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THE BRAZILIAN TAX SYSTEM: REGRESSIVE AND BIASED

Lucas Bressan, Ana Carolina Cordilha, João Paulo Constantino and Pedro Rubin | March 2023

Introduction

One cannot understand the dynamics of wealth inequalities in Brazil without looking at the issue of taxation. The country's tax system, with its features and distortions, plays a central role in creating and maintaining appalling asymmetries between levels of income and wealth among individuals. It also undermines the potentially redistributive effects of state transfers, which would narrow such gaps. Taxation is therefore a key dimension to fully understand the gears turning the country into one of the most unequal in the world. This article examines how the Brazilian tax system contributes to the country's deep-seated inequalities. To this end, we rely on reports and data from the Federal Revenue of Brazil office (RFB) and other national and international institutions, with a focus on the period covering the two last decades. The results contribute to portraying a better understanding of Brazil's failings in overcoming long-lasting wealth and income concentration.

This essay is divided into three parts. After this brief introduction, the second section contextualises the debate by introducing the state of income and wealth inequalities in the country and describing the main features of the Brazilian tax system. The third section discusses the issue of property taxation in Brazil, explaining why this typically progressive instrument to reduce inequality lacks effectiveness in the country. The fourth section critically analyses the major flaws that prevent the system from being genuinely redistributive, including the use of mechanisms such as tax waivers, tax evasion and the difficulties in tackling financial wealth. Lastly, the conclusion touches on some considerations about the ongoing debate in Brazilian society concerning the pressing need for reform of the tax system.

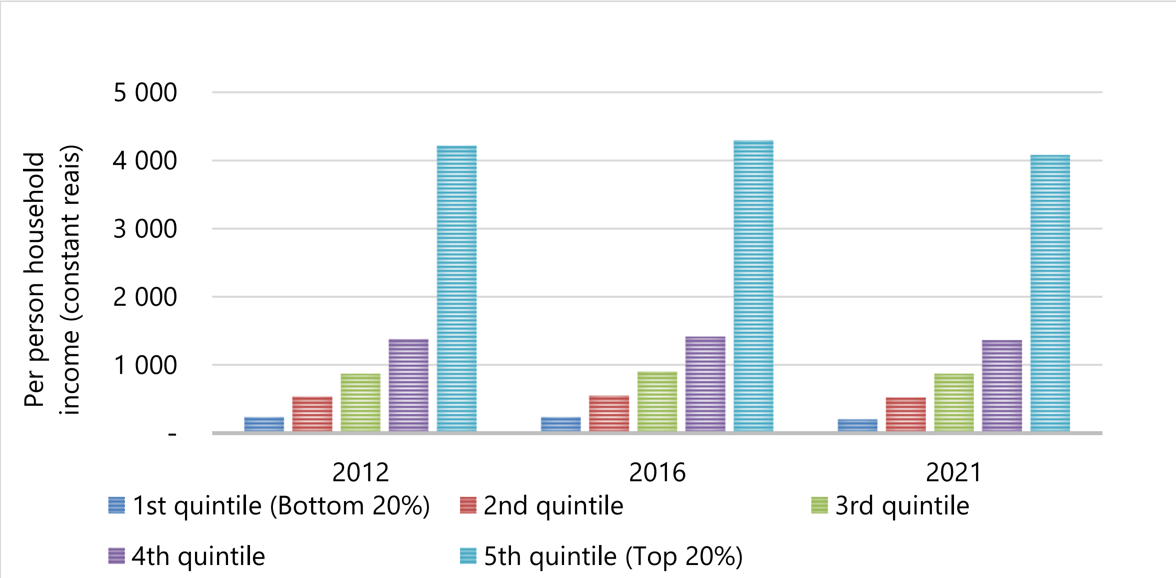
Structure and composition of the Brazilian tax burden

To address income and wealth concentration issues, it is important to bear in mind that distribution can take two distinct paths. Primary distribution relates to income obtained from productive processes (sales of goods and services), capital investment (interest on loans, dividends on shares and similar income) and from labour market activities (wages and earnings). Secondary distribution considers the reallocation of part of the primary income through taxes on income and wealth, social transfers and other transfers. In this section, we will focus mainly on secondary distribution, although also referring to the legislation that taxes primary income.

To better contextualise our discussion, it is worth illustrating how wealth and income inequality have progressed in Brazil in recent years, according to data from the Brazilian Institute of Geography and Statistics (IBGE) and the World Inequality Database (WID).

The analysis of Brazil's income distribution by quintiles reveals a marked rigidity in the evolution of income inequality over the last decade, with little change since 2012 (Figure 1). As of 2016, the average income of the richest 20% of people in the country was 18 times more than that of the poorest 20%. The gap increased over the last years, reaching a 20-fold difference in 2021. In that last year, per person household income averaged R$ 4,078 (US$ 756) per month for the upper quintile, against R$ 201 (US$ 37) for the bottom one[1]. What is even more striking, over half of the national income (57%) was concentrated in the hands of the richest quintile, while the bottom quintile (approximately 42.5 million people) held 3% – an extremely low share, by any standards.

Figure 1. Brazil, income share by quintiles, 2012, 2016, 2021 (per person household income, constant reais of 2021)



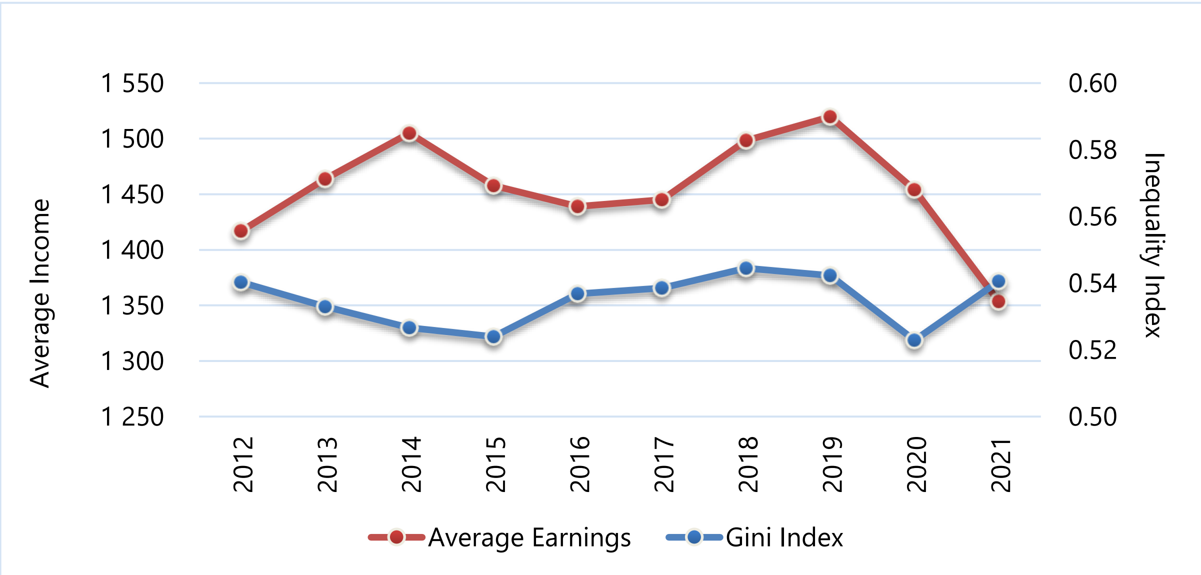
Source: Brazilian Institute of Geography and Statistics (IBGE). Continuous Annual PNAD (PNAD-C), several years. Per person household income at average 2021 prices as calculated by IBGE. Own elaboration.

