MINISTRY OF FINANCE
FEDERAL REVENUE SERVICE
GENERAL-COORDINATION OF TAX POLICY

TAX STUDY 08

Tax System and Administration in Brazil

- An Overview-

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ABSTRACT

This paper has the purpose of presenting the broad lines of the Brazilian tax system and administration. The tax system is described on the basis of constitutional provisions that not only establish taxing powers of each Federation level, but also govern revenue sharing flows among them. Regarding the tax administration focus is upon the Federal Revenue Service for this institution is responsible for most of Brazil's tax collection.

<u>SUMMARY</u>

1. THE BRAZILIAN TAX SYSTEM

1.1. Basic Aspects of the Brazilian Economy

Brazil is the fifth largest country in the world and the largest in the southern hemisphere, with 8.514 million km^2 of contiguous area. Brazil has borders with every South American country, except Chile and Ecuador. It has over 15.7 thousand kilometers of land borders and approximately 7.3 thousand kilometers of coastline (Atlantic Ocean).

The Federative Republic of Brazil consists of the Union, 26 States, the Federal District and over 5,500 Municipalities. The country is divided into five territorial macro-regions – North, Northeast, Southeast, South and Central-West – which group States with similar physical, human, economic and social characteristics.

Brazil's current population is estimated by the Brazilian Institute of Geography and Statistics – IBGE – at 169.59 million inhabitants (preliminary data from 2000 Census), spread irregularly throughout the national territory. Some regions are densely populated – such as the Southeast, with 78 inhabitants/km^2 - while others are almost uninhabited – such as the North Region, which basically is comprised by the Amazon forest, with a little over 3 inhabitants/km^2. The Brazilian population is predominantly urban, with approximately 81% of people living in cities and towns. In this case, we may also note pronounced differences between regions, as the Southeast has 91% of urban population and the North/Northeast around 69%.

TABLE 1

Brazilian GDP Composition, 2000

Economic Sector	Share (%)
Agriculture & Cattle Raising	7.5
Industry	35.8
Services	56.7

Source: IBGE

In 2001, the Brazilian Gross Domestic Product (GDP) reached approximately **R$ 1,184 billion**, equivalent to US$ 503 billion. Based on 2000 data, Table 1 shows the distribution of the Brazilian product by economic sector.

The Brazilian economically active population **(PEA)** is estimated at 76 million people. According to the **IBGE,** the rate of open unemployment in June 2001, as calculated for the metropolitan regions of Brazil’s six major capitals, was 7.0% (which, projected for all of the Brazilian PEA, would represent around 5.32 million unemployed people).

The overall view of the Brazilian economy is marked by regional unbalances requiring that the State play an effective role as redistributor agent, what is, undoubtfully, a determinant factor in the tax model. The heterogeneous profile of the demographic distribution of the Brazilian population presents the South and Southeast regions the main consuming centers in the country. At the other end, the North region, almost completely immersed in the Amazonian landscape, presents the lowest demographic density rate. Table 2 shows some relevant data relating to demographic dispersion in Brazil.

TABLE 2

Brazil. Demographic Characteristics by Macro-Regions

	Area		Population				
			Total		Demographic Density	Urban	Rural
	In 1,000 of km^2	%	In 1,000	%	Inhabitants/km^2	%	%
North	3,852	45	12,893	7.6	3.35	70	30
Northeast	1,555	18	47,693	28.1	30.67	69	31
Southeast	925	11	72,297	42.6	78.16	91	09
South	576	7	25,090	14.8	43.56	81	19
Center-West	1,606	19	11,617	6.9	7.23	87	13
Brazil	**8,514**	**100**	**169,590**	**100.0**	**19.92**	**81**	**19**

Source: IBGE

From an economic perspective, the analysis of the data presented in Table 3 is clarifying. One may note that the Southeast Region has a per capita income three times greater than that of the Northeast Region. The origins of such disparity are historical and redistributive policies have been practiced for decades in attempt to lessen these unbalances.

Another feature of the Brazilian economy is its perverse income distribution, with the poorest 50% of the population holding only 12.3% of the national income, whereas the richest 20% hold 62.4% of the national income. This partially explains the fact that for a **PEA** estimated in 76 million workers, only around 14 million individuals filed income tax returns in 2001 (fiscal year 2000).

TABLE 3

Brazil. Economic Characteristics by Macro-Regions

	Population	GDP	GDP per Capita	
	%	%	R$	Average %
North	7.6	4.5	3,447	61.0
Northeast	28.1	13.0	2,603	46.0
Southeast	42.6	58.2	7,706	136.0
South	14.8	17.5	6,611	117.0
Center-West	6.9	6.8	5,681	101.0
Brazil	**100.0**	**100.0**	**5,648**	**100.0**

Source: IBGE

In the rural area, it is also possible to find great land concentration, with more than 35% of the ownership of all existing rural land area belonging to only 1% of the proprietors.

