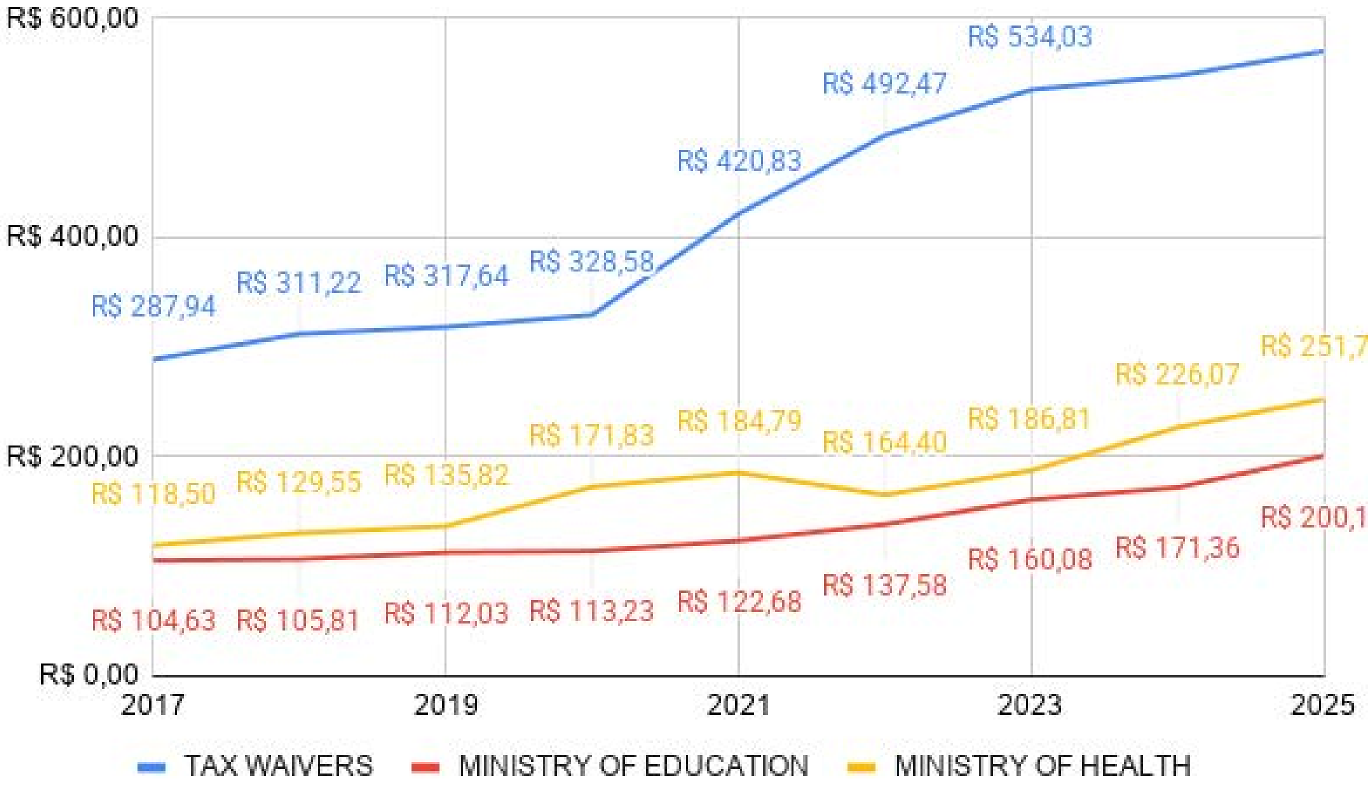
4. Brazilian tax incentives

In this chapter, we will understand which tax incentives the Coca-Cola Brazil System benefits from. While information on incentives at the federal level are widely accessible via aggregated data available on the Receita Federal (Federal Revenue Service) website, incentives at the state level do not have the same transparency, as most states do not monitor or evaluate them publicly. Given this restriction, the data collected here on state incentives was taken from information from just one bottler, Solar, as well as from various media investigations. **Therefore, while the figures for federal incentives in principle cover all the amounts received by all the companies in the Coca-Cola Brazil System, in the states there are only specific cases and it is not possible to estimate the total of tax benefits received.**

Federal Incentives Landscape

Before delving into the Coca-Cola Brazil System's incentives, it's important to understand the current Brazilian federal tax incentive landscape. Due to restrictions on direct spending imposed by fiscal rules in recent decades, budgets for direct spending on important government programmes have remained stagnant, while the cost of tax incentives have grown, as shown in Graph 2.

Graph 2: Federal government expenditures on tax incentives (tax expenditures) and the Ministry of Education and Health. Nominal values.



Source: Siga Brasil (amounts paid, see note 11); Federal Revenue, Statement of Tax Expenditures (see note 9).

Furthermore, the use of tax incentives is rarely reviewed. Total federal tax expenditures for 2025, which is the amount not collected from all tax waivers, exclusions and exemptions at the federal level, were estimated at R$544.47 billion, representing 19.8% of revenues managed by the Brazilian Federal Revenue Service and 4.4% of GDP.[45] However, evaluations of the impact of these expenditures have been few and far between, partly because they lack clearly identified objectives, indicators, and targets. The federal government's Public Policy Monitoring and Evaluation Council (CMAP) has conducted 34 assessments of indirect expenditures since its creation in 2019, but its recommendations have not yet resulted in concrete changes to policies involving tax expenditures.[46]

45 Demonstrativo dos Gastos Tributários PLOA 2025. https://www.gov.br/receitafederal/pt-br/centrais-de-conteudo/publicacoes/relatorios/renuncia/gastos-tributarios-ploa/dgt-previsao-ploa-2025-base-conceitual.pdf p. 10

46 De Renzio, P., Pires, M., Rodrigues, N., & Teixeira Junior, G. (2025). Relatório nacional sobre gastos tributários: Brasil. German Institute of Development and Sustainability (IDOS) and Council on Economic Policies (CEP), p. 5: https://doi.org/10.23661/cr1.2025

Despite this lack of a broader review of incentives, it is possible to determine how much of this amount can be considered a tax privilege—that is, an incentive that brings no proven benefit to Brazilian society. The National Association of Federal Revenue Auditors of Brazil (UNAFISCO) calculates "the privilege meter" (privilegiômetro) annually, classifying tax incentives as privileges when they do not generate quantifiable returns in economic development, mainly job and income generation, and thus do not contribute to reducing inequality in the country.

For 2024, UNAFISCO estimated the total volume of tax incentives, which includes the tax expenditures estimated by the Federal Revenue Service but includes other incentives that are not included in the Tax Revenue Authority (Receita Federal) calculation, at R$789.6 billion, of which R$537.5 billion are considered privileges. These include the exemption of profits and dividends contributed by legal entities and special installment programs. Among the incentives considered beneficial to the Brazilian population by UNAFISCO are the deduction of medical expenses and incentives for the purchase of wheelchairs and assistive devices.[47] **In short, although the total value of the incentives cannot be considered harmful, the tendency is for most of them to be linked to privileges, being enjoyed by a minority of the population and companies.**

This high and growing number of privileges has been increasingly questioned by the Brazilian government. In recent years, the greatest victory has been significant advances in the transparency of Brazilian federal tax incentives. At the end of 2021, Complementary Law 187 was published, which, among several other points, amended article 198 of the National Tax Code (CTN), abolishing tax secrecy on tax benefits.

From 2023 onwards, initiatives by the federal government to increase the transparency of incentives led to the disclosure of data on tax incentives by companies, mainly through two instruments. The first is the estimate, made by the Federal Revenue Service itself, of the aggregate tax incentives received by each company from 2015 to 30/06/2024, relating to various federal income, production and customs levies.[48] Given the limited data for 2024, this report will use the historical series up to 2023. The second instrument was the Declaration of Incentives, Waivers, Benefits

47 Unafisco. Privilegiômetro tributário. https://privilegiometrotributario.org.br/

48 The IRPJ, CSLL, Pis Import, COFINS Import, IPI Import and Import Tax taxes extracted from the ECF and DW Customs.

and Immunities of a Tax Nature (DIRBI), which is a mandatory self-declaration of all incentives received by a company, by incentive. The publicly available figures to date refer only to 2024. In short, there are two instruments, one that shows a longer historical series, but not broken down by incentive, and another detailed by incentive, but only for 2024.[49]

At the end of 2025, Complementary Law No. 224 was published, which reduces federal tax benefits by 10% and promotes gradual cuts in incentives offered by the Government, such as PIS and Cofins, IPI, IRPJ and CSLL. The law also addresses the increase in the withholding income tax rate on interest on equity to 17.5%, with the main objective of limiting federal tax expenditures to a maximum ceiling of 2% of GDP[50].