Another way to see how the tax system does little to improve inequality levels in Brazil is to look at the evolution of the Gini index. The Gini of income inequality fell during the 2000s and the beginning of the 2010s, dropping from 0.54 in 2012 to 0.52 in 2015. However, the much-heralded drop in income inequality in this period was mostly due to improvements in the labour market and the expansion of social transfers – in other words, a result of improvements in primary distribution rather than tax redistribution. Since the middle of the decade, inequality has rebounded amid a context of economic turmoil and recession, reaching 0.54 again in 2021 (Figure 2).

[1] Constant prices of 2021. All values in dollars were converted according to the average exchange rate of 2021, 5,39 R$/US$ (average of the daily buying and selling exchange rate during 2021 as reported by the Brazilian Central Bank).

The deepening of income concentration was only briefly interrupted in 2020 because of short-term policy measures put in place by the government to counter the fall in purchasing power during the coronavirus pandemic (Lavinas et al., 2022). The resumption of inequality growth was accompanied by a drop in average per person household income, which fell from R$ 1,519 in 2019 (US$ 281) to R$ 1,353 in 2021 (US$ 250).

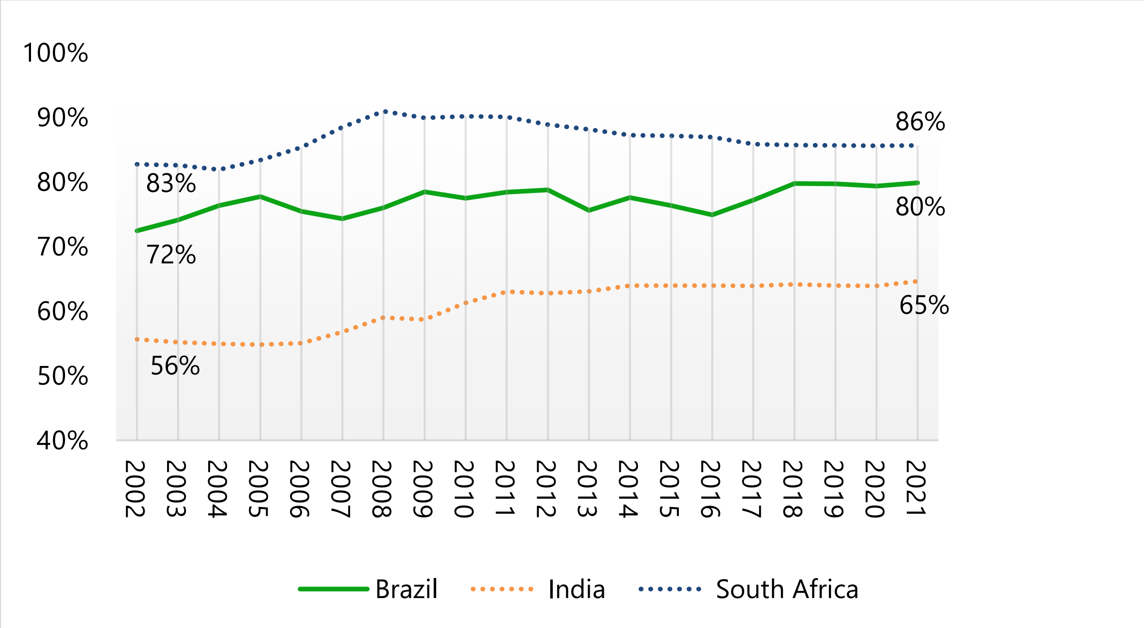
Figure 2. Brazil: average earnings vs. Gini index (2012–2021)



Source: Brazilian Institute of Geography and Statistics (IBGE). Continuous Annual PNAD (PNAD-C), several years. Per person household income at average 2021 prices as provided by IBGE. Own elaboration.

More evidence of the ineffectiveness of the tax system to counter persistent and structural inequalities comes from data for wealth concentration (Figure 3). Estimates show that the top 10% of the Brazilian population held 72% of the country's net wealth (private assets minus private debt) in 2002, rising to 80% in 2021. The deepening of wealth inequalities is a worrisome trend that seems to be affecting not only Brazil, but also other developing nations. This includes countries such as South Africa, where the share of net wealth held by the richest group went up from 83% to 86% in 2002-2021 and India, where it rose from 56% to 65%.

Figure 3. Brazil and selected countries, share of net income wealth held by the top 10%, 2002–2021



Source: World Inequality Database. Own elaboration. Net wealth: assets minus debt.

Could such high levels of inequality be explained by the fact that the country has a low tax burden? Contrary to common knowledge, the Brazilian tax burden is not necessarily low, as happens to be the case in several emerging and developing countries. From 14% of GDP in 1940, the gross tax burden reached 33.9% of GDP in 2020, close to the average rate of Organisation for Economic Co-operation and Development (OECD) countries (Brazilian National Treasury, 2022)[2]. In Latin America, only Cuba and Barbados have a higher tax-to-GDP ratio (OECD, 2022). Whilst there is no indicator that allows direct comparison of inequality levels between Brazil and these countries, it is very likely that their inequality levels are considerably lower.

The net tax burden is calculated by deducting from total tax collection (also known as the gross tax burden) those revenues that return to the population in the form of monetary transfers. These include subsidies and social security benefits (contributory and non-contributory). In this way, the net tax burden seems a better proxy for the amount of resources available for the government to finance services and public policies. The latest official data for the net tax burden in Brazil date back to 2017. That year, it corresponded to 14.4% of GDP after discounting social security transfers and subsidies, as compared to a gross tax burden of 32.5%.

[2] The Brazilian gross tax burden is composed of the total amount of taxes, contributions, and fees collected by the Union, the States, and the Municipalities. The net tax burden subtracts from it the amount that returns to citizens in the form of subsidies, public pensions and welfare benefits.

Yet, in the period 2002–2017, the gross tax burden had increased, while the net tax burden had decreased. Their accumulated growth rate over that time amounted to 0.36% and -3.7% of GDP, respectively (Brazilian Finance Ministry, 2018).

This divergence in the evolution of the gross and net tax burden represents a matter of concern, as it shows that fewer fiscal revenues are returning to the population directly. Although no conclusions can be drawn from these data alone, the underfinancing of in-kind public services over that period (Mendes, 2015; Lavinas, 2017) suggests that they are not returning in the form of de-commodified provisioning either.

Furthermore, it is critically important to consider a type of transfer that is ignored by the government when calculating the net tax burden: those made to financial investors in the form of public debt interest. The Brazilian government makes interest payments to bondholders of public debt securities at some of the highest interest rates in the world (Weisbrot et al., 2017)[3]. In this way, a significant share of the net tax burden goes to financial expenditure instead of financing public programmes related to health, sanitation, housing, education and environmental protection. Taking this point into consideration, the 2017 net tax burden, initially estimated at 14.4% of GDP drops to 8.3% of GDP, since 6.1% of it goes to the payment of interest on the public debt (Brazilian Central Bank, 2022).

This means that the taxes paid by the overall population are, to some extent, retained and appropriated by the wealthiest members of society, whose savings and leveraging capacity allow them to invest in financial assets directly or indirectly linked to the public debt. In this way, they obtain extremely high rates of return on their investments. At the same time, this undermines the financing of universal policies that aim to promote wellbeing and reduce inequalities at large (Lavinas, 2014).

As can be seen, 'the devil is in the details.' Behind the seemingly high level of taxation, there are numerous legal loopholes that allow the better-off to proportionally contribute much less than they should, given their income levels and wealth.