With regard to the external sector, in 2001 Brazil exported **US$ 58.2 billion** (FOB) and imported **US$ 55.6 billion** (FOB), resulting in a trade surplus of **US$ 2.6** billion**.** The foreign trade flow (imports + exports) of US$ 113.8 billion accounted for about 23% of the GPD .

Brazil, along with Argentina, Uruguay and Paraguay, makes up the MERCOSUR – the Southern Common Market. Created by the Treaty of Assunción (03.26.91), the MERCOSUR, in effect since January 1st, 1995, has the main purpose of promoting the social and economic progress of its member countries. The MERCOSUR is an economic bloc, characterized by free trade between its members and by the use of a common external tariff (for products from outside the bloc), forming a customs union currently under implantation.

1.2. Taxes and Taxing Powers

In Brazil, the main directives for taxation are provided by the Federal Constitution, which establishes the general principles of taxation, the limitations on the power to tax, tax competence across levels of government as well as tax revenue sharing provisions.

Thus, the National Tax System is instituted by the Constitution itself, which establishes that the Union, the States, the Federal District and the Municipalities may collect taxes. The administrative-political autonomy, which is an essential characteristic of our federative system, confers to each level of government the possibility of instituting taxes, fees (due to its police power or to the use of public services) and improvement charges (due to public works). With respect to social contributions, most of them may only be established by the Federal Government.

According to the Brazilian Constitution, the tax competence of taxing powers is as follows:

TABLE 4

Tax competence of taxing powers as established by the Brazilian Constitution

Tax competence	Taxes
UNION	• On foreign trade – on imports (**II**) and exports (**IE**) of goods and services • On income and earnings (**IR**) • On industrialized products (**IPI**), a value added tax levied on manufactured goods • On financial operations (**IOF**) • On rural land property (**ITR**)
STATES AND THE FEDERAL DISTRICT	• On inheritance and gifts (**ITCD**) • On the circulation of goods and transportation and communication services (**ICMS**), a value added tax levied on goods in general and some services • On motor vehicles (**IPVA**)
MUNICIPALITIES AND THE FEDERAL DISTRICT	• On urban land property (**IPTU**) • On real estate conveyance (**ITBI**) • On services (**ISS**), except those subject to ICMS

In the same manner, the Constitution allows the Union to impose compulsory loans under special conditions in it defined, and to institute social contributions, as well as contributions for intervention in the economic order and in the interest of professional or economic categories. The States, the Federal District and the Municipalities may only collect from their civil servants contributions directed to financing their own social security and social assistance benefit plans.

The main social contributions in effect, all assigned to the Union, are presented in Table 5.

TABLE 5

Main Social Contributions

Tax competence	Contribution
UNION	• Contribution for the Financing of Social Security (**COFINS)** • Social Integration Program/Civil Servants Savings Program Contribution (**PIS/PASEP)** • Contribution on Net Profit (**CSLL)** • Provisional Contribution on Financial Movement (**CPMF)**, a bank debit tax • Social Security Contribution, a contribution on payroll and self-employment earnings

The relative importance of each of the taxes that make up the Brazilian tax system may be better assessed by its share in the total tax burden (See annex I). Notwithstanding that most taxes have the primary goal of raising funds to finance government activities (fund raising taxes), some of them have characteristics that qualify them as economic or social policy instruments (regulatory taxes).

Examples of regulatory taxes are the **IOF** and **IPI**, that may be used by the federal government as auxiliary instruments in conducting monetary and industrial policies, respectively. Annex II shows a summary table with the main features of each tax within the National Tax System.

1.3. Intergovernmental Transfers

To strengthen the administrative-political and financial autonomy of government levels, the Brazilian Constitution defines a system of “unconditional” transfers between the Union, the States and the Municipalities, which can be either direct or through creation of special funds (indirect). Regardless of their type, transfers always occur from higher to lower levels of government; that is, from the Union to the States and from the Union to the Municipalities or from States to their respective Municipalities.

Direct transfers, as constitutionally defined, are the following:

- States and municipalities are entitled to keep total collection of income tax they withhold at source on income payments they make or on payments made by their autarchies or foundations they constitute and maintain;

- Municipalities are entitled to 50% of the collection of tax on rural land property (ITR) levied on real estate within their territory;

- Municipalities are entitled to 50% of the collection of tax on motor vehicles (IPVA) registered in their territories;

- Municipalities are entitled to 25% of the collection of tax on the circulation of goods and transportation and communication services (ICMS) (3/4, at least, proportionally to the value added through operations carried out in their territories and up to 1/4 as provided in the State Law);

- States and Municipalities of origin receive by transfer respectively 30% and 70% of the collection of IOF – Gold (as a financial asset).

The following funds are used to carry out the indirect transfers:

- **Export Compensation Fund (FPEx):** composed of 10% of the total IPI collection. It is distributed proportionally to the amount of industrialized products exports. Individual State participation is limited to 20% of the total receipts of the fund.

- **Federal District and States Participation Fund (FPE):** composed of 21.5% of the total IPI and IR collection. It is distributed in direct proportion to State population and size, and in inverse proportion to *per capita* income.