These advances in transparency and reduction of incentives are fundamental for greater control of these waivers and are already directly impacting Coca-Cola, as presented below.

Coca Cola's Tax Incentives

The incentives collected on the tax authority's website for this research refer to all the companies in the Coca-Cola Brazil System, which includes both subsidiaries and bottlers. Laticínios Verde Campo, owned by Coca-Cola until April 2024, was added to the historical series, but not considered in DIRBI. CVI Refrigerantes, in turn, was purchased by Coca-Cola FEMSA in 2022, and only data from 2022 was available . **According to data estimated by the Federal Revenue Service and compiled in this report, the Coca-Cola Brazil System received R$5.2 billion in incentives over the last 9 years, between 2015 and 2023.**

However, the DIRBI figures, which are self-declared by the companies, seem to indicate that the Receita Federal's historical figures are underestimated. While the nine-year historical series of incentives was estimated at R$5.2 billion, the companies declared R$2.1 billion only for the year 2024. On the other hand, the Receita Federal estimates include companies that do not appear in the self-declaration, indicating that

49 Both databases are in the Receita Federal website: https://dados.gov.br/dados/conjuntos-dados/renuncias-fiscais-de-tributos-federais.

50 Mattos Filho. New Complementary Law establishes a linear reduction in federal tax benefits https://www.mattosfilho.com.br/unico/lei-reducao-beneficios-fiscais/

there might be Coca-Cola Brazil System companies that did not submit the self-declaration.

Table 1: Federal tax incentives for Coca-Cola´s subsidiaries and bottlers, estimated by the Internal Revenue Service (2015-2023) and Declaration of Tax Incentives, Waivers, Benefits and Immunities (2024).

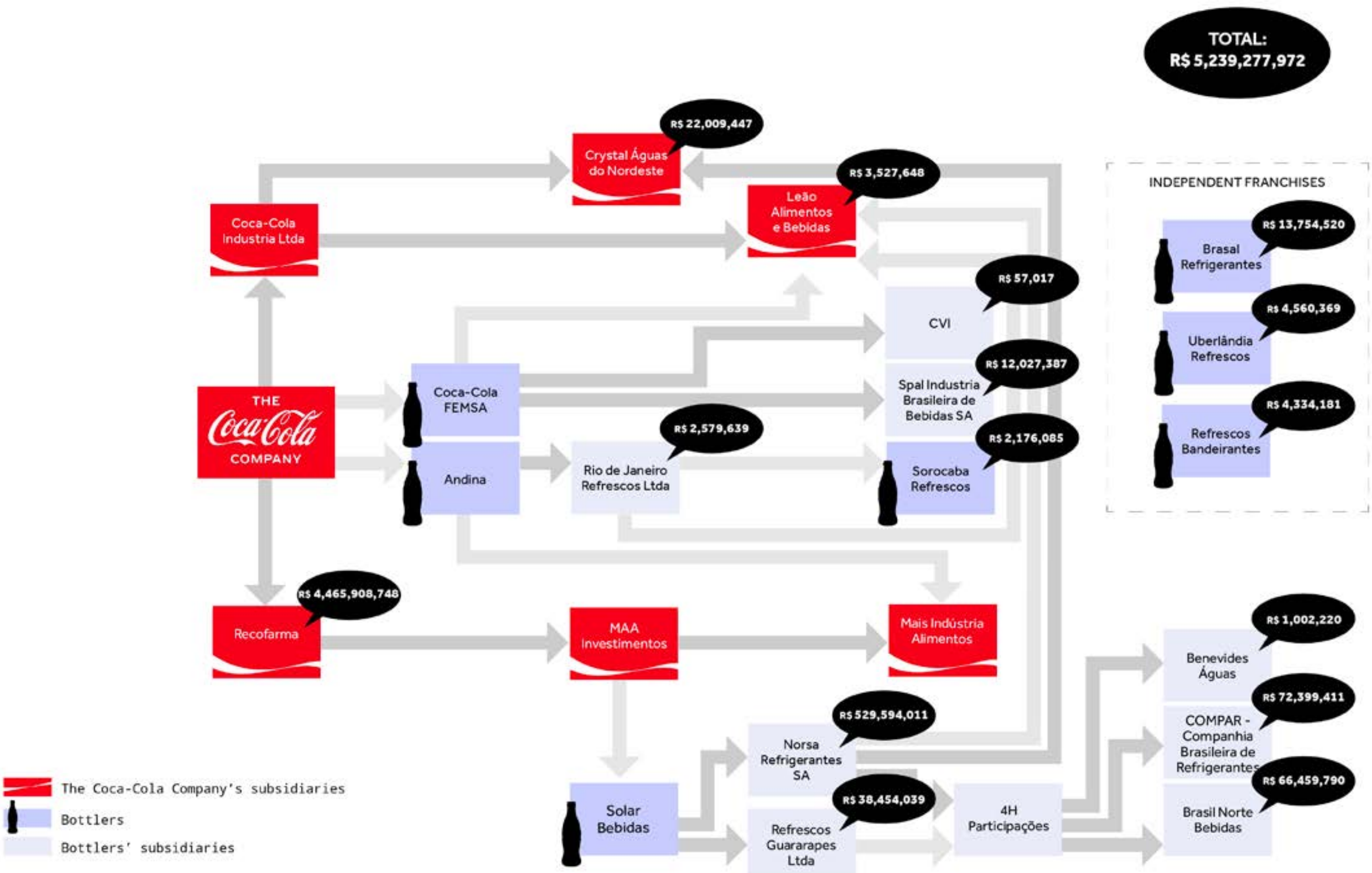
Ownership	Corporation	2015-2023	DIRBI (2024)
Independent	REFRESCOS BANDEIRANTES	R$ 4.334.181	No data
Independent	Brasal Refrigerantes	R$ 13.754.520	R$ 37.616.812
TCCC	Leão Alimentos e Bebidas	R$ 3.527.648	No data
Independent	Sorocaba Refrescos	R$ 2.176.085	No data
Independent	Uberlândia Refrescos	R$ 4.560.369	No data
TCCC	Recofarma Indústria do Amazonas LTDA	R$ 4.465.908.748	R$ 1.681.538.989
TCCC	Laticínios Verde Campo	R$ 490.478	sold
SOLAR	Refrescos Guararapes Ltda. (Regua)	R$ 38.454.039	R$ 46.696.667
FEMSA	SPAL Indústria Brasileira de Bebidas	R$ 12.027.387	No data
Andina	Rio de Janeiro Refrescos Ltda	R$ 2.579.639	R$ 7.014.938
SOLAR	Brasil Norte Bebidas	R$ 66.459.790	R$ 26.682.023
SOLAR	COMPAR COMPANHIA PARAENSE DE REFRIGERANTES	R$ 72.399.411	R$ 40.127.096
SOLAR	Benevides Águas	R$ 1.002.220	No data
SOLAR	Norsa Refrigerantes S.A	R$ 529.594.011	R$ 258.726.891
TCCC	CAF - Crystal Águas do Nordeste Ltda.	R$ 22.009.447	R$ 5.053.658
FEMSA	CVI Refrigerantes	R$ 57.017	No data
	TOTAL	R$ 5.239.277.972	R$ 2.103.457.074

Source: Receita Federal

From the DIRBI data, we were able to extract the incentives per company, which show that most of them are related to **three incentives: those provided by the Northeast Development Superintendence (Sudene), by the Amazon Development Superintendence (Sudam) and the Manaus Free Trade Zone.**

They mainly affect Corporate Income Tax (IRPJ), Tax on Industrialised Products (IPI), Import Tax (II) and the Contribution to PIS/Pasep and COFINS. These taxes are invaluable for financing Brazilian social policies. The contribution to PIS/PASEP finances the payment of unemployment insurance and other benefits, and COFINS covers social security spending. Part of the IPI and IRPJ go to the State and Municipal Participation Funds, the main federal transfer that can be used freely by states and municipalities for spending on services to meet the needs of their communities.

Image 6: Federal Tax Waivers for the Coca-Cola Brazil System (Cumulative 2015-2023)



Source: Receita Federal, agregado IRPJ, CSLL, Pis Importação, Cofins Importação, IPI Importação e Imposto de Importação extraídos da ECF e DW Aduaneiro.