The prevalence of indirect taxation

The literature on public finance has established that most direct taxes are progressive and that the higher the taxes, the greater the progressivity of the tax system (Barr, 2004; Gardner, 2007). In contrast, Brazil stands out for having a tax system where almost half of the tax revenue comes from indirect taxation. The heavy weight of indirect taxation (on production and consumption) relative to direct taxation (on income, property and wealth) is one of the causes of the sharp regressivity of the Brazilian tax system. That happens even though Brazil has not yet managed to

[3] The Selic prime rate, set by the Brazilian Central Bank, which is responsible for compensating bondholders, hit 13.75% in August 2022 against an inflation rate of 10.07% over the last 12 months (IBGE, National Accounts, 2022).

introduce a national Value Added Tax (VAT). As will be explained later, the states of the federation levy most of the indirect taxes on sales, applying tariffs on the same product that differ from state to state.

The prevalence of indirect taxation means the system is highly skewed towards taxing the poor. As shown in Table 1, taxes on goods, services, trade and international transactions accounted for 45.6% of the gross tax burden in 2021. In contrast, direct taxes, such as those falling on income, profits and capital gains, represented 23.7%. Also, wealth in Brazil is poorly taxed. The most blatant example is property tax, which accounted for merely 4.9% of total tax revenue and 1.7% of GDP – a marginal value considering that Brazil is the fifth largest country in the world and its economy ranks among the world's top 10 (World Bank, 2020).

Regressive taxation prevails, penalising those at the tail end of the income distribution – those that spend all their earnings to make ends meet. This is the case for employees, low-income households and workers – the majority of the Brazilian population. Since there are no products fully exempted from indirect taxation, be it basic foodstuffs, medicine and school supplies as occurs in other countries, the worse-off end up bearing a higher tax burden, as they allocate a greater share of their income on consumption. This, in turn, reduces their disposable net income. Moreover, the types of taxes that would be fair from a distributive point of view, such as progressive income and property taxes, play a secondary role in the Brazilian tax system, increasing its distortions (Afonso, 2013).

Table 1. Brazil, total gross tax burden (union, states and municipalities, % of tax revenues and % of GDP, 2021)

Categories of tax revenues	% Tax Revenues	% GDP
Taxes on income, profits, and capital gains	23.7	8.0
Social contributions and labour taxes	25.8	8.8
Property taxes	4.9	1.7
Taxes on goods, services, trade, and international transactions	45.6	15.5
Total	100	33.9

Source: own elaboration based on Brazilian National Treasury (2021)

Besides taxes that fall directly on consumption and production, other taxes, such as social contributions, levied on labour and business income, are eventually passed on to the price of products and services. In this way, they have a similar effect to indirect taxes in that they reach the whole population and overburden the poor. In 2021, social contributions and other taxes on the payroll represented 25.8% of the total tax burden and 8.8% of the GDP[4].

Another feature of the Brazilian system is the currently narrow tax base when it comes to income taxes. A tiny fraction of the Brazilian population pays direct taxes. In 2020, a little less than 32 million income tax declarations were delivered, although the population aged 18 and over amounted to 151 million that year (IBGE, 2022). This is a result of the extreme income inequality that characterises Brazilian society, so that a large share of the population has very low income and is therefore exempt from income tax.

Studies show that households at the bottom of the income distribution, living with up to two minimum wages per month, have the highest proportion of their income absorbed by taxes on consumption. This percentage drops as household income rises[5]. The poor not only toil under a heavier tax burden, but they also finance, through consumption, the very social security revenues that go to non-contributory welfare benefits designed to tackle poverty (Lavinas, 2014; Silveira et al., 2022).

Contrary to most advanced nations, anti-poverty welfare benefits in Brazil are funded by indirect taxation (no exemptions apply), rather than taxes on income and profits raised from the better-off. This means that anti-poverty schemes have regressive funding. Moreover, the incidence of indirect taxation on consumption is such that roughly half of the benefits received by vulnerable recipients return to the state as tax, which is a sort of double regressivity.

The focus on the taxation of goods and services makes the tax system not only socially unjust, but also economically inefficient. There are federal, state and municipal taxes on goods and services, often resulting in cumulative taxation that overburdens final prices. Moreover, since each of the three levels of government is free to set up its own tax legislation, indirect taxes pave the way for tax competition to welcome economic activities in their territory (Lavinas, 2014; Afonso et al., 2017). This 'race to the bottom' often leads to a massive loss of public revenues in favour of private companies, under the misleading argument that this would facilitate productive investment.

[4] In this study, we use the term 'taxes' to refer to the three types of compulsory payments to the government that make up the Brazilian tax system (*tributos*): taxes (*impostos*), fees (*taxas*) and contributions (*contribuições*). These differ in terms of whether they require a specific response from the government or not and whether they are allocated to a general or specific purpose.

[5] In recent years, the minimum wage has fallen in real terms compared to the figures that prevailed in the mid-2000s. As of 2022, it amounts to R$ 1,212 (around US$ 220). This value is completely outdated: according to the Inter-Union Department of Statistics and Socioeconomic Studies - DIEESE (2022), the minimum wage should be worth six times more so that workers could meet their essential expenses.

Federal, state and municipal taxes

Another important aspect of the national tax system lies in its strongly decentralised design. Brazil is a federation with 26 states, the Federal District and around 5570 municipalities. During the military dictatorship (1964–1985), the federal government concentrated the power to rule on several matters, including taxation. In 1988, the "Citizen Constitution" restored democracy and enshrined a new social contract. Principles promoting political, fiscal and administrative decentralisation – eliminating the marks of the authoritarian period – prevailed in the drafting of the new constitution.

In this context, the new legal code enacted fiscal autonomy at the three levels of government – the federal, state and municipal levels. Each one was assigned with specific taxes and gained autonomy to regulate them. At the same time, the constitution also fixed the sharing of resources from the most to the least affluent levels of government. The transfer of tax revenues occurs in a top-down direction: the federal government transfers part of its own tax resources to states and municipalities, while states pass on a share of their tax revenues to municipalities.

The federal government continues to be responsible for the lion's share of total tax revenues before intergovernmental transfers. As shown in Table 2, it kept 66.3% of total tax collection in 2021 (accounting for 22.5% of the GDP). State governments, in turn, collected 26.8% of tax revenues (8.55% of the GDP) and municipalities, 6.8% (2.7% of the GDP) (Brazilian National Treasury, 2022). One can thus see that, despite improvements in decentralisation patterns in the Brazilian tax system over the past decades, tax collection is still considerably centralised in the hands of the federal government. These figures do not account for federal and state transfers, which end up being beneficial particularly to municipalities.

Table 2. Brazil, tax collection by sphere of government, % of tax revenues and GDP (2021)

	% Tax Revenues	% GDP
Federal government	66.3	22.5
State governments	26.8	8.5
Municipal governments	6.8	2.7
Total	100	33.7

Source: Brazilian National Treasury (2021). Own elaboration.

The federal government levies a series of taxes to fund its fiscal budget, which covers general government activities. The most relevant ones include Income Tax on persons and legal entities (IRPF/IRPJ), the Manufactured Goods Tax (IPI), the Rural Property Tax (ITR), the Foreign Trade Tax and the Financial Transaction Tax (IOF). The federal level is also responsible for collecting the so-called 'social contributions' – special taxes created by the 1988 Constitution to finance the newly established social security system. The social security budget seeks to guarantee exclusive and stable sources of revenues for the system to finance the public provision of health services, pension benefits and welfare assistance. Social contributions are levied on a wide range of tax bases, including labour earnings, company profits and corporate turnover. They include the Contribution to Social Insurance (*contribuição previdenciária*), the Contribution to the Financing of Social Security (COFINS), the Social Contribution on Net Profit (CSLL) and the Social Integration Plan/Civil Servants' Investment Program (PIS/PASEP).

As a side note, Brazil also set a Provisional Contribution on Financial Transactions (CPMF) in 1997. This was a federal tax on the circulation of money for all types of transactions through the financial sector (which also captured a fraction of the income from informal activities circulating in the economy). The CPMF contribution aimed to provide additional funds to the public health system, which had been (and continues to be) underfinanced. This, however, was abolished in 2007. Government officials argued that it had unwanted side effects, such as added complexity to the tax system and potential disincentives to investments. However, the immediate consequence of its termination was to worsen further the chronic underfinancing problem of the Brazilian universal healthcare system.