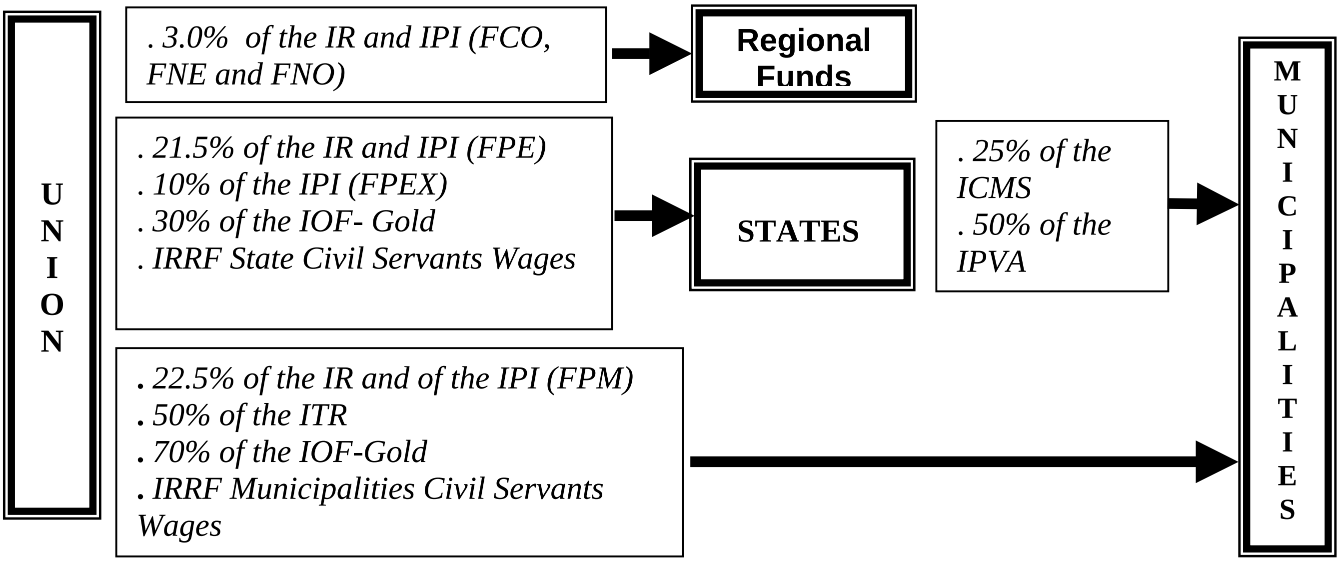
- **Municipalities Participation Fund (FPM):** composed of 22.5% of the total IPI and IR collection. It its distributed proportionally to the population of each unit. 10% of the fund is set aside for the Municipalities of the capital cities.

- **Regional Funds:** composed of 3% of the total IPI and IR collection. This revenue is directed to development programs in North (FNO), Center-West (FCO) and Northeast (FNE) regions.

Thus, 47% of the income tax and 57% of the tax on industrialized products collected by the Union go to the States and the Municipalities as constitutional transfers through funds. The flow of direct and indirect constitutional transfers is represented in Chart 1. The same information is presented as a matrix in Table 6, which includes percentages, origin and purpose of taxes shared.

CHART 1

Flow of Constitutional Transfers



The criteria for sharing the FPE and the FPM is based on population and income, resulting in greater shares for the poorer States and Municipalities and smaller shares for Southern and Southeastern States.

TABLE 6

Sharing of Tax Revenue

%

Tax competence	Taxes	Shares			
		Union	Regional Funds	States	Municipalities
UNION	IR*	53.0	3.0	21.5	22.5
	IPI	43.0	3.0	21.5 + 10.0	22.5
	IOF-Gold	-----	-----	30.0	70.0
	ITR	50.0	-----	-----	50.0
STATES	ITCD	-----	-----	100.0	-----
	ICMS	-----	-----	75.0	25.0
	IPVA	-----	-----	50.0	50.0

Note: States and municipalities keep 100% of the income tax withheld at source levied on its civil servants' salaries.

The Federal Constitution establishes that distribution criteria must aim at promoting social and economic balance between States and Municipalities. According to these criteria, the FPE and FPM distribution by geographic region resulted in the percentage distribution shown in Table 7:

TABLE 7

Percentage Distribution of Participation Funds

Region	FPE (%)	FPM (%)	Population (%)	Per capita Income (R$)
North	25.37	8.53	7.6	3,447
Northeast	52.46	35.27	28.1	2,603
Southeast	8.48	31.18	42.6	7,706
South	6.52	17.55	14.8	6,611
Center-West	7.17	7.47	6.9	5,681

Source : IBGE and STN/Ministry of Finance.

The percentage distribution of the FPE and of the FPM have implicitly aim at improving the existing regional income disparities, thus following "solidarity criteria".