Table 2: Coca-Cola Brazil System's main federal tax incentives, 2024

Tax Incentive	Description	Coca-Cola System companies using this incentive (2024)	Total value of the benefit for the Coca-Cola Brazil System (2024)
SUDAM / SUDENE - 75% reduction	75% reduction in Corporate Income Tax (IRPJ) for companies that have installation, expansion, modernisation or diversification projects in priority sectors for regional development in the areas covered by the Northeast Development Superintendence - Sudene and the Amazon Development Superintendence - Sudam.	Recofarma Norsa Refrigerantes S.A COMPAR COMPANHIA PARAENSE DE REFRIGERANTES Brasil Norte Bebidas Crystal Águas do Nordeste Ltda. REFRESCOS GUARARAPES LTDA	R$ 1.048.504.124
MANAUS FREE ZONE (ZFM) - Industrialised Products for Domestic Consumption (112) and for Sale on National Territory (113)	Exemption from Tax on Industrialised Products (IPI) levied on products manufactured in the MANAUS FREE ZONE (ZFM) for internal consumption or for sale anywhere else in the national territory.	Recofarma	R$ 734.069.000
MANAUS FREE TRADE ZONE(ZFM) (81)	No official explanation.	Recofarma	R$ 106.120.746
MANAUS FREE ZONE (ZFM) - Entry of Foreign Products (116)	Exemption from Tax on Industrialised Products (IPI), Import Tax (II) linked to imports, levied on the entry of foreign goods into the MFZ, in the agricultural, fishing, installation and operation of industries and services of any kind, and storage for export sectors.	Recofarma	R$ 91.318.561
MANAUS FREE ZONE (ZFM) - Reduction Coefficient - Approved Projects (88%) (118)	88% reduction in the Import Tax (II) tax rate on inputs of foreign origin used in industrialisation in the ZFM, except for IT goods and motor vehicles, tractors and other land vehicles, their parts and pieces, whose projects have been approved by Suframa, when they leave the ZFM for any point in the Brazilian territory.	Recofarma	R$ 44.891.596

INVESTMENT SUBSIDIES (58)	Tax credit resulting from subsidies granted by the Union, states, and municipalities for the implementation or expansion of economic enterprises corresponding to the proceeds of subsidy revenues and the 25% corporate income tax rate.	Brasal Refrigerantes Rio de Janeiro Refrescos Ltda	R$ 43.982.888
MANAUS FREE ZONE (ZFM) - Differentiated rates of 0.65% and 3% (105)	Application of differentiated rates for the PIS/PASEP Contribution (0.65%) and COFINS (3%), levied on the gross revenue of companies established in the ZFM, resulting from the sale of their own production in accordance with a project approved by Suframa.	Recofarma Brasil Norte Bebidas	R$ 23.938.884
MANAUS FREE TRADE ZONE (ZFM) - Purchases on the National Market Destined for Consumption or Industrialisation in the ZFM (108)	Exemption from the PIS/Pasep Contribution and COFINS levied on revenues earned by companies established outside the ZFM, resulting from sales of goods destined for consumption or industrialisation in the ZFM.	Brasil Norte Bebidas	R$ 9.982.414
TECHNOLOGICAL INNOVATION - Expenditure as an Operating Expense (82)	Deduction of the amount corresponding to expenditure on technological research and the development of technological innovation, carried out in the calculation period, for the purposes of determining Net Profit and for the purpose of calculating the CSLL calculation base.	Brasal Refrigerantes	R$ 648.862

Source: Receita Federal: Dirbi and Single Annex to RFB Normative Instruction 2,198 of 17 June 2024 - TAX INCENTIVES, REFUNDS, BENEFITS AND IMMUNITIES

These three major incentive policies that support Coca-Cola are decades old and aim to foster the economic development of regions further away from the country's economic centres. Despite its importance and the large sums of money involved, it has received little scrutiny from the Brazilian government in relation to its results to regional development, remaining untouched in the Brazilian budget since the 1960s. Sudene was created in 1959 with the mission of combating drought, unemployment, rural exodus and oligarchic domination in the region. Sudam and the Manaus Free Trade Zone (ZFM), on the other hand, are legacies of military rule, created by President Castelo Branco in 1966 and 1967, respectively. Coca-Cola's Recofarma, which set up in the ZFM since 1966, is part of this history.[51]

51 Abrasca. Nova Associada: Cola Cola Brasil; https://www.abrasca.org.br/noticias/sia-cia-1751-nova-associada-coca-cola-brasil

The military's plan for developing the region encountered real limits. In 1966, the so-called "Amazon Operation" was structured around three pillars: i) tax incentives to attract private capital to invest in the region; ii) land occupation to solve the problem of land ownership in other regions and expand the agricultural area in the Amazon; iii) the expansion of telecommunications and road infrastructure to make the two previous strategies viable. The geopolitical motto of "Integrate so as not to surrender" served the strategy of inserting the region into the dynamic of accumulation commanded by the Centre-South of the country, stimulating the exploitation of natural resources, in parallel with conducting investments in infrastructure to allow the flow of products to the economic centres in the South and Southeast of the country.[52]

The evaluation of public policies is a new phenomenon in Brazilian public administration. The federal government's Public Policy Monitoring and Evaluation Council (CMAP) has never evaluated these policies, only signalling that in 2019 there was a study on the Manaus Free Trade Zone that is still "being prepared."[53] UNAFISCO, the tax inspectors' union, considers the ZFM and Sudam and Sudene tax privileges, stating that, for Sudam and Sudene, the benefits are not proven and, for the ZFM, "more in-depth studies are needed on the effects of the ZFM in the region - there being little data available on the subject."[54] The Federal Revenue Service published in 2018 an analysis of the ZFM specifically for the sweetened beverage sector, highlighting how social benefits in the Amazon region are reduced when compared to the tax waiver amounts, also pointing out violations in how the legislation is applied and that there were only 798 workers in the entire sugary drinks sector across the entire ZFM, showing the limited positive impact on employment for the region.[55]

Besides the few government evaluations, studies by universities, civil society organisations, and government research agencies found mixed results from these policies, but these findings are broadly consistent with

52 INESC. Nota Técnica: Incentivos Fiscais na Amazônia. Brasília, Junho de 2023. https://inesc.org.br/wp-content/uploads/2023/06/nt-incentivos-fiscais-amazonia_0626.pdf

53 Ministério do Planejamento e Orçamento. "Avaliação de Políticas Públicas Concluídas no âmbito do CMAP - Ordenadas por Ciclos". https://www.gov.br/planejamento/pt-br/acesso-a-informacao/participacao-social/conselhos-e-orgaos-colegiados/cmap/politicas/politicas-1

54 Unafisco Nacional. Nota Técnica Unafisco Nº 27/2023 De gastos tributários à concretização dos privilégios tributários: Privilegiômetro Tributário de 2023. https://privilegiometrotributario.org.br/images/Nota_Tecnica_27-Privilegiometro_2023.pdf

55 Receita Federal. Análise da tributação do setor de refrigerantes e outras bebidas açucaradas.https://tributosaudavel.org.br/analise-da-tributacao-do-setor-de-refrigerantes-e-outras-bebidas-acucaradas/392/.

the military's original plans.Capital and industry were attracted to the regions, increasing income and their share of national GDP. However, there are limits to regional development, income distribution, and improving the lives of the population in the country's most vulnerable regions. There are also conflicts of interest in some of the studies, showing the importance of evaluations conducted by the government.

Regarding the Manaus Free Trade Zone, a 2023 study by the Getúlio Vargas Foundation (FGV) found that the ZFM promoted per capita income growth above the national average and positively affected the proportion of employees in the manufacturing industry. On the other hand, there is no evidence of a social impact on the population as a whole, and regional development needs to be strengthened. The FGV also pointed to an overestimation of the fiscal cost of the ZFM.[56] However, the study was financed by business the invertors from the region, which can be interpreted as a conflict of interest[57].