States raise revenues mainly from the Tax on the Circulation of Goods and Services (ICMS), the Ownership of Automotive Vehicles (IPVA) and Inheritances and Gifts (ITCMD). Lastly, municipalities draw their tax revenues from the Tax on Services (ISS), Urban Property Tax (IPTU) and the Real Estate Transfer Tax (ITBI).

In what follows, we discuss the main characteristics and distributional impacts of those taxes that are most relevant for understanding the Brazilian tax system.

Income tax, corporate taxes, and social security contributions

Personal income tax (IRPF)

Personal income tax (IRPF in Brazil) is a central feature in determining income inequality in an economy and may contribute to its mitigation or, on the contrary, perpetuate and exacerbate it. In the Brazilian case, at first sight this tax has a progressive structure, with statutory rates that increase as the level of income grows. However, this view does not withstand a more refined look at the IRPF.

First, it is necessary to highlight the existence of incomes that, regardless of their amount, are exempt or benefit from exclusive taxation, which reduces the portion of income on which the IRPF is levied. An emblematic example are profits and dividends, on which no personal income tax is levied – they are tax-free. Moreover, several private expenses such as health, education and social security benefit from IRPF tax credits, further reducing the amount of taxable income. In the case of health, there is no limit on the amount of expenses that can be deducted from the taxable base. This mechanism favours high income families in which the above expenses are concentrated, undermining the progressivity of the IRPF by reducing the tax levied at the top of the distribution.

For those incomes that are taxable, Brazil currently has five tax brackets, which can be seen in Table 4.

Table 4 - Table of personal income tax bands and rates (per monthly income)

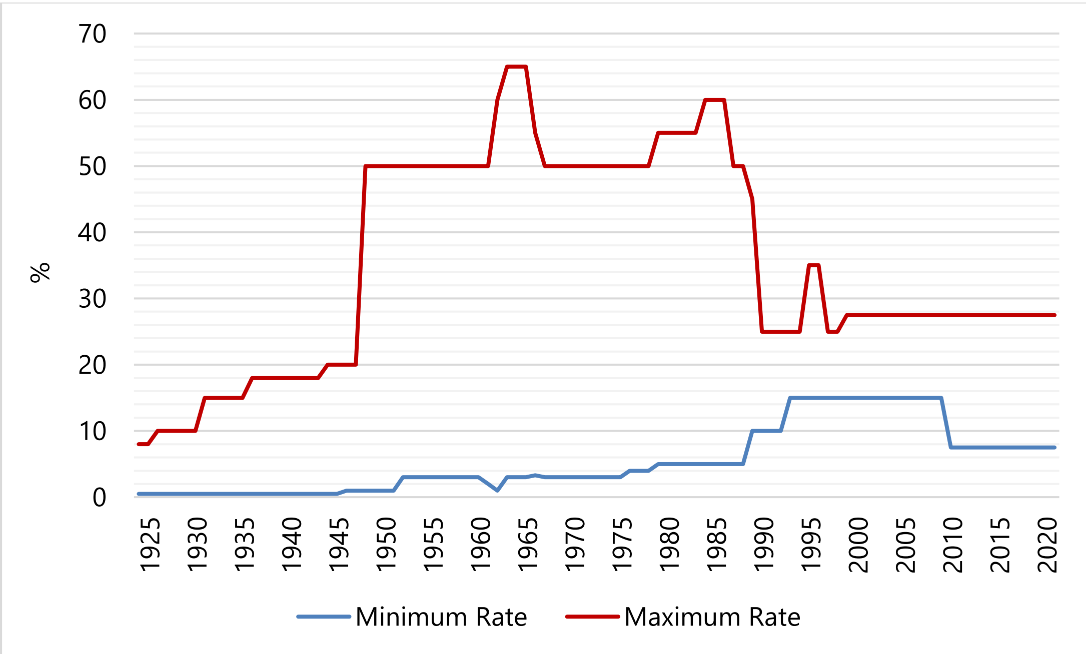
Income bands in R$ (US$)	Tax rate (%)
Up to R$ 1,903.98 (US$ 364,61)	0
From R$ 1,903.99 (US$ 364,61) to R$ 2,826.65 (US$ 541,30)	7.5
From R$ 2,826.66 (US$ 541,30) to R$ 3,751.05 (US$ 718,32)	15
From R$ 3,751.06 (US$ 718,32) to R$ 4,664.68 (US$ 893,28)	22.5
Above R$ 4,664.68 (US$ 893,28)	27.5

Source: Federal Revenue of Brazil (2022a). Own elaboration.

A particularly problematic element of the Brazilian tax system is the fact that there is no indexation rule to keep the different income tax brackets up with inflation. Thus, an increasing number of low-income individuals are no longer exempt and are subjected to the minimum income tax rate. Similarly, more individuals are subject to the maximum tax rate, which includes individuals with increasingly distant income levels. Between 2002 and 2022, accumulated inflation (IPCA) was 239%, while income amounts subject to tax grew by 80% in the case of the minimum rate and 121% in the case of the maximum rate (Brazilian Central Bank, 2022; Federal Revenue of Brazil, 2022a). The absence of indexation rules thus contributes to the reduction of the progressivity of the IRPF.

As can be seen in Figure 4, the maximum and minimum rates of the IRPF have undergone several changes over time and three phases can be identified. The first, up until 1947, is characterised by low values for both rates. However, there is a progressive increase in the value of the maximum rate that culminates in a change of level in 1948, when it increases from 20% to 50%. This jump marks the beginning of the second phase. In an apparently contradictory way, this moment of greater progressiveness of income tax coincides with the authoritarian regime in the country, commanded by the civil-military dictatorship (1964–1984). This interval ended with the double movement of decreasing the maximum rate and increasing the minimum rate, initiating the third phase which is still in force today. The central characteristics of the current period are the small difference between the maximum and minimum rates, and the high value of the latter from a historical perspective. This phase coincides with the enactment of the 1988 Constitution, a milestone in the country's re-democratisation. This reduction in the maximum rate of tax reveals that the tax system was left out of the institutional changes made to expand citizenship rights in the country, undermining the fight against inequality of income and wealth.

Figure 4. Brazil, percentage of maximum and minimum income tax rates (IRPF), 1925 to 2020 (% of taxable income)



Source: Own elaboration based on Nóbrega (2014) and Federal Revenue of Brazil (2022a).

The Federal Revenue of Brazil releases data from the IRPF declarations divided by income bracket, constituting a valuable source of information on the levels of income and wealth inequality in Brazil and the role of the IRPF in perpetuating it. Table 5 below contains information for 2007 and 2020, respectively the first and last year for which information is available.

Table 5 - Data from the IRPF declarations distributed by income brackets in multiples of minimum wages (MW), in % (2007 and 2020)

	2007				2020			
	Up to 2 MW	*From 2 to 10 MW*	*From 10 to 80 MW*	*More than 80 MW*	*Up to 2 MW*	*From 2 to 10 MW*	*From 10 to 80 MW*	*More than 80 MW*
Population	19.1	60.3	19.8	0.8	15.6	65.8	18.0	0.6
Total income	1.2	33.4	42.9	22.4	1.7	35.8	43.1	19.3
Taxable base	1.7	42.1	48.2	8.0	2.6	46.6	45.4	5.4
Assets	3.8	24.4	41.7	30.0	6.3	25.9	39.6	28.1
Deductions (Medical, Education and Pension)	0.2	32.1	62.6	5.1	0.7	40.7	55.7	2.9
Exempt Income / Total Income	3.3	4.4	19.5	54.4	12.6	15.0	31.6	67.1

Source: Federal Revenue of Brazil 2008, 2021.