After the tax revenue transfers, the shares of the Union, States and Municipalities were respectively 59.3%, 26.5% and 14.2% of the total disposable tax revenue, in 2001. The Table 08 shows the composition of tax revenue before and after transfers. The Union transfers approximately 10 percentage points of its revenue collection to subnational levels of government. The Municipalities clearly receive the greatest share of transfers, as the States lose around 1 percentage point due to transfers to the Municipalities.

TABLE 8

Disposable Tax Revenue, 2001

(after constitutional transfers)

Tax competence	TAX REVENUE			
	Total Collection		Disposable Revenue	
	%	% of GDP	%	% of GDP
UNION	68.7	23.61	59.3	20.38
STATES	26.8	9.21	26.5	9.11
MUNICIPALITIES	4.5	1.54	14.2	4.87
TOTAL	**100.0**	**34.36**	**100.00**	**34.36**

Source :Tax Burden in Brazil, 2001 (SRF)

This tax revenue reallocation is complemented by transfers embodied in agreements, that is, voluntary transfers – transfers of federal funds to States and Municipalities (or of State funds to Municipalities) – to finance activities of federal (or State) responsibility they carry out on behalf of the Union (or the State). Agreements are means of effecting transfers provided for in specific laws or established voluntarily between the different levels of government.

2. TAX ADMINISTRATION

Brazil is characterized by having a number of institutions whose functions are typical of tax administration, reflecting the federative structure of the country.

At the Union level, the Federal Revenue Service (SRF) is responsible for all taxes assigned to Union and for the more relevant Social Security contributions, with the exception of those on the payroll and on self-employment.

In Brazil, the National Social Security Institute – INSS, an autarchy under the jurisdiction of the Ministry of Welfare and Social Assistance, is in charge of administering social contributions levied on payroll and on self-employment.

TABLE 9

Tax Revenue Administration, 2001

Administration	Collection		
	R$ Billion	% of the GDP	%
Union	**279.6**	**23.61**	**68.72**
Administered by the SRF	191.1	16.14	46.97
Administered by the INSS	64.3	5.43	15.80
CEF (FGTS)	21.1	1.78	5.18
MEC (Education salary)	3.1	0.26	0.77
States *(26 States + Federal District)*	**109.0**	**9.21**	**26.80**
ICMS	94.3	7.96	23.17
Others	14.7	1.24	3.61
Municipalities *(5,500)*	**18.2**	**1.54**	**4.48**
Total	**406.9**	**34.36**	**100.00**

Source: Tax Burden in Brazil, 2001.

The other levels of government – the Federal District, the States and the Municipalities – have their own Tax Administrations, for taxes of their competence, and each carries out the functions that are inherent to a Tax Administration. It is important to point out that Brazil has the Federal District, twenty-six States and over five thousand five hundred municipalities, depicting the number of units in charge of tax administration in Brazil, as seen in Table 9.

To assist in its activities, the Tax Administration in Brazil has been outsourcing many of its activities, such as printing, distribution or sale of forms by private enterprises, as well as receiving tax returns and collecting taxes through a banking network.

The system of withholding at source is widely used in the Brazilian taxing model; under this mechanism, as established by law, third parties are put in charge of collecting various taxes, namely those related to labor and capital income.

For some specific products (cigarettes, beverages, fuel, pharmaceutical products, automobiles and others), the "tax substitution" mechanism is also used by the SRF and by state tax administrations, according to which one amongst various agents in a certain chain of production/distribution is appointed by law as liable for the total tax burden in the chain, because it is less likely to evade its tax obligations, including those related to taxable events that will take place further along in the chain. According to such a mechanism, the legislation converts typically multi-stage taxes – such as the IPI and the ICMS – into single-stage taxes.

2.1. The Federal Revenue Service

The Federal Revenue Service[1] is directly subordinated to the Ministry of Finance. It undertakes the basic functions of tax control, regulation, collection and auditing – including domestic taxes, customs taxes and federal contributions. It also acts as an adviser in developing the country's tax policy and is responsible for first stage judgment decisions on fiscal-administrative contentious matters.

2.1.1. Structure and functions

The basic structure of the SRF is composed of central and decentralized tiers. The first one deals with regulatory, supervisory and planning activities, while

[1] The Federal Revenue Service (SRF) was created by the Decree no. 63.659/68. Its current structure is defined by the Decree no. 3.786, de 07.24.2001.

the latter – composed of regional and local bodies – undertakes executive and operational functions as set forth by directives of the Central Units.

The administrative structure of the SRF was designed aiming at achieving the following objectives:

- to present to the taxpayer a unified tax administration, with equal procedures applied throughout the country;
- to confer the organization with a dynamic style of management, capable of administering various taxes and maximizing the use of human and material resources;
- to define clear and efficient criteria of decentralization, granting local offices broad autonomy in performing their activities.

The SRF maintains a functional and decentralized structure, in which each hierarchical level carries out all typical tax administration duties. Thus, each of the decentralized bodies has its own specialized units for taxpayer assistance and registry, auditing, collection and tax collection enforcement and customs control.

The Federal Revenue Service has a decentralized structure of management – undertaken by the heads of each Administrative Unit, within the scopes of their duties, all under the general direction of the Secretary of the Federal Revenue.

