



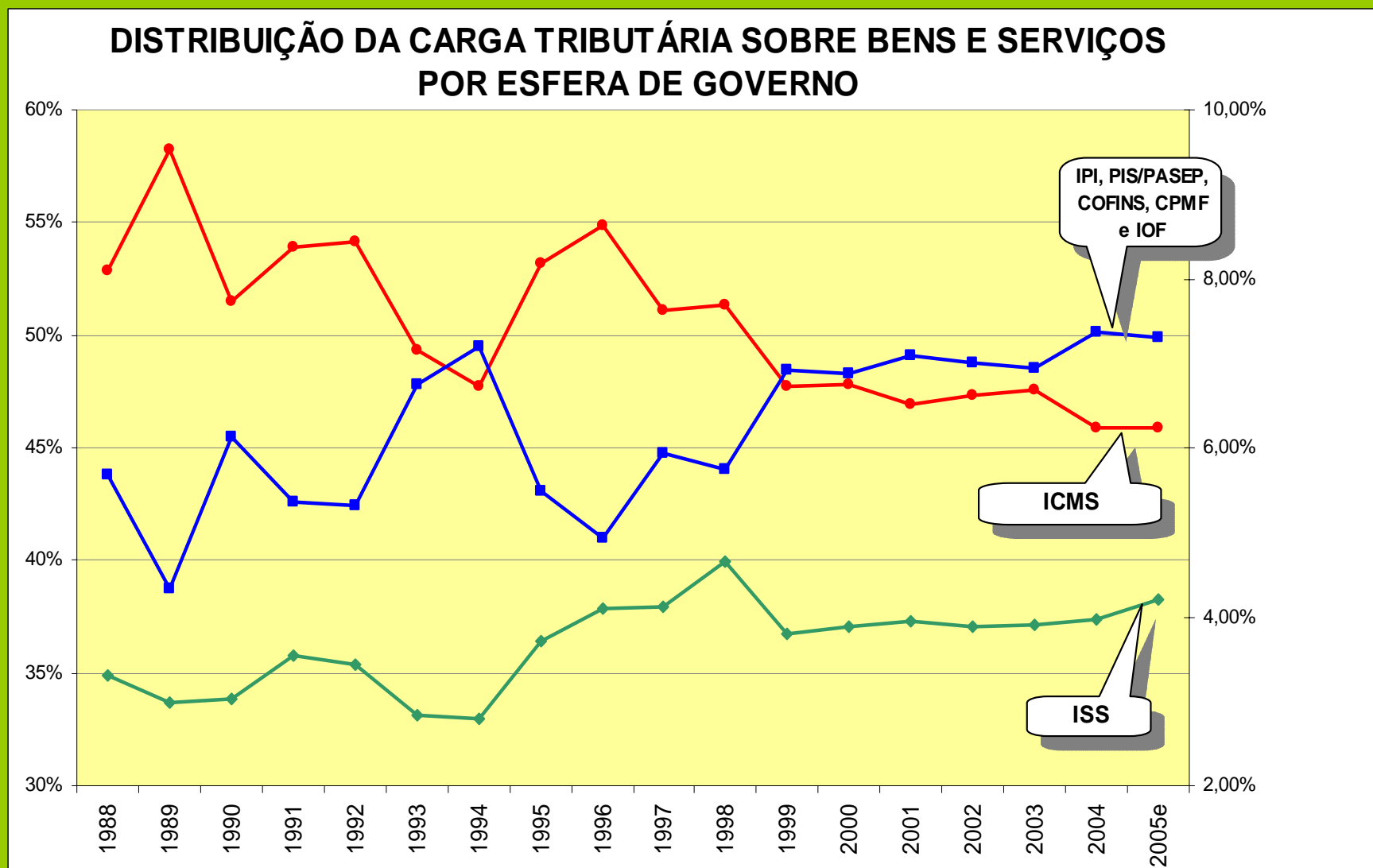
**Fórum Fiscal  
dos  
Estados Brasileiros**