As can be seen in the two selected years, the highest income bracket – people earning 80 or more minimum wages per month (almost US$ 18,000 in 2022) – represents less than 1% of the population, but accounts for approximately one-fifth of total income and 30% of the country's declared assets. People in the lowest income bracket – earning up to two minimum wages or US$ 450 per month in current values – represent between 15% and 20% of the population but hold less than 2% of total income and 7% of the total value of assets declared for income tax. It must be emphasised that, as shown in Table 5, people who receive up to R$ 1,903.98 per month (US$ 364,61) are exempt from IRPF. Thus, the lower income brackets are under-represented in the universe of those declaring income tax, underestimating inequality in the country.

An interesting fact to note is that the relative participation of the highest income bracket in the total income declared is higher than its relative participation in the tax base. In other words, the highest income bracket contributes less relatively to the total collection of the IRPF than the others. This is a result of the aforementioned deductions and, mainly, of exempt income (such as financial income, for example), which represent more than half of the total income of the richest people. This fact shows how the IRPF rules in Brazil significantly undermine its redistributive potential, concentrating wealth.

Corporate income tax

The corporate income tax (*Imposto de Renda Pessoa Jurídica* – IRPJ) is levied on enterprises and relies on profits as its reference value. There are three different tax regimes that determine the amount which the tax is calculated from. The first one, *Lucro Real* (real profit) is obtained through a series of subtractions from the firm's operational result in order to reach the 'taxable profit'. Arguably, the most important deductions are the *Juros sobre Capital Próprio* (JCP), known in English as Allowances for Corporate Equity (ACE). This legal mechanism allows companies to deduct from taxable income the profits distributed to stockholders.

In the second regime*, Lucro Presumido* (Assumed Profit), the calculation basis is obtained as a fraction of the gross revenue. Despite being assumed to be a good proxy of the firm's profit, in practice this measure tends to underestimate its value, thus reducing the collection of IRPJ.

Lastly, the *Simples Nacional* (National-Simplified) is geared toward small and micro enterprises. It replaces the payment of federal, state and municipal taxes for a single, reduced contribution based on gross revenues. Both the calculation and the rates depend on the revenue and the economic sector, but the conditions are usually more favourable for companies than under the two previous regimes. Companies with gross revenues of up to R$ 4.8 million per year (around US$ 872,000) can benefit from the simplified regime. This threshold is relatively high, thereby encompassing medium enterprises and creating unequal competition between them and the smaller firms to the benefit of the former. In this way, small enterprises often lose the tax advantage that was originally directed to them.

Social security

As previously noted, the 1988 Constitution brought a major transformation to the Brazilian tax system by creating a national social security system. With the social security system came a specific budget with taxes earmarked for social security spending. The idea of the social security budget was to create a public fund to which all Brazilians would contribute, either through compulsory means, like social insurance, or through various indirect taxes on consumption. The creation of tied sources of revenues for social security was aimed at diversifying the taxation base. This shields revenues from adverse economic cycles when direct tax collection tends to decrease while social needs tend to grow, pushing for more public spending.

The social security budget is thus financed by the whole society, both directly and indirectly, through social contributions on sales, profits, imports and wages (see section on federal, state and municipal taxes)[6].

[6] Since the 1988 Constitution, Brazil has disposed of three specific budgets: the fiscal budget, the social security budget and the budget of state-owned enterprises.

As of 2020, revenues from social contributions amounted to 10% of GDP. These have been dropping since 2005, when they had reached almost 13% of GDP (ANFIP, 2021). Revenue losses can be associated with economic slowdown, liberalising labour reforms (2017), growing unemployment and the several special regimes and tax exemptions that apply to social contributions.

The contributory rates applied vary widely depending on the size of the company, the sector and the reporting method chosen by companies, to name a few. The existence of many different tax schemes makes it difficult to find precisely the rates actually charged on contributors. As a rule, the standard rates for social contributions range from 3% to 7.6% on turnover for the Contribution to the Financing of Social Security (COFINS), from 9% to 20% of company profits for the Social Contribution on Net Profit (CSLL), and from 0.65% to 2.1% of gross revenues for the Social Integration Plan and Civil Servants' Investment Program (PIS/PASEP).

When it comes to the so-called *contribuições previdenciárias* – those that directly finance the pension system – these are paid by both employers and employees. The first are required to pay a 20% rate over the employees' payroll (which in some cases can be reduced to 1%–4.5% of the company's gross revenue), while the latter pay 8% of their wage. Similarly, the rate for voluntary contributors can range from 20% of an amount decided by themselves to 5% of the minimum wage.

Even though the number of social contributions is inferior to that of regular federal taxes (those that are bound to social security), they provide more than half of the total revenue collected by the federal government. As of 2020, the share of tax revenues coming from social contributions represented 54% of total federal tax collection (Federal Revenue of Brazil, 2022b). Through a legal device known as the 'Unbinding of Federal Revenues' (DRU), the federal government can take up as much as 30% of these revenues out of the social security budget each year and place them into the fiscal budget, removing the obligation to apply them to social security benefits. When added to the fiscal budget of the federal government, the revenues from social contributions can be used for privately appropriated forms of public expenditure, such as interest payments to public debt holders.

(Not) taxing property and wealth

One of the main aspects to consider when analysing the Brazilian tax system and its regressive character is the taxation of property. It is possible to identify two main types of taxes levied on wealth in Brazil: those that are levied periodically and those that are levied sporadically on a transfer of wealth.

The so-called Urban Property Tax (IPTU) and Rural Territorial Tax (ITR) belong to the first category, while taxes such as the Real Estate Transfer Tax (ITBI) together with the Inheritance and Gift Tax (ITCMD) and the ones called Wealth Tax, belong to the second. These items, of great tax complexity and redistributive impact, will be briefly analysed below.

Urban property taxes (IPTU and ITBI)

Although Brazil has a tax burden close to the average of developed countries, its redistributive potential is well below that observed in other countries when it comes to property taxation. Property tax revenues as a share of GDP have grown little in the last decade, from 1.2% of GDP in 2010 to 1.6% in 2019, below the average of OECD countries (1.8% in 2019) (Federal Revenue of Brazil, 2022c). Two of the main taxes on real estate property in Brazil are the IPTU (Urban Property Tax) and the ITBI (Tax on the Transfer of Real Estate Property).

The IPTU is a local tax levied on the owners of real estate property located within the urban area of the municipality. The rates for the IPTU are based on the market value of the property and vary depending on the municipality, ranging from 1% to 1.5% of the property value[7]. The Brazilian constitution provides for the application of the principle of fiscal progressivity of IPTU tax rates, so that properties located in high-end neighbourhoods may be taxed at a higher rate. However, in most cases, the principle of progressivity is ignored in the tax rate structure set by municipal law (Afonso et al., 2012).

The amount of tax revenues collected through the IPTU range from 0.4% to 0.5% of the GDP. Although it has grown in recent years, especially in large municipalities, it is visibly less relevant than indirect taxes (such as those on goods and services) and even specific taxes (such as that on vehicles). Besides having its revenue potential undermined, IPTU collection is highly heterogeneous across the more than 5500 municipalities in Brazil. The tax does not even reach all municipalities, with several local governments not collecting the tax, especially in the north and north-east regions of the country[8]. In most of the country, the ratio of IPTU collection to the municipal GDP is below 0.25% (Carvalho Jr, 2018).

The ITBI, a tax on property transfers between living people, is even more understated: between 2010 and 2020 its collection is likely to have increased from 0.14% to 0.19% of GDP.