There are exceptions or particular features of this basic functional model that should be highlighted, which include:

- The Federal Revenue Judgment Offices (**Delegacias da Receita Federal de Julgamento** -DRJ) are administrative courts responsible for first stage decisions on administrative contentious tax matters. They are organized by taxes, and follow the same organizational model as that of the Taxpayers' Council of the Ministry of Finance.[2]

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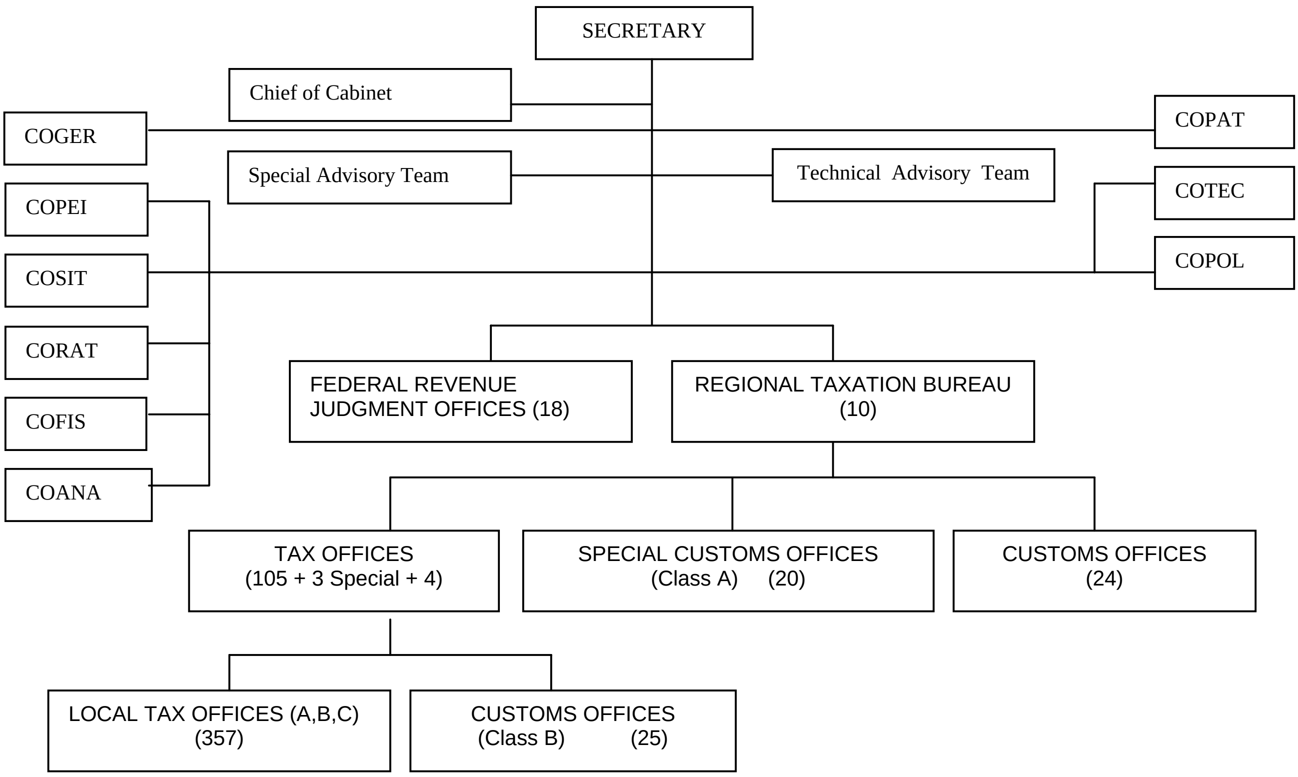
[2] The Council is a collegiate body, directly linked to the Ministry of Finance, whose duty encompasses the second stage administrative decision on the tax cases.

- The Special Offices for Financial Institutions (**Delegacias Especiais de Instituições Financeiras** - DEINF) are organized by types of taxpayers (financial institutions), whose jurisdictions are defined by a mixed criteria: geographical (7th or 8th Fiscal Region) + economic activity (activities linked to the financial system). Although they are specialized, the DEINF follow the same basic functional model as the other Offices (**Delegacias)**. (Within their respective geographic jurisdictions, the DEINF have exclusive competency over companies involved in activities related/connected to the financial system, defined by law.)

- The Special Office for International Affairs (**Delegacia Especial de Assuntos Internacionais** – DEAIN) has its jurisdiction defined according to geographic criteria (8th Fiscal Region) as the other decentralized Units, although its special duties are limited to the following areas: control of transfer price operations between related parties; monitoring of worldwide income taxation; and customs valuation. DEAIN does not have a functional structure.

CHART 2

Organizational Structure of the SRF



The organizational structure of the SRF (Chart 2) shows how far reaching the institution is, with over 500 local units that form a huge network of taxpayers' assistance and support.

