

TAX REFORM IN BRAZIL: MAIN PROPOSALS AND CURRENT STATUS

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1. Tax Reform - Which the main proposals and the current status?

This report aims to give an overview and clarify the discussions on the Tax Reform in the current status and allow to follow its evolution.

Tax Reform has been discussed for a long time, with several proposals submitted to the National Congress. The problems of the Brazilian Tax System are widely known to everyone. Noteworthy are the huge amount of tax types, the legislative complexity, the high tax burden for those who pay and the high tax evasion.

These are factors that do not allow the country to have economic competitiveness, consequently, it decreases the tax collection and many people recognize it as a non-evolutionary dynamic for the whole Brazilian society.

After most difficult phase of Social Security Reform, in recent months Tax Reform has become the main agenda in both, the National Congress and the Federal Government. This movement meets its purposes of simplifying bureaucracy and in line with the new position of the current government as of economic freedom and encouraging the entrepreneurship.

To better understanding of the proposals under discussion and the possible directions of the Tax Reform, we introduce a brief summary of the events in recent months.

We highlight three proposals that are in the National Congress, namely:

1. PEC 45/2019 by Federal Deputy Baleia Rossi (MDB / SP)
2. Substitute Amendment to PEC 45/2019 by Federal Deputy Luciano Bivar (PSL / PE)
3. PEC 110/2019 of Senator David Alcolumbre.

The proposal that had been discussed for years in the House of Representatives was PEC 293/2004 by Deputy Luiz Carlos Hauly. It was approved by the Special Committee in December, 2018, but it is stalled.

Then comes a new proposal in the House of Representative authorship of Deputy Baleia Rossi, PEC 45/2019, it was prepared based on studies and suggestions made by the Center for Fiscal Citizenship, led by economist Bernard Appy.

Substitute amendment to PEC 45/2019 was recently introduced by Federal Deputy Luciano Bivar (PSL / PE). The proposal was based on PEC 183/1999 and 474/2001 of former Deputy Marcos Cintra.

The Federal Senate has decided to present its proposal, through PEC 110/2019 authorship of Senator Davi Alcolumbre, elaborated based on PEC 293/2004 of Luiz Carlos Hauly.

Another text under discussion, authorship of the Committee of State Secretaries of Finance (Consefaz) and it will be presented as an Amendment to PEC 45/2019. In their proposal, removes from the Federal Government the management of the single tax to be created. It also proposes that if the government succeeds in unifying federal taxes, states will forward an alternative proposal, called Dual VAT, with mechanisms to offset losses and reduce regional balances.

There is also the Federal Government proposal that it will be submitted to the Congress in the coming days. Due to the controversy proposal of Government, to reinstate of the tax on the financial transaction (former CPMF), the Federal Revenue Secretary was recently dismissed from his position. According to the news from Agência Brasil, the Government economic team is working to formulate a new tax regime to correct distortions, simplify the tax law, reduce costs, unburden tax on families and relieve the payroll.

Another proposal widely reported in the media was the Institute Brazil 200, led by Flávio Rocha, who defended the single tax on financial transactions, but they decided do not submit its proposal.

2. Summary table of proposals

2.1. PEC 45/2019 – Deputy Baleia Rossi e others (based on study of Tax Citizenship Center)

Current Tax System Issues and Justifications	Proposals
<ol style="list-style-type: none"> 1. There are competitive distortions and it makes impossible to know the tax burden for citizens 2. Fragmentation of tax calculation basis 3. Non-cumulative tax system are not functionals. ICMS credits are not returned. Disproportionate burden on national production 4. “Tax war” between States and City Halls – the reason is tax collection at outgoing rather than incoming. 5. Huge amount of tax rates and full of exception rules. 	<ol style="list-style-type: none"> 1. Establishes the IBS – Tax on Goods and Services <ul style="list-style-type: none"> • Fully non-cumulative system • Exports – not applicable, with return of tax credits • Investments – not burden, instant credit return • National character and uniform tax law. Tax rate based on the sum of the federal, state and municipal rates. • Tax on incoming. 2. Establishes the IS - Federal Selective Tax <ul style="list-style-type: none"> • single-phase on consumer goods, such as cigarettes and alcohol and on imports. 3. Extinction of the taxes IPI, PIS, COFINS, ICMS and ISS. 4. Transition period: 10 years for the taxpayer and 50 years for States and City Halls.