The collection of the IPTU at the national level, at just 0.5% of the GDP, is low in comparison to several developed countries (average of 1.5% of GDP) and some developing ones (such as South Africa and Colombia, where they exceed 0.9% of GDP) (Carvalho Jr, 2018). Given that, the IPTU and IBTI could be one of the main sources of tax revenue to municipalities and local governments but have not been playing this role so far. Both have also been overlooked as a mechanism to reduce property and wealth inequality.

[7] There are 5568 municipalities in Brazil.

[8] According to Carvalho Jr (2018), among the reasons for the non-collection of IPTU and the high level of delinquency are the lack of administrative infrastructure of smaller municipalities in these regions and the political and financial cost of collection. Afonso et al. (2012) also highlights that the different patterns of urbanisation and economic development of Brazilian regions contribute to the poor performance of tax collection in municipalities with low degrees of urbanisation, especially in the north and north-east regions.

These types of property tax, which should be higher for those with greater wealth, end up representing a smaller portion of the Brazilian tax burden and lacking significant redistributive impacts.

Rural territorial tax (ITR)

In 2010, Rural Territorial Tax revenue represented only 0.01% of Brazilian GDP and this did not change much throughout the decade, reaching 0.02% of GDP in 2020 (Brazilian National Treasury, 2021). The collection of rural property taxation is well below that recorded in most developed countries, in which it represents a significant part of the total revenue of governments – more than 2.0% of GDP in advanced economies like the United States, Canada, France and the United Kingdom in 2019 (OECD, 2021)[9].

The low taxation of rural property is a striking feature of most property taxes, such as the ITR. In Brazil, it falls under the competence of the federal government with part of its value being transferred to the municipality of origin of the property. It is calculated based on the market value of the property, through information provided by the taxpayer. In other words, the tax has a self-declaratory nature which, among the various changes that the ITR has undergone since the enactment of the 1988 Constitution, has not been altered.

Its self-declaratory nature favours the tendency of owners to, in practice, reduce the value of the property and, consequently, the tax with inaccurate and under-declared information in a variety of ways. Such dynamics have allowed the relative extra fiscal irrelevance and the effectively derisory collection of the tax (Farias et al., 2018).

The problem with the ITR's insignificant share of total tax collection of only 0.07% in 2020, is particularly alarming considering the continental proportions of the Brazilian territory, being the fifth largest country in the world. Marked by a historically concentrated landholding structure and with considerable participation of agribusiness in the GDP composition, this structural bias is compounded. Old agrarian patterns of domination and political hegemony end up contributing to the low effectiveness of the ITR as a tax collection instrument, maintaining and reproducing the marked Brazilian patrimonial inequality. It is worth recalling that the Gini index of the distribution of rural land ownership in Brazil in 2017 reached a staggering coefficient of 0.86 (Hoffmann, 2020).

Inheritance and gift tax (ITCMD)

The Inheritance and Gift Tax (ITCMD - *Imposto Transmissão Causa Mortis e Doação*) is a tax enshrined in the 1988 Constitution that falls under the sphere of power of states and the Federal District. It acts on asset transfers with no commercial operations attached. The ITCMD is calculated from the market value of the transferred patrimony and has a national maximum rate of 8%.

[9] Average of the recurrent tax revenues on immovable property, both rural and urban, as a share of GDP.

Each state and the Federal District have the authority to determine the asset thresholds and the respective tax rates, respecting the national ceiling. As such, the progressive or regressive character varies regionally as well. In practice, rates vary between 2% and 8% of total inherited wealth.

The maximum rate of the ITCMD is extremely low, less than one third of personal income tax (27.5%). Therefore, it can be stated that the ITCMD plays a fundamental role in perpetuating social stratification in the country by allowing the intergenerational transfer of wealth to go almost untouched. According to Carvalho Jr. and Morgan (2020), 70% of total heritage in 2016 was received by the 10% of richest families. The ITCMD tax rate is also low in comparison to international rates. Based on a sample of 24 countries, Fagnani and Cardoso Jr. (2022) observe that the maximum tax rate averaged 35% in 2017, with Belgium and Spain reaching 80% and 64%, respectively.

The ineffectiveness of the ITCMD in diminishing wealth inequality reveals its true magnitude when we look at the actual tax rates applied by states. There are progressive tax rates in 15 out of 27 cases, but the maximum rate is applied in only ten of them[10]. In another eleven cases, the tax is structured as a flat rate, charging the same rate to any amount transferred – the most common value being only 4% (Carvalho Jr., 2018). Additionally, Brazil has a relatively low threshold for exemption of the ITCMD, only US$ 15,000 in 2017 (Carvalho Jr., 2018). The combination of these two features hinders the ITCMD's progressivity since it charges similar rates on highly unequal levels of wealth transfers.

ITCMD revenues have been increasing over time as a reflection of the higher values of transfers declared to governments. Still, the combination of a low ceiling and a heterogeneous structure result in a marginal tax collection for the ITCMD, representing only 0.1% of the GDP and 0.4% of the total tax burden (Brazilian National Treasury, 2022). This shows that its role as a lever for diminishing wealth and income inequality is far from adequate.

Drawbacks of the Brazilian tax system

Fiscal waivers and tax credits

A major factor contributing to limiting the progressive character of income taxation is the high volume of tax waivers and tax credits in Brazil, which are highly favourable to corporations and the better-off. The concession of tax benefits in Brazil have expanded considerably since the implementation of the 1988 Constitution and especially since the 2000s. These policies are justified with the argument that such incentives stimulate increased investment and employment, bringing about economic and social development. However, in practice, they tend to maximize private sector profit-rates, while limiting the state,s capacity to make public expenditures and investments that benefit the majority of the population.

[10] Including 26 states plus the Federal District.

In the 1990s, total federal tax waivers sacrificed the equivalent of about 1.6% of GDP (Goularti, 2019). Already in the 2000s, there was an 'explosion' of tax spending, which continued to grow in the most recent period – including during the first years of the severe economic crisis of the mid-2010s. The amount of revenue lost due to tax breaks peaked in 2015, reaching almost 4.5% of the country's GDP (Federal Revenue of Brazil, 2018). Since then, these values have remained relatively stable at around 4-4.5% of GDP. As of 2022, the sum of tax waivers is estimated at R$ 371 billion (nearly US$ 69 billion), or 20% of the government's federal budget (Federal Revenue of Brazil, 2022d). It is worth noting that these figures refer to only part of the total tax waivers in Brazil, relating to the forgoing of federal taxes only. Surprisingly, there is no national database in the country accounting for the total amount of public revenue lost through tax incentives, including those granted by states and municipalities.

One of the main issues with this practice consists in the fact that much of tax expenditure in Brazil derives from the waiving of taxes that would otherwise fund social security. Tax waivers granted on social contributions represent at least half of the total value of tax exemptions, despite being a small portion of federal taxes. In 2022, they accounted for more than 48% of total tax expenditure (Federal Revenue of Brazil, 2022d). Thus, they have a considerable impact on the capacity of the public budget to manage redistributive social policies.

According to data from the Global Tax Expenditures Database (GTED) (2022), Brazilian tax expenditures are not that much higher compared to other Latin American countries in gross terms. However, most of the tax exemptions in the country are concentrated in a few programmes and sectors, such as income tax exemptions for individuals and in politically powerful and relevant economic sectors, such as agribusiness and the automotive sector. Thus, they reinforce the regressiveness of the tax system, by benefiting higher-income groups and sectors with notable political power in the representative bodies of society, such as the legislature.

Table 6 allows us to see the main sectors or activities targeted by federal tax breaks. Considering the average of the three-year period 2016–18, only ten items account for almost 84% of the total value of tax breaks granted by the federal government. Among the most prominent is '*Simples Nacional*' (National-Simplified), a tax benefit granted to micro and small businesses, which accounts for almost a quarter (24.7%) of all deductions.