A 1995 study by the government body IPEA (Institute for Applied Economic Research) echoed the positive assessment of the Manaus Free Trade Zone, concluding that the construction of a dynamic industrial hub was successful, but it concentrated income, and that the region's natural resource potential still needs to be harnessed. IPEA differs from FGV in pointing out the high economic and fiscal costs of the ZFM, which are unjustifiable once the initial barriers to establishing the Zone have been overcome.[58] **The studies are 30 years apart, highlighting the structural limitations of the policy in fostering regional and autonomous development in the region.**

Some of these limitations can be attributed to the lack of a systematic process for monitoring and evaluating the results achieved by industrial projects, which uses indicators and targets to achieve the objectives set

56 FGV. ZONA FRANCA DE MANAUS IMPACTOS, EFETIVIDADE E OPORTUNIDADES. https://www.gov.br/suframa/pt-br/centrais-de-conteudo/biblioteca/ppt_zfm_impactos_efetividade_oportunidades_v22022019.pdf

57 The study claims to have been sponsored by businesspeople and investors in the region, without identifying them. Furthermore, its researchers are invariably hired by economic sectors to write reports, studies, and represent their interests in meetings and hearings. Therefore, it can be criticized for a conflict of interest. FGV. ZONA FRANCA DE MANAUS IMPACTOS, EFETIVIDADE E OPORTUNIDADES. https://www.gov.br/suframa/pt-br/centrais-de-conteudo/biblioteca/ppt_zfm_impactos_efetividade_oportunidades_v22022019.pdf

58 Flávio Tavares Lira. Os Incentivos Fiscais à Indústria da Zona Franca de Manaus: Uma Avaliação (Relatório Final). https://repositorio.ipea.gov.br/server/api/core/bitstreams/2b01f43d-6140-4104-9cb4-143167431afc/content

out in the legislation, as pointed out by the Brazilian Federal Court of Auditors (TCU) in its audit of the ZFM in 2024.[59]

Regarding Sudam and Sudene, a study by the Federal University of Ceará and Sudene found a positive causal effect of incentives on the number of employment contracts and the total wage bill[60] – although there is a limitation in these results due to the conflict of interest of an assessment carried out by the entity granting the incentive. On the other hand, a 2021 analysis by the Institute of Socioeconomic Studies (Inesc) presented that just five companies were responsible for R$22 billion in incentives, 54% of the total granted that year. These five companies operate in the mining, energy and oil sectors, laying bare the extent to which these tax privileges reinforce the pattern of exploitation of natural resources concentrated in the North and Northeast regions, especially in the Brazilian Amazon.[61]

One reason for this truncated regional development may lie in the fact the policy provides tax breaks to large multinationals, which use them to manufacture products with no connection to the territories and their resources and ship them to national and international markets, as is the case with Coca-Cola and other multinationals such as Ambev and Pepsi.

Coca-Cola is expected to be impacted by the new Complementary Law 224/2025, due to the reduction in corporate income tax (IRPJ) exemptions for companies in the SUDAM and SUDENE areas, as stipulated in the law. Under the new rule, the IRPJ benefit, which was 75%, will now be 67.5%. In Coca-Cola's case, since the largest incentive used is SUDAM, the effect of the reduction will be considerable. On the other hand, the new law has created significant exceptions, such as not reducing the tax benefits of the Manaus Free Trade Zone, the second largest tax waiver used by Coca-Cola. The exclusion of ZFM benefits from the list of reduced incentives tends to perpetuate the use of the presumed IPI credit (the "Magic Cashback"), while also maintaining the problems identified by the tax authorities, such as non-compliance with production requirements in the region.

59 TCU. TCU avalia processos beneficiados com incentivos fiscais da Zona Franca de Manaus. https://portal.tcu.gov.br/imprensa/noticias/tcu-avalia-processos-beneficiados-com-incentivos-fiscais-da-zona-franca-de-manaus

60 Universidade Federal do Ceará e Sudene. Impacto dos Incentivos Fiscais da Sudene sobre o mercado de trabalho das empresas beneficiadas. https://www.gov.br/sudene/pt-br/assuntos/projetos-e-iniciativas/odne/estudos-e-avaliacoes/arquivos/PRODUTO_META3_SUDENE__19_04_24__revisado_.pdf

61 INESC. Nota Técnica: Incentivos Fiscais na Amazônia. Brasília, Junho de 2023. https://inesc.org.br/wp-content/uploads/2023/06/nt-incentivos-fiscais-amazonia_0626.pdf

Coca-Cola's Magic Cashback

Among the various federal incentives presented here, one deserves special attention for its impact on Coca-Cola: the exemption, in the Manaus Free Trade Zone, of the Tax on Industrialised Products (IPI) when the concentrate leaves for the rest of the country. It is the second largest incentive received by the Coca-Cola System in Brazil, as shown in Table 2, and is linked to a tax credit system that drains billions from public coffers.

IPI is a tax levied on manufactured products of domestic or foreign origin. It is levied on operations such as products leaving factories and imports. Products manufactured in the Manaus Free Trade Zone (ZFM) and consumed in the Zone or destined for the rest of the country are subject to IPI suspension or exemption since ZFM's creation in 1967.

The IPI is a non-cumulative tax, "offsetting the amount due in each transaction with the amount collected in previous transactions."[62] The goal is to avoid cascading taxation throughout the production chain. To this end, Brazil has a system of tax credits, which can be used by companies to offset tax payments at an earlier stage of production.

The combination of tax credits and the IPI exemption has created a tax privilege that has been providing billions to companies in the ZFM for decades, including the Coca-Cola Brazil System. This is because the bottlers outside of the ZFM can calculate tax credits for the purchase of concentrates produced by Recofarma in the ZFM, even though Recofarma has not paid any IPI due to the tax incentive. This creates a magical cashback, as the Coca-Cola Brazil System hasn't paid the tax and yet receives money back (the credit) as if it had been paid.

This privilege has already been questioned by the National Treasury. However, the Supreme Federal Court judged the matter in 2019 and changed its understanding to recognise that in the case of the ZFM, although there is an IPI exemption, companies can use this credit system in a fictitious and presumptive manner, benefiting the entire production chain outside the free trade zone. Four justices dissented and voted that the right to IPI credits presupposes the existence of tax due at the previous stage.[63]

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62 Under Article 153, paragraph 3, item II, of the Federal Constitution.

63 STF, RE 596.614 e RE 592.891. STF reconhece direito a creditamento de IPI de insumos da Zona Franca de Manaus https://noticias.stf.jus.br/postsnoticias/stf-reconhece-direito-a-creditamento-de-ipi-de-insumos-da-zona-franca-de-manaus/ The previous position, which considered presumed credit illegitimate, is represented in RE 353.657 and RE 370.682. https://portal.stf.jus.br/jurisprudenciaRepercussao/tema.asp?num=322

This decision led the Federal Government to adopt a strategy of reducing losses to public accounts from IPI credits by reducing the tax rate, which was once 20% and is now 8%, because the lower the rate, the lower the credit companies receive.[64] **Reducing the tax on manufactured products would be beneficial for all taxpayers, with the exception of the limited number of companies that benefit from this credit system to profit from the Brazilian tax system.**

There are no recent estimates of the value of the credit received by the beverage sector or the Coca-Cola Brazil System specifically, however data from 2016 demonstrate the size of the tax privilege. The Federal Revenue data indicates that in that year, for every R$100 of soft drinks sold by beverage manufacturers, the state refunded R$4.03 of IPI in the form of credits. **The tax credit would total R$3.8 billion, 6.9% of the total tax waived in the Free Trade Zone**.[65] The damage to the public coffers is so great that the soft drinks companies set up in the ZFM were generating negative IPI obligations. In other words, instead of collecting taxes, the Federal Government was paying money to the manufacturers, since the accumulated IPI credit was offset against other federal tax debts.[66]

With the data recently released on tax exemptions by the Federal Revenue, it is possible to estimate more up-to-date values. The amount spent on tax credits is not included on the tax expenditures published by the Federal Revenue, given that it is not an incentive. However, we can assume that the value of the IPI exemption enjoyed by Recofarma is precisely the value of the credit taken by the bottlers, given that the value of the (unpaid) tax is the basis for the credit. **If Recofarma did not pay R$734.1 million in taxes in 2024 alone due to this incentive, which has existed since 1967, one could estimate that this could represent billions in tax credits earned by the bottlers over decades of operations within the Coca-Cola Brazil System.**

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64 The government initially reduced the IPI tax on concentrate to 0%, because with the 0% rate, the presumed credit would also be 0%. However, this reduction generated a strong reaction from the industrial sector of the ZFM and political representatives in the North region. This reaction led to tariffs being increased again, initially at 4% and, from 2022, at 8%. See decreto 11.158/2022 https://www.planalto.gov.br/ccivil_03/_ato2019-2022/2022/decreto/d11158.htm#art6

65 O Joio e o Trigo. O lobby pela Zona Franca de Manaus, o “paraíso fiscal” dos refrigerantes. https://ojoioeotrigo.com.br/2021/11/o-lobby-pela-zona-franca-de-manaus-o-paraiso-fiscal-dos-refrigerantes/

66 Receita Federal. Análise da tributação do setor de refrigerantes e outras bebidas açucaradas.https://tributosaudavel.org.br/analise-da-tributacao-do-setor-de-refrigerantes-e-outras-bebidas-acucaradas/392/.

