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TAX SYSTEM OF BRAZIL

Abstract: the article describes the trends of the tax system of Brazil. The main taxes collected in the country, which are Consumption Taxes, Taxes on Property, Income Taxes, and Payroll Taxes are analyzed and explained how they work. And the destination of taxes charged in the country is also clarified.

Key words: tax revenue, tax rate, consumption, property, income, wage, Brazil.

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НАЛОГОВАЯ СИСТЕМА БРАЗИЛИИ

Аннотация: в статье описаны тенденции развития налоговой системы Бразилии. Проанализированы основные налоги, собранные в стране, а именно налоги на потребление, налоги на имущество, подоходный налог и налог на заработную плату. Изучена роль налоговых поступлений в экономике страны.

Ключевые слова: налоговые поступления, налоговая ставка, потребление, имущество, доход, заработная плата, Бразилия.

The Brazilian National Tax System is one of the most complex in the world. Its structure is known worldwide for being extensible and complicated, both in the calculation of taxes and in its tax burden. The functioning of the National Tax System is

based on the collection of taxes, with the objective of financing the State's activities, such as improvements in services provided to the population, investments in infrastructure and payments of civil servants' salaries. These taxes can be collected directly by the State or indirectly, when the citizen purchases a product or uses a service, whether from private or public companies[1]. Today, 92 taxes are charged in Brazil, and they are divided in Tax, Fees and Social contributions, and also includes Improvement contributions and Compulsory loans [2]. Firstly, the Tax can be used in any area, as long as there is legislation instituting it. As an example, we have the ICMS (Tax on Circulation of Goods and Services) and the IPVA (Tax on Property of Motor Vehicles). The Tax is the main financier of public services. The Fees also make up a large part of the State's revenue, since they are paid when the taxpayer uses some public service. Its destination as well as the contribution is also fixed. Examples of fees are those that are paid for issuing documents and registration fees with commercial boards. The Social Contributions have their destination defined in the legislation, and cannot be used freely. It is one of the main sources of income for the State. The PIS (Social Integration Program) and COFINS (Contribution for the Financing of Social Security) are examples of contributions. The Improvement Contributions are used to fund public works. To be charged, it is necessary to have a public work. In addition, it is essential, for it to be valid, an economic valuing of the taxpayer's property. And lastly, the Compulsory Loans are a tax of the Federal Union's competence. As the name suggests, the amount paid by the taxpayer is returned. The destination of the tax must be legally established. In addition, for it to be valid, the creation of a complementary law is indispensable [2].

The complexity arises due to the non-unification of tax laws. There is, for example, a tax called ICMS (Tax on Circulation of Goods and Services) of state competence. However, each state has its own legislation on ICMS. This ends up creating 27 laws, each dealing specifically with one of the most complex taxes in the country. This complexity is elevated with the municipal tax, ISS (Tax on Services). Brazil has about 5600 municipalities and each has its own specific tax legislation. In addition, there are, of course, federal taxes, under the responsibility of the Union. The result is a gigantic legislation focused solely on the National Tax System [3].

There are four main types of taxes collected in Brazil, each intended for different areas of use, namely, Consumption Taxes, Taxes on Property, Income Taxes, and Payroll Taxes.

Covering Consumption Taxes, it is necessary to say that almost half of tax collection in Brazil is in consumption. Most of the country's revenue is focused on goods and services. In all acts of daily life these taxes are present: on the market, restaurant bill, children's school bill, etc. This type of taxation affects everyone and, therefore, places a higher burden on the low-income population. [3].

When it comes to Taxes on Property, it is the least explored tax collection base in the country. Brazil and the rest of the countries in the world, in general, have a very low base for collecting taxes on property and wealth in relation to other taxes [4].

About the Income Taxes in Brazil, it is relatively low. It is what we pay on our source of income, that is, wages, if individuals, and profit, in the case of legal entities [5].

The last of the main taxes collected in Brazil is the Payroll tax. It is charged to employers and is levied on payroll, billing and profit (including social security). The central objective of this taxation, defined in article 195 of the Constitution, is to finance social security. Entrepreneurs consider taxation excessive and there is a big debate about the need of a tax reform in order to reduce payroll to encourage job creation [5].

Table 1- Tax percentage comparison between Brazil and OECD countries [1].

| Tax percentage comparison: | Brazil | OECD countries |
|----------------------------------|--------|----------------|
| -Taxation on goods and services: | 48,3% | 38,2% |
| -Property taxation: | 4,6% | 6,48% |
| -Income taxation: | 20,3% | 38,9% |
| -Taxation on payroll: | 26,6% | 16,38% |

After analysis of taxes in Brazil compared to taxes in OECD countries, it is possible to conclude that the tax rates on goods and services and payroll in the country are considerably higher than the general tax rate in other countries. And the fact that the

tax rate on goods and services is high, it has a direct impact on the low-income population, who has a reduced purchasing power and access to services due to the high pricing, as consequence of taxes. The country has a tax system that charges consumption excessively, when compared to taxes that are paid on income and property and nowadays there is a great debate in the country about the need of a tax reform.

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