The second item that generates the most tax waivers, 'IRPF exempt and non-taxable income' (10.2% of the total), is related to income tax exemption or reduction in certain cases. Examples of income exempt from IRPF include those from termination of employment contracts, insurance paid for death or disability, retirement due to serious illness or occupational accident and benefits paid to citizens over 65 years of age. The third, 'agriculture and agribusiness' (9.3% of the total), encompasses several indirect tax and social insurance benefits for rural producers and agribusiness sectors. It also includes the exemption from only federal taxes of products in the basic food basket which, unfortunately, cannot be easily separated among the various agro-industry sectors.

Other elements that attract attention are the 'deductions from taxable income' (6.6% of the total), which include the reduction of the IRPF for spending on healthcare (no deduction limit) and the 'payroll exemption' (4.7% of the total). This was an important policy adopted from the 2000s onwards that replaced the employer contribution to social security on payroll with a significantly lower contribution on sales to stimulate employment and growth, but whose effectiveness is highly contested.

Table 6. Average federal tax expenditures in 2016–18, as % of GDP (top ten)

Programme, item or activity	2016-18
Simples Nacional (National-Simplified)	24.7
IRPF exempt and non-taxable income	10.2
Agriculture and agribusiness	9.3
Non-profit entities - immune/exempt	9.0
Manaus Free Trade Zone and free trade areas	7.7
Deductions from taxable income (IRPF)	6.6
Payroll exemption	4.7
Medicine, pharmaceutical products and medical equipment	4,3
Employee's benefits	4,1
Regional development	3,1
Sub-total (top ten)	83,7

Source: Federal Revenue of Brazil. Adapted by Barbosa (2022).

Tax exemptions also intensify Brazil's regional disparities. Even though most of the tax waivers are concentrated in the south-southeast, it is the north and north-east regions – historically the less developed ones – that suffer the greatest impact of such policies. This relates to the fact that they have the highest percentage of revenue losses due to tax waivers in relation to their tax revenues. In 2018, these represented 116.7% of tax revenues for the north region and 41.33% for the north-east. In doing so, tax waivers and exemptions generate and reproduce territorial hierarchies through the unequal distribution of public funds across the country (Goularti, 2019).

At the individual level, tax waivers become an important concentrating mechanism through income tax. Brazilian income tax is levied on gross annual income minus legal deductions authorised by the Federal Revenue Office for families' expenditures. The list of authorised deductions is long and some of them have no cap, like with healthcare expenses. Those who contribute to private pension funds or pay for private education are also allotted deductions, sparing the savings of the better-off (Lavinas, 2014). As a result, the higher income strata end up receiving benefits (which, indirectly, also end up having an incentivising role) for the acquisition of private goods and services in amounts higher than those allocated to poor families through cash transfer programmes. In 2015, for example, legal deductions for dependents and education for income taxpayers were higher than the welfare benefits ensured by *Bolsa Família*, the largest anti-poverty programme in Brazil (Silveira and Passos, 2018).

Such tax injustice is even more glaring in the case of health. According to data from the Federal Revenue Office and the Ministry of Health, the estimated amount of tax waivers related to health activities reached R$ 53 billion (US$ 10.2 billion) in 2018, equivalent to 60.9% of all the Ministry of Health's spending in the same year. They thus represent resources that could be applied in the universal public system to increase its quality. Instead, the result of health-spending cuts is a worsening distribution of public spending per person, serving as an incentive for private access by the richest while penalising the most vulnerable sectors of the population.

Financial wealth

In theory, financial investments made in Brazil are subject to Income Tax (IR) and Financial Transactions Tax (IOF), which are levied on different types of financial transactions. In practice, however, IOF is levied mainly on everyday operations and is largely exempt with respect to financial investments. There are several tax exemptions and privileges designed to leverage financial market segments, such as real estate and agribusiness investment funds. Such schemes undermine the collection of these taxes and favour financial accumulation. This happens, for example, with several funds and fixed-income securities whose redemptions are exempt from IOF after 30 days of investment. Likewise, other financial operations are exempted from IOF, such as: investments in shares regular and "day trade"; fixed income funds in selected sectors, e.g., Real Estate Credit Bill – LCI, Agribusiness Credit Bill – LCA, Agribusiness Receivables Certificate – CRA and the Real Estate Receivables Certificate – CRI, as well as some forms of debentures[11].

[11] Credit bills are fixed-income securities issued by banks with the objective of raising funds to finance investments in a specific sector. Receivable certificates are similar products, but issued by securitisation companies, which link companies directly with investors. Like LCA and CRA, the CRI is exempt from income tax, along with the Real Estate Investment Funds (FII).

Besides tax exemptions on financial transactions, there are at least two critical tax mechanisms in Brazil favouring financial capital concentration and wealth. First, as previously noted, companies and other legal entities may deduct from income tax the interest paid to owners, partners and shareholders (interest on own capital). Second, profits and dividends distributed to partners or shareholders – individuals or legal entities, domestic or foreign – can also be exempt from income tax. In the case of stock investments, monthly gross sales under R$ 20,000 (US$ 3,600) are not liable to income tax. This measure was introduced in 1995 to stimulate the domestic capital market and was reinforced in 2014, when the government approved total exemption for shares of companies with small or medium turnover. Larger amounts of investments in stocks are subjected to a 15% income tax rate, rising to 20% in day-trade operations (Fagnani and Cardoso, 2022; Musse, 2018).

High net worth investors and large corporations are the main winners from these tax incentives. In May 2022, the largest share (50.7%) of the stock of Agribusiness Credit Bills, exempted from both the tax on financial operations and income tax, consisted of investments with an individual value above R$ 2 million (US$ 360,000). Over a quarter of them (28.3%) surpassed, each individually, the R$ 20 million threshold (US$ 3,6 million). The same applies for Real Estate Bills, where individual investments over R$ 20 million (US$ 3,6 million) accounted for around 17% of the total investment stock (FGC, 2022). This shows the extent to which the tax system benefits the individuals with enough wealth to make such large investments and economic sectors with particularly high levels of capital concentration, notably the agribusiness and real estate industries. Large companies in these sectors are able to issue or benefit, directly and indirectly, from these securities, gaining greater access to capital to finance their operations and at a lower cost.

Wealth tax (IGF)

The Wealth Tax (*Imposto sobre Grandes Fortunas* – IGF) is the Brazilian denomination for a tax that would apply to the stock of wealth in the upper stratum of the income distribution. It was foreseen in the 1988 Constitution, but it was never regulated with any supplementary legislation and, consequently, never implemented.

If it were instituted, the IGF would be a direct tax levied on wealth, levied on an annual basis in the same way as real estate and vehicle taxes. Its base would encompass a wide range of assets, including deposits, shares, government and private bonds, real estate and other forms of financial wealth. The tax would be based on wealth above a certain threshold, endowing it with a unique capacity to reduce wealth inequality in the country.

Thus, the IGF would have a complementary role to that of income tax and could mitigate the regressiveness of Brazilian indirect taxation. France (abolished under the first Macron government), Switzerland, Luxembourg, Uruguay and Colombia exemplify that the tax could be viable and generate a collection of over 0.7% of GDP (Carvalho Jr. and Passos, 2018) above the average property tax collection in Brazil today.

During the COVID-19 pandemic several countries adopted emergency taxes on large fortunes to finance increased spending on public health, including Latin American countries such as Argentina, Chile and Bolivia. In Brazil, on the contrary, there was no advance in this debate and no measure was implemented in this sense. Without the support of the legislative and executive branches of government or the mainstream media, there was no movement capable of demanding higher taxation as an emergency form of social solidarity, even during a long-lasting state of public calamity, leading to a sharp increase in the public debt. This is particularly surprising considering that such a tax is provided for in the Brazilian constitution.