Beyond the tax credit's value, the Federal Revenue found problems with the use of these credits by beverage and soft drink companies, which inflates the value of the privilege. Based on a 2018 assessment specifically on the beverage sector[67] and the Federal Revenue Service's Annual Inspection Reports from 2019 to 2022,[68] the tax authorities indicated that companies in the sector are using undue incentive credits and engaging in abusive tax planning.

Regarding **the use of undue credits**, the Receita found that beverage manufacturers were failing to meet the conditions for using the benefit by incorrectly classifying the inputs that gave rise to the credits and, perhaps more worryingly, by not directly using plant extracts from the Western Amazon during the production process of the inputs that generate the incentive credits, a requirement of the tax incentive. The Federal Revenue highlighted at the time that fourteen inspection procedures were underway in the sector.[69]

This revenue inspection appears to reveal the same problem identified in the assessments of the Manaus Free Trade Zone as a whole: the disconnection between what is produced in this industrial hub and the regional development of the Amazon territory.

The second problem highlighted by the tax authorities is **abusive tax planning by beverage concentrate companies related to royalty expenses.** The maneuver consists of inflating the value of concentrates sold by manufacturers to bottlers, aiming to conceal two other important components of concentrate sales that should be charged separately by manufacturers: royalties arising from the permission granted for the use and exploitation of the brand; and financial contributions from the manufacturer to alleged marketing programs.[70] This tax strategy is part of what this report calls phantom royalties and is discussed in more detail in Chapter 5.

The Federal Revenue Service has found concentrates being sold for 64 times more than the cost of production.[71] Specifically regarding Coca-Co-

67 ibid.

68 Relatórios anuais de fiscalização 2019-2020; 2020-2021; 2021-2022. https://www.gov.br/receitafederal/pt-br/centrais-de-conteudo/publicacoes/relatorios/fiscalizacao

69 ibid. Relatório 2020-2021, p. 23

70 ibid. Relatório 2021-2022, p. 20

71 Receita Federal. Análise da tributação do setor de refrigerantes e outras bebidas açucaradas.https://tributosaudavel.org.br/analise-da-tributacao-do-setor-de-refrigerantes-e-outras-bebidas-acucaradas/392/.

la, invoices obtained by the team at the website "o Joio e o Trigo" show that 1 kilo of Coca-Cola concentrate in the ZFM can cost up to 450 reais, six times the value of the same product on the foreign market.[72]

Despite this coverage of the fight against aggressive tax planning in the soft drink sector in the Federal Revenue reports up to 2022, subsequent IRS reports do not address the matter, also eliminating the section on "Combating fraud and tax evasion." However, the magic cashback of Coca-Cola and other companies has been given the green light to continue for decades in the Brazilian tax system, since the most recent tax reform, approved by Constitutional Amendment 132/2023, following strong lobbying from defenders of the ZFM in the National Congress, confirmed that **the benefits of the ZFM will be guaranteed until 2073, including the tax credit system, with some limitations.[73] Given that the IPI exemption has existed since 1967, this incentive has been in effect for 56 years, which, added to this deadline, could give Coca-Cola and other companies in the Manaus Free Trade Zone 106 years of tax incentives.**

State incentives

Although there is no database that consolidates tax incentives at state level, it is possible to generalise, for the incentives that benefit the Coca-Cola Brazil System, that they will mostly target the ICMS, the primary state-level value-added tax, and are structured around regional development policies. However, we don't have access to the values of the incentives, per incentive or per beneficiary, or information as to whether they are actually meeting their original objectives, such as job creation and industrialization.

Just as at the federal level, Recofarma seems to be the largest beneficiary of tax incentives at the state level, due to the significant tax waiver it receives from the Amazonas State Government related to the ZFM. In this state, tax incentives are consolidated through the ICMS Incentive Credit policy (Crédito Estímulo de ICMS in Portuguese), which benefits companies located in the ZFM by reducing the tax on products manufactured in the region to stimulate production. Recofarma benefits from a 90.25%

72 IJF. A Coca-Cola, a Zona Franca de Manaus e o rombo de 7 bilhões. https://ijf.org.br/a-coca-cola-a-zona-franca-de-manaus-e-o-rombo-de-7-bilhoes/

73 Some limits have been set: article 452 of LCP 214/2025 states that the presumed IBS and CBS credits can only be used for offsetting, respectively, against the amount of IBS and CBS owed by the taxpayer, with offsetting against other taxes and reimbursement in cash being prohibited.

reduction in the ICMS for the production of its syrup.[74] However, the actual value of the waiver is unknown due to the lack of annual reports from Recofarma or transparency regarding waiver data from the Amazonas State Government.

Given this data limitation, the reports made available by Solar, the only company from the Coca-Cola Brazil System that publishes annual financial statements with specific tax incentive data for Brazil, are the gateway to understanding what incentives the Coca-Cola Brazil System may be receiving in Brazil at the state level.

Solar is an example of how Coca-Cola has concentrated the drinks market in Brazil. It was created from the merger, in 2013, of the companies Norsa, Renosa and Guararapes, extending the business of the Jereissati family, from Ceará, over all the states of the Northeast and part of Mato Grosso, through a partnership with another family, the Mellos. Both groups expanded in the 2000s, buying up regional soft drinks factories, expanding the Coca-Cola Brazil System's presence in the states and stifling competition.[75]

Research by the *O Joio e o Trigo* portal based on the company's accounting reports and Freedom of Information laws revealed that, in eight years, Solar received R$1.6 billion in ICMS incentives across the country, as well as R$1.5 billion in federal tax incentives.[76]

The study looked specifically at the case of Bahia, where over ten years Coca-Cola stopped paying R$541 million in ICMS due to the **Industrial Development and Economic Integration Programme**, which has given it an 81% tax exemption since 2010. *Joio* also found incentives linked to ICMS in Pernambuco, Ceará, Alagoas, Rio Grande do Norte, Maranhão and Mato Grosso, and concluded that in states where the incentives don't exist or have been closed down, such as Piauí, only distribution centres and sales offices remain.

Solar has found fertile ground in offers of tax incentives in the north-east of Brazil, and has financed the expansion of its factories and product lines

74 Governo do Estado do Amazonas. DECRETO Nº 52.572, DE 26 DE SETEMBRO DE 2025. https://sistemas.sefaz.am.gov.br/get/Normas.do?metodo=viewDoc&uuidDoc=3f36f8d8-8c1b-4d6a-9c0c-49588cd24b48

75 O Joio e o Trigo. "Coca-cola poupou R$540 milhões com incentivos fiscais no estado da Bahia na última década". Disponível em: https://ojoioeotrigo.com.br/2021/07/coca-cola-bahia-tem-540-mi-isencao-tributaria/

76 ibid

with the support of state governments. In recent years, the company has invested with the support of tax incentives especially in the states of Alagoas, Ceará, Maranhão and Pernambuco, with programs such as:

- Alagoas: **Integrated Development Programme (PRODESIN).** This incentive offers a 92% reduction in ICMS on the sale of manufactured products[77], as well as deferral of payment of the same tax on the purchase of equipment, raw materials or natural resources.

- Ceará: **Industrial Development Incentive Programme (PROVIN**). The incentives are based on the deferral of up to 75% of the ICMS generated on sales, based on scores that take into account job creation, research programmes and social projects. There is also the possibility of a 100% ICMS deferral for imports of machinery, equipment, raw materials and inputs.[78]

- Pernambuco: **Pernambuco Development Programme (PRODEPE)[79].** PRODEPE's tax incentives cover two bottle production lines, returnable and PET bottles. The benefits of the programme are a reduction in ICMS and deferral of the presumed credit.

- Maranhão: **Maranhão State Industry and Foreign Trade Support System (SINCOEX)**, an ICMS credit policy that guarantees a 65% to 95% reduction in the calculated value, which can be adjusted depending on the incentive's application term. The Maranhão program has one of the longest benefit periods compared to the tax incentive policies that Solar is covered by, offering up to 15 years of benefits, with 95% of the ICMS value granted as a presumed credit for businesses established in one of the 30 municipalities with the lowest HDI in the state. An 85% rate and a 12-year deadline for the creation of 500 direct jobs; a 70% rate with a 10-year

77 Governo do Estado de Alagoas. "Com apoio do Governo de Alagoas, Solar Coca-Cola investe mais de R$25 milhões no estado". Disponível em: https://cbnmaceio.com.br/noticia/4299/retomada-economica-al-recebe-investimento-exclusivo-da-solar-coca-cola#:~:text=O%20novo%20sabor%20caju%2C%20que,sendo%20fabricado%20na%20unidade%20alagoana.