2.1.2. Human and Technological Resources

Recruitment to the Federal Revenue Service is done through public competitive examination. Brazilian citizens with a university degree are eligible to apply to the administrative career at the SRF. There are two categories within the administrative career: Federal Revenue Tax Auditor (AFRF), who performs end-activities of the organization, having the exclusive prerogative of issuing tax assessments; and the Federal Revenue Technician (TRF), who performs intermediary and support duties. In 2001, the SRF had a total of 21 thousand personnel, of which 7,700 were AFRFs, and 6,800 TRFs.

The SRF promotes a number of courses and training programs for its career to constantly qualify its staff and keep it updated. There is also permanent contact with international organizations to exchange experiences and strengthen cooperation with foreign tax administrations.

The technological park in place is also under constant modernization to provide the personnel with the most modern information analysis and control tools. The various existing computerized systems are constantly fed with data collected mainly from taxpayers' returns. The SRF has made available an electronic version of each specific tax return form, thus making the filing of returns easier, diminishing filing errors and reducing costs for the tax administration.

The percentage of income tax returns submitted electronically, both by individuals (95%) as well as by corporations (100%), is a clear indication that much progress has been achieved in this area. Moreover, the use of the Internet to hand in returns reaches significant levels: 90% of personal income's submissions are received through the Internet.

2.1.3. Autonomy and Scope of Action

The SRF is not fully autonomous on administrative and financial grounds in carrying out its activities. Although a reasonable part of its expenditure (around 56% in 1999) is covered by FUNDAF – Special Fund for Development and Improvement of Auditing Activities, expenditures undertaken by the SRF require prior approval from administrative and budget bodies of the Ministry of Finance.

The SRF administers six federal taxes and five social security contributions, being responsible for collecting and auditing taxes on all the country's economic and financial activities (including those carried out with foreign counterparts). The Federal Revenue Service is in charge of a contingent of approximately 83.7 million active individual taxpayers (122.4 million registered) and 10 million corporate taxpayers registered.

In monetary terms, the revenue administered by the Federal Revenue Service reached **R$ 191.1 billion** in 2001, accounting for 68.3% of the Union's total collection. Revenue collected by the SRF from social contributions accounted for 60% of social security receipts (including those of federal civil servants).

TABLE 10

Revenue Administered by the SRF, 2001

Main Taxes		**Collection**		
Groups	**Tax basis**	(R$ Billion)	% of GDP	(%)
▪ Income tax + CSLL	Income / Profit	77.8	6.57	40.71
▪ IPI	Value Added	19.3	1.63	10.10
▪ COFINS + PIS/PASEP	Turnover	56.6	4.78	29.62
▪ CPMF	Financial Operations	17.2	1.45	9.00
▪ Import and Export Tax	Foreign Trade	9.1	0.77	4.76
▪ Other taxes	Miscellaneous	11.1	0.94	5.81
Total		**191.1**	**16.14**	**100.0**

Source: SRF/COSAR

2.1.4. Fiscal Presence

Aside from its coercive function, the Federal Revenue Service has sought in recent years to increase the effectiveness of its activities by being closer to the taxpayer.

This increased presence encompasses the implementation of a modern taxpayer assistance system, development of mechanisms to facilitate compliance of tax obligations and communication with taxpayers, more widespread customs presence, faster and simpler customs operations and tax educational activities.

- **Service and assistance**

The greatest innovation undertaken by the SRF in the recent years was to bring in the concept of administration focused on the taxpayer, causing the entity to review its entire public relations and communications strategies.

Assistance to taxpayer is viewed by the SRF as a specialized service, essential to induce and facilitate voluntary compliance of tax obligations, and is provided at Taxpayer Assistance Centers - CAC.

The concept of Tax Administration focused on the taxpayer is currently a dominating trend, not only in the thinking of the tax administration, but also throughout the Public Administration.

- **Facilitation of tax obligation compliance**

The Federal Revenue Service has made great efforts to provide taxpayers with tools that simplify and ease compliance with tax and complementary tax requirements. This has called for permanent investments in new communication and data transfer technologies, alongside greater commitment to the quality of services offered to taxpayers. Thus, the SRF aims at building a respectful relationship between the tax administration and taxpayers, making it as least bureaucratic and difficult as possible, always taking taxpayers' rights into account.

The efforts made by the SRF to provide taxpayers and citizens with high quality assistance services through the Internet have been recognized by specialized critics and by taxpayers themselves. For these achievements the SRF has been awarded various prizes at national level.

- **Fiscal presence in the customs area**

The Federal Revenue Service has strong labor intensive fiscal presence at customs borders because it is required to act in both primary zones (ports, airports and land borders) and secondary zones (interior customs offices – EAD) so as to follow the flow of individuals and goods, and developing permanent activities of border surveillance and repression of smuggling and drug trafficking.

The rationale for customs activities undertaken by the Federal Revenue Service is that in a world of globalized trade, where the fast flow of goods greatly affect competitiveness, the control enforced by customs authority should not be detrimental to regular commerce. Therefore the greatest challenge is to find the balance between control and procedures' facilitation, based on the premise that efficient tax auditing selections to prevent frauds should not necessarily negatively affect trade flows.