# THE WEAKENING OF THE STATES TAX ROOM IN BRAZIL

# Characteristics of Current System of Indirect Taxation in Brazil

- Expansion of social contributions on the basis of ICMS by the Federal Government – PIS/COFINS/CPMF;
- Expansion of incidence of municipal ISS (LC no. 116/03);
- Institution of unified “Super Simples” tax regime
- Concentration of collection in States using “selective” ICMS
- Expansion of the regime of Tax Replacement
- Hybrid system of origin and destination

# EXPANSION OF TAXATION ON THE BASIS OF ICMS BY DIFFERENT LEVELS OF GOVERNMENT



Source: COTEPE and Department of the National Treasury

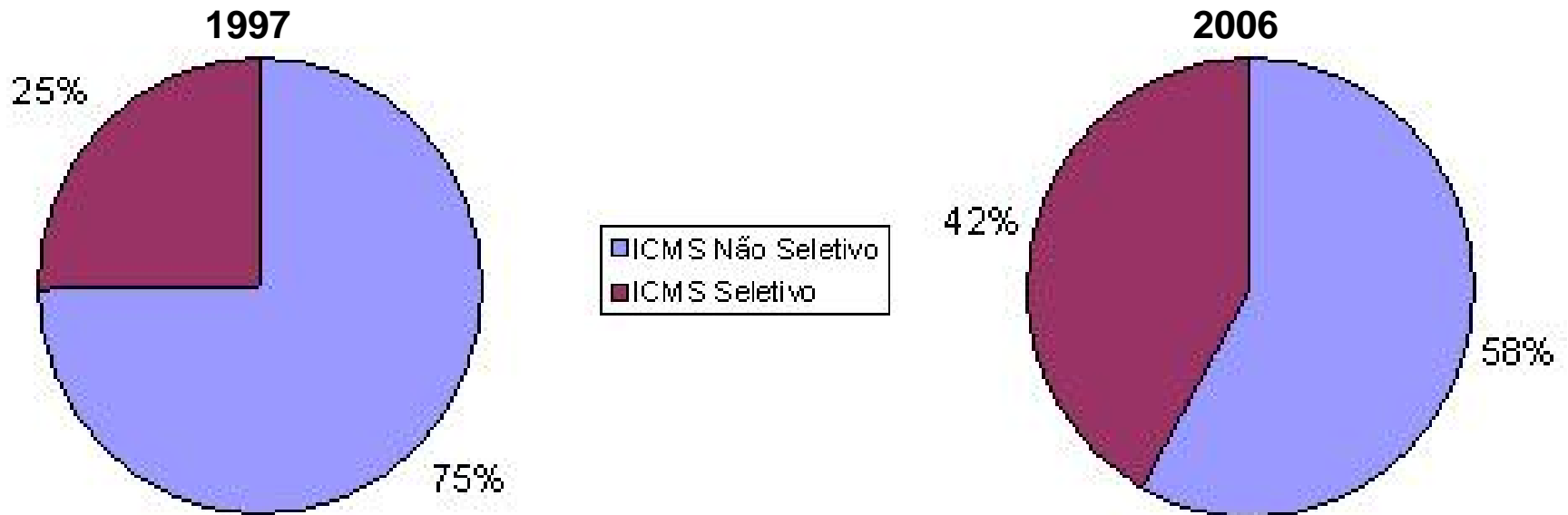
# INSTITUTION OF UNIFIED “SUPER SIMPLES” TAX REGIME

- Large universe of taxpayers subject to regime, breaking the VAT chain and introducing a great deal of cumulativeness in the system = encouraging tax evasion;
- Return to “*IVC*”?
- Tax regime on business and not on consumption
- This regime is incompatible with adoption of the national harmonized dual VAT
- Election year promises – simplemindedness and not simplification

# Concentration in “Selective” ICMS

*Using tax bases where collection is easiest: ICMS charged on oil, electricity and telecommunications with characteristics of selective taxation*