78 Governo do Ceará. "Governo do Ceará e Solar Coca-Cola firmam memorando garantindo investimento de R$ 306 milhões nos próximos dois anos". Disponível em: https://www.ceara.gov.br/2024/08/05/governo-do-ceara-e-solar-coca-cola-firmam-memorando-garantindo-investimento-de-r-306-milhoes-nos-proximos-dois-anos/

79 SUAPE. "Com apoio do Governo do Estado, indústria de bebidas amplia investimentos em Pernambuco com aporte de R$ 700 milhões e geração de 300 empregos diretos". https://https://www.adepe.pe.gov.br/com-apoio-do-governo-do-estado-industria-de-bebidas-amplia-investimentos-em-pernambuco-com-aporte-de-r-700-milhoes-e-geracao-de-300-empregos-diretos/

deadline for the expansion of existing businesses; and a 65% rate for the modernization/relocation of companies within the state.[80]

One can conclude that, in addition to paying reduced federal taxes, the Coca-Cola Brazil System also benefits from a series of state incentives, reducing the collection of the main state tax in at least seven states. **Some media coverage vaunts the benefits of certain incentives, but the lack of transparency regarding their results and fiscal impact is striking, preventing any in-depth assessment.** Although the problem is similar at the state and federal levels, the situation at the former is more complicated, as not even the total tax waiver amounts are publicly available.

5. The case of phantom royalties

In addition to taking advantage of tax incentives at federal and state level in Brazil, Coca-Cola also has tax planning strategies in Brazil and around the world related to its use of royalties, which, because they strain the boundaries between legality and tax avoidance, are under investigation by tax authorities around the world.

Royalties are payments made to the owner of intangible assets or natural resources for their use, exploitation, production or commercialisation, such as the right to exploit intellectual property (be it scientific, industrial, literary or artistic) and the right to extract natural resources. The function of royalties is to compensate the owner of the asset, be it the state, a company or an individual, for its economic use and its value is usually a percentage of the revenue obtained from the third party's use of the asset.

In the business world, royalties are paid when a company buys the right to use the intellectual property (such as trademarks, patents and secret formulas) of another company. In order to respect the arms' length principle – which, as seen in Chapter 3, states that companies part of the same multinational must establish relations between themselves comparable to those of the market – the payment of royalties must take place on the same terms and at the same value as they would with unrelated parties,

80 Secretaria da Fazenda do estado do Maranhão. "Governo anuncia medidas para incentivar o desenvolvimento do Estado". https://sistemas1.sefaz.ma.gov.br/portalsefaz/jsp/noticia/noticia.jsf?codigo=2541

to avoid them being used to transfer profits between countries and avoid paying taxes.

However, the payment of royalties is a frequent tool in tax planning aimed at shifting profits. This is because brands and patents are intangible assets with unique characteristics, which means that transactions with royalty payments of this nature are not easily comparable, creating a loophole where the company gets to decide how much the use of its own brand is worth. This causes certain companies, in international operations, to use inflated royalty payments to reduce profits in a high-tax country and increase profits in a low-tax country.

The most traditional way of using royalty payments as a profit shifting scheme is overcharging countries where the selling of products happens with royalty fees from subsidiaries of the company in tax havens. For example, the case of McDonalds reported in 2020, when McDonald's main subsidiary in Australia paid service fees of US$602 million to a shell company in the UK, McDonald's Asia Pacific, more than double its total employee expenses for the year. If McDonald's Australia can shift its profits to its related companies in tax havens through artificially created royalty payments, then it doesn't have to pay Australia's 30% company tax rate on these profits.[81]

In the case of Coca-Cola, it is the other way around, the apparent non-payment of royalties seems to be a way of avoiding tax payments. Royalties should be paid between the independent bottlers and the Coca-Cola subsidiaries for the use of the syrup and TCCC brand. What we will see below, however, is a succession of cases in which Coca-Cola does not appear to have charged the bottlers any royalties, patents or brand use, but has overcharged on dividends or on the price of the syrup in order to apparently disguise the payment of royalties, avoiding royalties tax and tax deductions' limitations.

The agreements for the use of Coca-Cola brands by bottlers, the "Bottler's Agreements", are not available to the public. However, tax authorities around the world have noticed a lack of payment of royalties. It is suspicious for a company with one of the greatest brands in the world to appear to be giving away the right to use Coca-Cola intellectual property

81 Michael West Media. The Big Mac of avoidance: how intellectual property payments eat our tax revenue. https://michaelwest.com.au/the-big-mac-of-avoidance-how-intellectual-property-payments-eat-our-tax-revenue/

for free. The amount that should be paid is unknown, what we know is that, according to the company, the value of its "trademarks with indefinite lives" was US$13.3 billion in 2024.[82] Trademarks with indefinite lives are brands, symbols, or names that are expected to continue generating cash flow and provide economic benefits indefinitely due to the ability to renew them perpetually, such as logos and brand names.

Only a fraction of the trademark value will be charged as royalties, however in the cases the report will cover from now on it appears that this fraction is very close to zero. Looking at all these cases, it is clear that the close relationship between the bottlers, the largest of which are partly owned by Coca-Cola, and Coca-Cola may be hiding billions in unpaid taxes in Brazil and around the world.

UNITED STATES

In August 2024, Coca-Cola paid US$6 billion to the Internal Revenue Service (IRS) due to a dispute with the IRS that began in 2015 and continues to this day, also involving the US Tax Court.

In 2015, the IRS concluded that, from 2007 to 2009, **TCCC failed to receive more than US$9 billion in royalties from seven related parties located outside the US**, which had artificially inflated revenues: Brazil, Chile, Costa Rica, Egypt, Ireland, Mexico, and Swaziland. The Irish and Brazilian subsidiaries were responsible for approximately 85% of the disputed income adjustments. This resulted in a tax deficit of US$3.3 billion, plus interest.[83]

These subsidiaries manufacture and sell syrups to bottlers. The IRS's argument is that the formula used by TCCC to pay royalties from its subsidiaries to TCCC overcompensated the supply points and undercompensated Coca-Cola for the use of intellectual property, keeping profits away from the US. Coca-Cola shifted syrup production to countries with more favorable tax rates. The subsidiary in Ireland, for example, reportedly shipped the concentrate to bottlers in 90 different countries. The IRS's analysis reportedly found that these Coca-Cola subsidiaries were exceptionally

82 The Coca Cola Company 10K 2024, Consolidated Balance Sheet, p. 64. https://investors.coca-colacompany.com/filings-reports/all-sec-filings/content/0000021344-25-000011/ko-20241231.htm#i9dbdca2a3d754daa96efadd0a7b755b5_118

83 Reuven S. Avi-Yonah and Gianluca Mazzoni. Coca Cola: A Decisive Coca Cola: A Decisive IRS Transfer Pricing Victory, at Last, p. 3, n. 4; https://repository.law.umich.edu/cgi/viewcontent.cgi?article=1312&context=law_econ_current

profitable, earning returns two and a half times higher than the US parent company.[84]

Coca-Cola, in its global annual report, claims that the dispute is still going on and expects a victory. However, **the company estimates that if they lose the case definitively and the IRS expands the analysis to all payments between 2010 and 2025, the bill could reach $14 billion, more than a year's worth of TCCC's profits, which were $13.2 billion in 2025.[85]** Given the company's own estimate, it appears that this phantom royalties scheme continued to operate at least until 2024.

BRAZIL

In the IRS case against Coca-Cola, one of the subsidiaries accused by the IRS of not sending royalty funds to TCCC was the Brazilian Coca-Cola Indústrias Limitada. On paper, the Brazilian company paid no royalties to the American company between 2007 and 2009. However, TCCC calculated that the Brazilian subsidiary owed US$887 million in compensation for the use of TCCC's intangible assets and forced the company to pay dividends that covered this amount. The total amount paid by Coca-Cola Indústrias in dividends to TCCC was US$1.35 billion during the period.

The American Tax Court, however, deemed the amount of US$887 million insufficient, and, applying the arm's length principle, decided in 2023 that the Brazilian subsidiary should have paid US$1.768 billion to the North American parent company for the use of its patents and trademarks registered between 2007 and 2009. Having already paid US$887 million in royalties, albeit disguised as dividends, Coca-Cola Indústrias Ltda. should still have paid, according to the American decision, US$882 million.[86]

TCCC's justification to the US Court for disguising royalty payments as dividends is the Brazilian law, which at the time imposed a limit on royalty

84 Infomoney. Coca-Cola pode ter de pagar R$ 90 bi a fisco dos EUA — mas risco não entra no balanço. https://www.infomoney.com.br/business/coca-cola-pode-dever-r-90-bi-aos-eua-mas-por-que-esse-risco-nao-entra-no-balanco/#:~:text=A%20disputa%20judicial%20envolve%20subsidi%C3%A1rias,que%20a%20matriz%20nos%20EUA.