- **Taxpayer education**

In spite of the widely acknowledged importance of a taxpayer education policy, SRF programs directed at building social tax awareness and education had been interrupted and have only recently been reactivated.

In 2000, in an effort to be more active, the SRF appointed civil servant representatives in each fiscal region to participate in the National Program of Taxpayer Education (PNEF). Their main task as regional representatives of the Federal Revenue Service is to work with State representatives in carrying out coordinated taxpayer education activities within the scope of their jurisdictions.

ACRONYMS AND ABBREVIATIONS

Acronym	Meaning
CEF	Federal Savings Bank
COFINS	Contribution for the Financing of the Social Security
CPMF	Provisional Contribution on Financial Movement
CSLL	Social Contribution on Net Profit
DPC	Ports and Coast Directorate
FCO	Constitutional Fund for the Center-West
FGTS	Workers' Insurance Fund
FNE	Constitutional Fund for the Northeast
FNO	Constitutional Fund for the North
FPE	Federal District and States Participation Fund
FPM	Municipalities Participation Fund
IBGE	Brazilian Institute of Geography and Statistics
ICMS	Tax on the Circulation of Goods and Transportation and Communication Services
INCRA	Federal Land Reform Agency
IPI	Tax on Industrialized Products
IPTU	Tax on Urban Land and Property
IPVA	Tax on Motor Vehicles
IRRF	Withholding Income Tax
ITBI	Tax on Real Estate Conveyance
ITCD	Tax on Inheritance and Gifts
ISS	Tax on Services
MEC	Ministry of Education and Culture
PASEP	Civil Servants Savings Program
PEA	Economically Active Population
GDP	Gross Domestic Product
SEBRAE	Brazilian Micro and Small Business Support Service
SENAC	National Commercial Training Service
SENAI	National Industrial Training Service
SENAR	National Rural Training Service
SENAT	National Transportation Training Service
SESC	Social Service of Commerce
SESI	Social Service of Industry
SEST	Social Service of the Transport Sector
SRF	Federal Revenue Service
STN	Secretariat of the National Treasury

ANNEX I

GROSS TAX BURDEN, 2001

Taxes	R$ Billion	%	% GDP
UNION	**279,581**	**68.72**	**23.61**
- INCOME TAX (IR)	68,803	16.91	5.81
- TAX ON INDUSTRIALIZED PRODUCTS (IPI)	19,317	4.75	1.63
- TAX ON FINANCIAL OPERATIONS (IOF)	3,559	0.87	0.30
- TAXES ON FOREIGN TRADE	9,104	2.24	0.77
- TAX ON RURAL LAND PROPERTY (ITR)	191	0.05	0.02
- FEDERAL FEES	342	0.08	0.03
- SOCIAL SECURITY CONTRIBUTION	61,060	15.01	5.16
- CONTRIBUTION FOR THE FINANCING OF SOCIAL SECURITY (COFINS)	45,436	11.17	3.84
- PROVISIONAL CONTRIBUTION ON FINANCIAL MOVEMENT (CPMF)	17,157	4.22	1.45
- CONTRIBUTION ON NET PROFIT (CSLL)	8,985	2.21	0.76
- SOCIAL INTEGRATION PROGRAM / CIVIL SERVANTS SAVINGS PROGRAM CONTRIBUTION (PIS/PASEP)	11,148	2.74	0.94
- CIVIL SERVANTS SOCIAL SECURITY CONTRIBUTION	3,813	0.94	0.32
- OTHER SOCIAL CONTRIBUTIONS (1)	2,058	0.51	0.17
- WORKER´S INSURANCE FUND (FGTS)	21,074	5.18	1.78
- ECONOMIC CONTRIBUTIONS	1,176	0.29	0.10
- CONTRIBUTION FOR EDUCATION	3,123	0.77	0.26
- "S" SYSTEM (2)	3,235	0.80	0.27
STATES	**109,039**	**26.80**	**9.21**
- TAX ON THE CIRCULATION OF GOODS AND TRANSPORTATION AND COMMUNICATION SERVICES (ICMS)	94,267	23.17	7.96
- TAX ON MOTOR VEHICLES (IPVA)	6,287	1.55	0.53
- TAX ON INHERITANCE AND GIFTS (ITCD)	339	0.08	0,03
- FEES	1,659	0.41	0.14
- STATE SOCIAL SECURITY CONTRIBUTION	6,112	1.50	0.52
- OTHERS (AIR, ICM, ETC.)	375	0.09	0.03
MUNICIPALITIES	**18,244**	**4.48**	**1.54**
- TAX ON SERVICES (ISS)	6,786	1.67	0.57
- TAX ON URBAN LAND AND PROPERTY (IPTU)	5,367	1.32	0.45
- TAX ON REAL ESTATE CONVEYANCE (ITBI)	981	0.24	0.08
- FEES	3,426	0.84	0.29
- MUNICIPAL SOCIAL SECURITY CONTRIBUTION	1,253	0.31	0.11
- OTHER TAXES (3)	432	0.11	0.04
TOTAL	**406.865**	**100.00**	**34.36**

(1) INCLUDES: CONTR. ON LOTTERY REVENUE, CONTR. ON MILITARY PENSIONS, FUNDESP AND FUNPEN CONTR. AND OTHERS. (2) CONTRIBUTION TO THE FOLLOWING BODIES: SENAR, SENAI, SESI, SENAC, SESC, INCRA, SDR, SEST, SENAT, SEBRAE, AVIATION FUND AND MARITIME PROFESSIONAL EDUCATION (DPC); (3) INCLUDES: IVVC AND IMPROVEMENT CHARGES.