2.2. Substitute Amendment to PEC 45/2019 - Deputy Luciano Bivar and others (based on PEC 183/1999 and 474/2001 former Ex-Deputy Marcos Cintra)

Current Tax System Issues and Justifications	Proposals
<ol style="list-style-type: none"> 1. The proposals of IBS taxation presents advances, but maintains the archaic tax structure of VAT model, whose efficiency is questioned in the countries that adopted it, specifically regarding tax evasion. 2. The VAT model is a taxation form of the analogue era, with regionalized production, while today is inaccurate and undefined in a digital and globalized economy. 3. The current system has difficulty of inspection and audit. 	<ol style="list-style-type: none"> 1. Establishes the IUF - Federal Single Tax, rate as of 1.611% on debit and credit financial transactions. 2. Taxation on transactions and payments outside the financial system to avoid tax evasion. 3. Extinction of taxes IPI, IOF, ITR, COFINS, CSLL, INSS on payroll, third party INSS (S System), education salary, Cide-fuels, Cide-remittances and the possibility to implant the taxation on big fortune). 4. Maintains the income tax (IR), FGTS, PIS, INSS individual contribution, service fees 5. Transition period: There is no prediction in the proposal.

2.3. PEC 110/2019 - Senator David Alcolumbre (based on PEC 293/2004 of Deputy Haully)

Current Tax System Issues and Justifications	Proposals
<ol style="list-style-type: none"> 4. Tax reform is fundamental to the country's development. 5. The proposal reproduces the text of the tax reform of Deputy Luiz Carlos Haully. 6. Need to simplify the tax system 7. Need to reduce the tax impact on the poorest. 	<ol style="list-style-type: none"> 1. Establishes the IBS (Single Goods and Services Tax) <ul style="list-style-type: none"> • State competence • Without taxing medicine and food 2. Extinction of IPI, IOF, PIS, COFINS, education salary, Cide-Fuels, ICMS and ISS. 3. Establishes the IS - Federal Selective Tax <ul style="list-style-type: none"> • On oil and oil products, fuels and lubricants, cigarettes, electricity and telecommunications. 4. Transition Period: 14 years

3. Comparative Table of Proposals

	PEC 45/2019 House of Representative – Deputy Baleia Rossi	Substitutive Amendment to PEC 45/2019 – House of Representative - Deputy Luciano Bivar	PEC 110/2019 Federal Senate – Senator Davi Alcolumbre
What do they establish?	IBS – Tax on Goods and Services IS – Selective Tax	IUF – a Single Federal Tax	<ul style="list-style-type: none"> • IBS - Taxes on Goods and Services • IS - Selective Tax • CBS - up to 1% (for one year)
What do they extinguish?	<ul style="list-style-type: none"> • Federal: IPI, PIS e COFINS • State: ICMS • City Hall: ISS 	<ul style="list-style-type: none"> • Federal: IPI, IOF, ITR, COFINS, CSLL, employer INSS , third parties INSS (S Sistem), education salary, Cide-fuel, Cide-on remittances and the possibility of taxation on big fortune. 	<ul style="list-style-type: none"> • Federal: IPI, IOF, PIS, COFINS, education salary, Cide-fuels • State: ICMS • City Hall: ISS
Differences between the proposals	<ul style="list-style-type: none"> • Non-cumulative • Maintains equivalent rate to the current taxation (average rate 35%) 	<ul style="list-style-type: none"> • Cumulative • Basis on financial transaction: debt and credit • Rate: 1,611% 	<ul style="list-style-type: none"> • Non-cumulative • Maintains equivalent rate to the current taxation (average rate 35%)
Transition period	<ul style="list-style-type: none"> • Taxpayer - 10 years, 2 years trial and 8 years transition • States and City Halls' entities - 50 years, being 20 years (replacement, through fund) and 30 years (gradual reduction of replacement 1/30 per year). 	<ul style="list-style-type: none"> • There is no transitional period. 	<ul style="list-style-type: none"> • Total Transition period - 14 years.

4. Comments to the Proposals

The Tax Reform, besides being a long process due it is constitutional amendment, needs to reconcile interests, whether of the business community, the disputes between House of Representatives and the Federal Senate, the Federal Government and the Governments of the States, Federal District and City Halls. Therefore, it takes time, patience and a lot of negotiating skills.

The content of the proposals we have summarized previously may change significantly until final approval. However, there is a general consensus on two points:

- a) the need to simplify and reduce the bureaucracy in tax rules.
- b) not to increase the tax burden.

In the end, it is hoped that politicians and Government will be able to choose what it is the best for the development of Brazilian society as a whole, with a medium and long term vision.

According to the news, as of Agência Brasil, both Government and Congress are interested in approving the Tax Reform Proposal in one of the houses of the National Congress by the end of this year and during the year 2020 to approve the Constitutional Amendment.

After the approval of the Constitutional Amendment, it is necessary to draft and approve the Complementary Law of the new taxes, which should occur during the year 2021.

If we consider that all goes well, from 2022 we will have a new Brazilian tax system in force. Year in which the country celebrates the birthday of two (2) centuries of its independence and there is an interest, whether from politicians as well as of government, to mark this celebration with a more modern and competitive country.

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