85 The Coca-Cola Company. 10K. 2025, p.61; p. 31 https://www.sec.gov/Archives/edgar/data/21344/000162828026010047/ko-20251231.htm#ia2cb76fa2c6c4a82a91d7a0d2310cb54_124

86 Coca-Cola Co. et al. v. CommissionerTHE COCA-COLA COMPANY AND SUBSIDIARIES, Petitioner v. COMMISSIONER OF INTERNAL REVENUE, Respondent United States Tax Court. Filed November 8, 2023 p. 3 https://www.taxnotes.com/research/federal/court-documents/court-opinions-and-orders/tax-court-upholds-coca-cola-transfer-pricing-adjustment/7hjml

remittances. This pro-development policy, in effect from the 1950s until 2022, established that royalty payments by Brazilian companies to companies abroad were tax-deductible, but limited to 5% of gross revenue.[87] This restriction was intended to curb abuses in the payment of royalties by companies within the same economic group and to burden technology transfers. With Brazil's adoption of transfer pricing rules in line with OECD standards in 2023, these strict limitations were revoked; however, if the limits had been applied, the royalties paid by Coca-Cola Indústrias Ltda to TCCC would have been limited to US$56 million.[88] Given that the limits existed not only between 2007 and 2009, and that the IRS will possibly expand the case to additional years if they win on the Court, the amounts sent over the limit were likely much larger than the hundreds of millions analyzed here.

However, as this limit was not respected in practice, the American Court did not accept this justification and stated that TCCC assumed the position that Brazilian law allowed it to receive dividends instead of royalties as compensation for the use of TCCC's intangible assets, and, therefore, the Court can charge TCCC the amount it considers correct for the use of the trademark, despite the limitations of Brazilian law[89].

By not recognising the payment of royalties, not only does the TCCC reduce taxation in the United States, but also taxes on remittance of income abroad in Brazil, because while dividends were tax-free in Brazil, the payment of royalties is subject to a 15% Withholding Income Tax (IRRF), 10% CIDE-Royalties, as well as 0.38% Financial Operations Tax (IOF).

Instead of deciding that Brazilian legislation was being misinterpreted and that the limit should have been applied, the US tax authorities validated the TCCC manoeuvre in order to guarantee revenue. Tax disputes are normal among countries, and each country defends its own taxable base. However, it is undeniable that the Coca-Cola brand adds significant

87 Law 4.131/1962 (Art.12) and 3.470/1958 (Art. 75)

88 Coca-Cola Co. et al. v. Commissioner THE COCA-COLA COMPANY AND SUBSIDIARIES, Petitioner v. COMMISSIONER OF INTERNAL REVENUE, Respondent United States Tax Court. Filed November 8, 2023 p.8 https://www.taxnotes.com/research/federal/court-documents/court-opinions-and-orders/tax-court-upholds-coca-cola-transfer-pricing-adjustment/7hjml

89 Ibid, see paragraph: "For 2007-2009 the Brazilian legal restriction capped total royalty payments from the Brazilian supply point to petitioner at $56 million. But petitioner caused the Brazilian supply point to pay dividends of [*13] $886,823,232 and treated that amount as compensation for use of TCCC's intangibles. We assume that petitioner did not think it was impermissibly "circumventing Brazilian law" by doing this. That being so, it is hard to see how petitioner would be circumventing Brazilian law by causing the supply point to remit a larger volume of dividends as compensation for use of TCCC's intangibles"

value to the sale of the product and therefore the payment of royalties should be part of the company's business practice. **If the limit on royalty payments set by the Brazilian government had been respected by Coca-Cola, Coca Cola Indústrias Limitada would have made more profits and paid more taxes in Brazil. The lesson here is that the Brazilian government should also fight for its own taxable base, making sure royalties are not being used to profit shift money from Brazil to the rest of the world.**

Phantom Royalties in Sudam and Sudene

Coca-Cola's use of phantom royalties in Brazil, however, is not restricted to Coca-Cola Indústrias Limitada and could also be related to Recofarma and its commercial relations to the bottlers.

According to the Federal Revenue Service, the non-payment of royalties by sugary drinks companies is part of the tax incentives related to the 75% reduction in income tax (IRPJ) for companies in Sudam and Sudene.[90] The legislation establishes that suppliers are entitled to a 75% discount on IRPJ, but they cannot discount revenue from royalties given that the incentive is based on operating profit (and not the regular accounting profit), which only takes into account the revenue from goods and services produced[91].

However, the Federal Revenue Service analysis found that some soft-drink companies in Manaus that work with foreign brands were not respecting this legislation. **The ploy allegedly used to take advantage of the corporate income tax reduction was to deny that any royalty payments exist, when in fact the royalties would be embedded in the price charged to drinks manufacturers for the purchase of their products.[92]**

Although the Receita Federal's analysis does not mention Coca-Cola specifically, evidence suggests that Recofarma is likely one of the companies carrying out this tax manoeuvre. Recofarma has received R$ 681.1 million in tax incentives for the Sudam tax incentive in 2024, 40% of all tax in-

90 Receita Federal. Análise da tributação do setor de refrigerantes e outras bebidas açucaradas.https://tributosaudavel.org.br/analise-da-tributacao-do-setor-de-refrigerantes-e-outras-bebidas-acucaradas/392/.

91 Resolução SUDAM/CONDEL Nº 123 DE 03/12/2024. Art. 33. https://www.legisweb.com.br/legislacao/?id=471900

92 ibid.

centives declared by the company for that year. Furthermore, **analysing the reports available from the bottlers (Solar, Andina e Femsa), none of them mention the annual payment of royalties to Recofarma, only the purchase of the concentrates.** While Solar paid R$1.7 billion in concentrates to Recofarma in 2025, Coca-Cola Andina paid R$180.9 billion to the company in the same period.[93]

The case reached the Administrative Council of Tax Appeals (CARF), specifically involving Recofarma and its relationship with bottling companies. In 2024, according to Ruling 1004-00.144, the decision-making body of this agency, CARF determined that a significant portion of the amount paid by bottlers to Recofarma between 2014 and 2016 did not correspond to the price of goods, but to royalties for the use of the Coca-Cola brand and formula. If part of the payment were recognized as royalties, Recofarma would face higher income tax and CIDE (Contribution for Intervention in the Economic Domain) rates, while for the bottlers, the IPI (Tax on Industrialized Products) credit would disappear on the royalty portion, as it is not a purchase of goods. The assessed value was R$ 2.4 billion. In 2026, the company had a special appeal partially admitted, thus maintaining the litigation phase of the procedure.[94]

Phantom royalties seem to be part of both the relationship between the main Brazilian subsidiary and the parent company in the United States, and the relationship between Coca Cola's main manufacturer in Brazil and the bottlers. **These various cases demonstrate that Brazil, as well as providing billions in tax incentives, is also penalised by aggressive corporate tax planning, which has for decades deprived Brazil of funding for public services.**

Australia

In 2023, according to court documents obtained from Coca-Cola's appeal against an assessment by the Australian Taxation Office (ATO), the corporation transferred AUD$435 million in profits overseas between 2018 and

93 ITR Solar Bebidas 4T25, p. 55. https://ri.solarbr.com.br/informacoes-financeiras/central-de-resultados/ ; SEC. FORMULÁRIO 20-F. 2025. Embotelladora Andina S.A p.F-49

94 Acórdão (1004-00.144) https://carf.fazenda.gov.br/sincon/public/pages/ConsultarJurisprudencia/listaJurisprudenciaCarf.jsf

2019 and could be liable for AUD$174 million under Australia's diverted profits tax.[95]

According to press reports, the ATO alleged that "Coca-Cola licensed its trademarks, formulas and branding to an Australian-related party, Coca-Cola Amatil Australia (CCAA) but mischaracterised payments made under this agreement to escape paying royalties withholding tax."[96] The agreement, which dates back to 2006, allowed CCAA to obtain the right to use intellectual property, including trademarks, to prepare, package, distribute and sell Coca-Cola beverages.

According to the ATO, "no royalties were paid or recorded as payable" because the agreement falsely characterised the payments made as only a purchase of concentrates and beverage bases.[97]

Coca-Cola admitted to having a minority stake in the parent company of CCAA, but claimed that the transaction with the concentrate manufacturer, a subsidiary of The Coca Company of Singapore, was carried out at arm's length and was not intended to artificially reduce tax payments in Australia.