## **Brazil – Composition of “selective” ICMS collection in Total ICMS**



Source:  
COTEPE

# Concentration in "Selective" ICMS

## Participação do ICMS "Seletivo" no ICMS Total Arrecadado Por Cada Estado

UF	1997	2006	UF	1997	2006
Amapá		58,6%	Santa Catarina	34,7%	48,2%
Paraná	37,2%	55,8%	Rio de Janeiro	29,4%	48,2%
Mato Grosso Sul	36,3%	52,8%	Minas Gerais	29,3%	47,0%
Maranhão		50,6%	Paraíba		47,0%
Piauí		50,4%	Pernambuco	20,9%	46,5%
Pará		50,0%	Roraima		45,9%
Ceará	24,3%	49,8%	Rio Grande Sul		45,1%
Bahia	33,8%	48,9%	Goiás	30,9%	45,1%
Mato Grosso	28,5%	48,7%	São Paulo	25,9%	36,3%
Distrito Federal	41,2%	48,5%	Espírito Santo	15,0%	31,2%
<b>TOTAL BRASIL (apenas dados consistentes)</b>				<b>27,5%</b>	<b>42,9%</b>

Source:  
COTEPE

# Expansion of the regime of Tax Replacement

## ICMS DO REGIME DE SUBSTITUIÇÃO TRIBUTÁRIA - % NO ICMS TOTAL DA UF (1)

Substituto Interno + Interestadual em 2003		Apenas Substituto Interestadual em 2003	
AMAZONAS	6,1%	ACRE	14,3%
PARAÍBA	9,8%	PARÁ	16,3%
BAHIA	8,4%	CEARÁ	4,2%
MINAS GERAIS	5,0%	RIO GRANDE NORTE	6,5%
ESPÍRITO SANTO	9,2%	SANTA CATARINA	9,0%
RIO DE JANEIRO	6,9%	MATO GROSSO	14,1%
SÃO PAULO	3,8%	DISTRITO FEDERAL	5,9%
PARANÁ	7,1%		
RIO GRANDE SUL	6,6%		
MATO GROSSO SUL	8,9%		
GOIÁS	22,3%		

(1) não inclui o setor de combustíveis para evitar dupla contagem com o ICMS "Seletivo".

# Lack of Budgetary Autonomy

- *The states receive, as a result of calculated collection, 75% of the total amount collected as ICMS and 50% as IPVA.*
- *This revenue is not made available to the state because of constitutional constraints*
- *Health - 12%.*
- *Education - 25%*
- *Debt servicing – up to 13%*
- *Above note the commitment of nearly 50% of a state's revenues*
- *One must consider that, in addition to the obligations listed, the state has its payroll, which absorbs a significant part of its revenues, with very little funds remaining to perform investments and improvements desired by the population and necessary to development.*



# Problems of the Current System

- Fragmentation of indirect tax bases – ICMS; PIS; COFINS; IPI; CPMF; IOF;
- Compression of ICMS tax bases by social contributions;
- Increasing conflicts and disputes between ICMS and ISQN jurisdictional bases
- Lack of coordination in the ICMS system at the national level, generating disputes for investments and assurance of revenue – tax war
- Legislation that is confused, complicated, unharmonious, a large number of accessory obligations, providing space for tax evasion and delinquency
- Lack of characterization of the ICMS as a VAT – more than half of the tax is charge in a single phase and much of it in a cascading manner
- “Selective” ICMS
- Tax Replacement and
- “Super Simples”
- Impossibility to remove the large cumulative effect that falls upon indirect taxation
- Excessive concentration in “selective” ICMS – Limited possibilities for new collection booms and burdening of basic inputs
- System that is burdensome, inefficient, typical of closed economies and that compromises competitiveness of national production on world markets – incompatible with harmonized dual VAT

# Alternatives

- Alternative 1 = remain with the current system, signifying an ongoing “race to the pits” with loss to the States (loss of jurisdictions and revenues);
- Alternative 2 = correct distortions in current system and maintain its current structure;
- Alternative 3 = create a new model of harmonized indirect taxation on goods and services.