Tax evasion

With the advent of the digital economy, the free movement of capital and tax wars at the international level, due to the proliferation of tax havens and other practices that facilitate tax evasion, have all had a negative impact on public finances on a global scale. The situation in Brazil reflects this scenario. For example, as the Brazilian state only has the competence to tax the earnings of foreign companies that have a permanent establishment in the country, the Brazilian government finds it difficult to collect taxes on many foreign companies that nevertheless operate in the country (Hickmann, 2018), leading to a significant revenue loss.

Several surveys attempt to capture the real value lost through legal and illegal tax evasion and avoidance mechanisms. A recent study by ISP and the Global Alliance for Tax Justice (2020), in consonance with results obtained by UNCTAD (2016) previously, lists Brazil as the fifth largest loser of tax revenues in the world due to private corporate-tax fraud and evasion. According to its estimates, in 2017 alone, the country would have lost up to US$ 230 billion in taxes because of these activities. The survey also reveals that, in 2017, multinational companies transferred US$ 60,8 billion out of the country, generating a direct loss of government revenue of US$ 14,6 billion, an amount that is no longer available to fund public services.

Within the purely national scope, one of the main practices used by high-income individuals to reduce their tax burden consists in the creation of companies (legal entities) by workers and liberal professionals, especially the most qualified, to escape the taxation provided on labour income – even if they lose a good part of their labour and social security rights as a result (Fagnani and Cardoso Jr., 2022; Silveira and Passos, 2018). In line with this practice, the institution of simplified collection regimes for smaller companies (Simples-National and MEI – Individual Microentrepreneur Social Insurance scheme) allow the reduction of the social security funding base, generating in 2018 a waiver of the order of R$ 64 billion (US$ 12,3 billion). As previously discussed, this measure is beneficial not only to small and micro companies, but also to those of medium size which benefit from the rule, even though they are not its original target, which ends up generating a regressive potential.

Conclusion

At a first glance, the Brazilian tax burden may seem relatively high and progressive. However, a closer look reveals that this is just a smokescreen for a multitude of distortions and benefits favouring the upper classes and the elites. The Brazilian tax system creates and reproduces profound inequalities in income and wealth in the country. It is a highly regressive system in which the poor contribute proportionally more than the wealthier. It impedes social levelling by blocking upward mobility and it is particularly neglectful of potentially redistributive taxes, such as on property and financial gains. Many forms of real estate and asset properties are not taxed as much as in other countries, which curbs the state's ability to act directly on inequalities, not only in income but also in wealth.

As a country where wealth is concentrated in the hands of a few extremely affluent individuals, whose number has been increasing over the last few years, it is noteworthy that there were no moves from recent government towards taxing wealth in Brazil. This could have had an immense impact, for example, on the State's ability to address the impacts of the COVID-19 crisis on public finances and to better protect the population from the devastating impacts of the pandemic. Not only did the number of billionaires in Brazil jump from 18 in 2010 to 45 in 2020 (Stoller, 2020), but, at the height of the coronavirus outbreak, this number reached 315. Most of the extraordinary gains made by the new billionaires came from financial investments and several executives connected to the private health sector either arrived or continued on the list (Ertel and Maroja, 2021).

Even with clearly worsening redistribution, the choices of the legislative and executive branches have gone in the opposite direction of increasing taxes for the richest. Proposals for tax reforms that could have a progressive character are systematically attacked by the wealthiest sectors of Brazilian society, who wield considerable lobbying power. Examples include the creation of the Wealth Tax, taxation of profits and dividends and increasing the bands and level of income tax contributions. Among these sectors are the politicians themselves, a large number of them big entrepreneurs, who also have much higher incomes than the average population and would be financially harmed with changes that would seek a fairer taxation of income and wealth.

What we observe, instead, is the absence of laws to prevent the current situation from becoming even worse. This includes, for example, the absence of a law updating the income tax table to incorporate the effects of inflation, which has a highly regressive effect insofar as individuals potentially exempt or subject to the minimum tax rate end up paying more taxes over the years (Fernandes, 2022). More actively, the federal government is close to approving, in 2022, a measure that totally exempts income tax for foreigners on gains from investments in private bonds, representing an additional tax break of at least 0.05% of GDP, with no tangible benefit to the society as a whole (Balago and Tomazelli, 2022; Ventura, 2022).

All the existing rules and privileges make the Individual and Corporate Income Tax mostly reach the incomes from work and fiscal transfers from the government, exempting, moreover, a large part of the income of the richest, where the total profits and dividends distributed in the country are concentrated. This makes it possible for very high incomes of financial origin not to pay a significant tax burden proportional to their magnitude.

The parameters described here also allow us to see how financialisation is an important factor that makes possible the growing concentration of income in today's world. The wealthiest can allocate their resources to a wide range of highly under-taxed financial assets. They also gain from numerous accounting manoeuvres to reduce taxation on those financial investments that would, in principle, be subject to taxation.

Besides all its negative impact in terms of social equity, the Brazilian tax system also favours the expansion of financialisation in the economy in various ways. For example, tax exemptions spur demand for private services and insurance in several areas, such as healthcare, pensions, housing and education. Companies in these sectors are increasingly incorporated into financial structures, leading financial institutions and investors to also benefit indirectly from these rules.

The results of this essay show that the improvement of the Brazilian tax system does not go in the direction of merely increasing tax rates or their progressivity. It is fundamental to know who to tax and how. In the case of the urban property tax, for example, in a country marked by irregular land tenure and self-building (auto-construction) of housing in peripheral areas by the poorest population, adequate collection requires a good diagnosis of the territory and a continuous process of evaluation of its bases, rates, property values and policies of amnesties and exemptions (Peres et al., 2021). All this comes up against political conflicts and the resistance of the economic and political elites to the progressive collection of the tax.

Since the 1988 Constitution and its advances in terms of equity, the agenda of tax reform proposals being debated in the Brazilian National Congress focuses only on simplifying taxation on consumption and is silent on most, if not all, of the mechanisms of reproduction of inequalities mentioned throughout this paper. Thus, it allows the continuity – if not the deepening – of the regressiveness intentionally embedded in the last major tax reform that occurred in the country during the military regime in 1965.

Numerous tax reform proposals from the progressive camp have emerged over the past decades in Brazil. However, they did not have the political capacity to advance and become legal. More recently, hopes for a fairer tax system in the country have been renewed through the *Movimento Reforma Tributária Solidária* (Solidarity Tax Reform Movement), started in 2017. The movement unites tax auditors, researchers and several public and private institutes that share a common concern about the regressiveness of the Brazilian tax system and its obsolescence in the face of the needs imposed by the ecological transition. In the proposal of the Fair and Solidarity-based Tax Reform, filed in 2019 in the National Congress, there is no increase in the tax burden, but a fundamental change in its composition. It focuses mainly on increasing the share of taxes on income and wealth in the total tax burden, along with reducing the weight of consumption and payroll taxes (Mello, 2019). However, the proposal remains barred in Congress. There are hopes that a turn in the political framework, with the election of progressive forces, may open space for it to advance, or at least for its ideas to be incorporated into proposals under approval.

From what has been shown throughout this essay, this, and any other proposals to make the Brazilian tax system more progressive, should include:

i) an increase in the income brackets of the Income Tax;
ii) limits to tax breaks, with specific attention on areas of concern such as on private health expenditures;
iii) an increase in taxation of large properties and fortunes;
iv) taxes on financial investments and returns, notably interests and dividends.

The findings of this study can explain many of the reasons preventing Brazil from becoming a more equitable and egalitarian society. It is of the utmost importance to promote and popularise this debate to dispel misconceptions surrounding tax legislation and its effects on social and economic development. Otherwise, Brazilians will continue to be deprived of the most powerful instrument to fight the dramatic levels of wealth inequality in the country.

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