The outcome of the ATO's may be affected by the Australian High Court's decision in a similar case with Pepsi. In that case, Schweppes Australia claimed to have paid PepsiCo in Singapore exclusively for the concentrate it used to bottle and sell PepsiCo soft drinks in Australia. The contract between the two companies stipulated that no royalties were due for the use of intangible assets such as trademarks and the soft drink recipe.

The ATO argued that only part of the payment related to the concentrate and that part of the payment was necessarily a royalty payment that should be taxed by Australian Law. However, in August 2025 the High Court ruled that the money paid by Schweppes to the Singapore Pepsi company for concentrate did not include a component that was a royalty for intellectual property, and none of the payments were credited to the American Pepsi companies.[98] As the ATO says it will review the Court's

95 Accountants Daily. "ATO pursues Coca-Cola for $174m diverted profits tax". https://www.accountantsdaily.com.au/tax-compliance/19385-ato-to-take-on-coca-cola-in-174m-diverted-profits-battle#:~:text=The%20Coca%2DCola%20Company%20shifted,against%20the%20ATO's%20assessments%20reveal .

96 ibid.

97 ibid.

98 ABC. ATO's call for PepsiCo to pay Australian tax over exclusive bottling deal thrown out by High Court. ttps://www.abc.net.au/news/2025-08-13/high-court-pepsico-australian-tax-office-thrown-out-/105647156

decision to assess if it has a wider implication on its tax rulings, this could mean that Coca Cola will also be discharged for its phantom royalties.

Regardless of the final legal outcome, it appears that Coca-Cola and Pepsi intend to continue to deny any royalty payments between companies in the sale of their concentrated syrups, shifting profits from Australia to Singapore, one of Asia's biggest tax havens.

Israel

A phantom royalty scheme has been investigated in Israel and could result in the collection of unpaid taxes of more than ILS 150 million (R$45.8 million) in the years 2010 to 2017, and tens of millions of shekels in taxes in the following years. Central Bottling Co. is an Israeli bottler that has held the distribution rights for Coca-Cola since the 1960s. It makes payments to Atlantic Industries, a company incorporated in Ireland that sends invoices stating that it is incorporated in the Cayman Islands, but has no bottling contracts with that company.[99]

It has not been disclosed with which Coca-Cola entity it has bottling contracts, but as a result of the case brought by the Israeli tax authorities, we know that Central Bottling Co.'s bottling contracts "do not require licence payments for the use of intellectual property."[100]

The judge's comments in the case point to the absurdity of the claim that Coca-Cola would allow the bottler to use its intellectual property for free. He noted that **"the marketing of the final product would not be possible without the use of Coca-Cola's global reputation and strong trademark, which are powerful economic assets**."[101] The Central Bottling Co.'s defence in the case included the argument that it is not a related party of the Coca-Cola group. **In this case, it would seem even more absurd for Coca-Cola to give away its intellectual property without royalties or licence fees.**

Although Central Bottling Co has said it will appeal the ruling, the judge's decision in favour of the Israeli tax authorities in September 2024 is an

99 Globes. Ela Levi-Winrib. Court Rules Against Coca-Cola Israel in Huge Tax Dispute. https://en.globes.co.il/en/article-court-rules-against-coca-cola-israel-in-huge-tax-dispute-1001489059

100 Alexander F. Peter, "Bottlers' payments to Coca-Cola are subject to RHT, says Israeli court", Tax Notes International, Vol 115, 23 September 2024, p2087-2088.

101 ibid

important step towards controlling the soft drinks companies' phantom royalty scheme.[102]

Recommendations

Coca-Cola's tax behavior is harming public finances around the world, including Brazil, and putting more money in the pockets of the wealthy. These aggressive tax planning schemes by the corporation must be exposed and governments called to take action. As part of the increased oversight and taxation of multinationals and pressure for taxation of the wealthy, the legal loopholes that allow this behavior must be closed in Brazil and worldwide.

To hold the corporation accountable for its aggressive tax maneuvers and prevent other companies from applying the same strategies, measures are needed to increase the transparency of multinationals, strengthen the ability to monitor and review tax incentives, and implement the new transfer pricing and global minimum tax rules. In this sense, the recommendations of this study are divided into thematic areas.

TAX INCENTIVES AND TAX REFORM IN BRAZIL

- **Federal tax incentives:** Despite the enormous advances in transparency, which have made this research possible, a comprehensive process of evaluating and reviewing tax incentives is still necessary. This is especially needed for those that have been in the Brazilian budget for decades and have never been properly evaluated, such as the Manaus Free Trade Zone and the benefits accorded by Sudam and Sudene. The evaluations conducted to date indicate a failure to promote regional development. The use and abuse of these incentives by large multinationals may be one of the reasons for this deficiency.

- **Coca-Cola's Magical Cashback:** The immediate revision of the IPI credit system enabled by the Manaus Free Trade Zone is imperative. It is also necessary to include the waivers of ZFM in the Complementary Law no. 224/2025. Besides, it is essential to combat the

102 Ofir Levy and Ofir Paz, "Towards a dramatic expansion of transfer pricing rules in Israel? The Coca-Cola court decision", Arnon Tadmor-Levy Insights. https://arnontl.com/news/towards-dramatic-expansion-of-the-transfer-pricing-rules-in-israel/

problems found by the Federal Revenue Service, such as improper tax classification, the non-utilization of regional raw materials, the overpricing of concentrate and the non-payment of royalties.

- **State incentives:** A national movement for transparency and evaluation of tax incentives at the state level is necessary, modelled on the high level of transparency available for federal tax incentives and enabling in-depth research on their effects on tax collection and economic development.

INTERNATIONAL TAX COOPERATION

- **Global Minimum Tax**: It is imperative to assess whether companies, including those in the Coca-Cola Brazil System, are actually paying the 15% minimum tax on corporate profits, as implemented in Brazil and dozens of countries worldwide, as this tax still applies even with tax incentives.

- **Royalty payments:** with the adoption of the arm's length principle in Brazil and other countries, Coca-Cola must adequately remunerate the brand and patents used in Brazil and worldwide. Therefore, tax authorities need the resources and capacity to enforce this principle. In Brazil, the restrictions on the payment and deductibility of royalties that the company previously used to justify the lack of remuneration no longer exist.

- **UN Tax Convention:** Despite advances within the OECD, current international tax rules continue to provide massive incentives for profit shifting. First, there is still a huge gap between the global average income tax rate, 23.5%, and the 15% minimum. Second, there are loopholes for tax havens to charge even less, such as bilateral agreements and the exception for "substance-based" economic activity. Third, smaller corporations and most investment firms will not be affected by these rules. Fourth, and perhaps most importantly, the exemption for US multinationals from the agreement greatly weakens its enforcement. Therefore, it is necessary to develop solutions beyond the OECD and deepen the debate in more democratic forums, such as the UN. In this sense, the Brazilian participation on the Intergovernmental Negotiating Committee on the United Nations Framework Convention on International Tax Cooperation is fundamental to propose real solutions and strengthen Brazil's tax sovereignty.

- **Tax incentives:** The problem of excessive fiscal incentives, with no proper evaluation nor expressive social and economic impacts is not just a Brazilian problem, but also a global one, which transforms them into fiscal privileges for the benefit of the economic elites. However, the level of transparency now in place for Brazilian tax incentives at Federal level should be an example for countries around the world. The Latin American and Caribbean Tax Platform PT-LAC is one of its most important objectives for fiscal waivers and is fundamental for its strengthening to avoid a race to the bottom between the countries in the region.

TRANSPARENCY

- **Country-by-county report:** Coca-Cola must publish country-by-country reports to address the lack of transparency regarding the effective tax rate and amount collected in each country where Coca-Cola operates. Country-by-country reports provide key information on tax, financial, and economic information in each country where the company operates. By providing clear data on the number of employees, revenue, profits/losses before taxes, and tangible assets, Coca-Cola will allow for scrutiny by society, which will allow us to conclude whether the payment of taxes is adequate in each jurisdiction - which does not appear to be the case in Brazil and the other countries analysed in this report.

- Beyond Coca-Cola, all companies that receive significant tax incentives in Brazil and worldwide, or that have economic activity relevant to a country's economy, should be required to publish country-by-country reports. Multinationals belonging to OECD countries are already required to prepare this document, but not to publish it, so there are no additional costs for companies. The publication requirement is already being implemented worldwide: The European Union and Australia recently passed this legislation, opening the doors for others to follow suit.