ANNEX II

Table of Taxes, 2000

Tax (Acronym)	Income Tax - IR				
	IRPF	IRPJ	Withholding Tax - IRF		
			Labor	Capital	Others
Type / Nature	Income	Income	Income	Income	Income
Tax Basis	Salaries and earnings	Profit	Salaries and earnings	Difference between purchase and sale values	Prizes and drawings; advertisement services; payment of professional services
Taxpayer	Individual	Corporation	Individual	Individual or corporation	Individual or corporation
Rates	15% and 27.5%	15% and 25%	15% and 27.5%	10%, 15% and 20%	30% and 1.5%
Tax Competence	Union	Union	Union	Union	Union

Table of Taxes, 2000

Continued

Tax (acronym)	COFINS	PIS	PASEP	IPI	FGTS
Type / Nature	Production	Production	Production	Production	Production
Tax Basis	Gross revenue (including financial revenues)	Gross revenue (including financial revenues)	Payroll	Sale of industrialized products (value added)	Payroll
Taxpayer	Corporation	Corporation	Public Law legal entity	Corporation	Corporation or individual (household employer)
Rates	3%	0.65%	1%	Various	8%
Tax Competence	Union	Union	Union	Union	Union

Table of Taxes, 2000

Continued

Tax (Acronym)	CSLL	ITR	IE	II	CPMF
Type / Nature	Income	Property	Production	Production / Consumption	Production / Consumption
Tax Basis	Profit	Value of rural property	Value of product or service exported	Value of product or service imported	Bank debits
Taxpayer	Corporation	Individual or corporation	Corporation	Individual and corporation	Individual or corporation
Rates	8%	0.03% to 20%	from 0% to 150%	from 0% to 35%, according to Common External Tariff (TEC)	0.3%
Tax Competence	Union	Union	Union	Union	Union

Table of Taxes, 2000

Continued

Tax (Acronyms)	IOF				
	Credit operations	**Foreign exchange operations**	**Securities**	**Insurance**	**Gold - Financial Asset**
Type / Nature	Production / Consumption	Production / Consumption	Production / Consumption	Production / Consumption	Production
Tax Basis	Amount of credit granted	Purchase and sale of foreign currency	Value of financial investment	Value of insurance contracted	Financial investment in gold
Taxpayer	Individual and corporation	Individual and corporation	Individual and corporation	Individual and corporation	Individual and corporation
Rates	Up to 1.5% per day	Up to 25%	Up to 1.5% per day	from 0% to 7%	1%
Tax Competence	Union	Union	Union	Union	Union

Table of Taxes, 2000

Continued

Tax (Acronym)	Social Security Contribution (National Institute for Social Security - INSS)			Civil Servants Social Security Contribution	
	Self-Employed	**Employee**	**Employer**	**Union**	**States and Municipalities**
Type / Nature	Income	Income	Production	Income	Income
Tax Basis	Earnings	Wages and salaries	Payroll	Earnings	Earnings
Taxpayer	Individual	Individual	Corporation or individual (household employer)	Individual (federal civil servant)	Individual (State or Municipal civil servant)
Rates	20%	From 8% to 11%	15%, 17.5%, 20% and 22.5%; or 12% (household employer)	11%	Varies according to State or Municipality
Tax Competence	Union	Union	Union	Union	States and Municipalities

Table of Taxes, 2000

Continued

Tax (Acronym)	ICMS	IPVA	ITCD	ISS	IPTU	ITBI
Type / Nature	Production / Consumption	Property	Property	Production / Consumption	Property	Property
Tax Basis	Value of goods and services sold (value added)	Value of motor vehicle	Value of property, mobile or real estate, donated or inherited	Value of service provided	Value of urban property	Value of real estate sold
Taxpayer	Corporation	Individual or corporation	Individual	Corporation or individual (autonomous service provider)	Individual or corporation	Individual or corporation
Rates*	4%, 7%, 12%, 17%,18%, 21% and 25% (applied on transaction value)	from 1% to 4%	4%	from 0.5% to 10%	from 0.3% to 3%	2%
Tax Competence	States	States	States	Municipalities	Municipalities	Municipalities

* Rates of taxes assigned to States and Municipalities here shown are those applied by the Federal District Government (which includes Brasilia, the Capital of Brazil).