

The taxation system in brazil research paper examples

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Introduction

The present taxation system in Brazil was established by the 1988 Brazilian constitution that gave power to the State, Municipal, and Federal Governments to collect the taxes. Because of the numerous regulations that each of the three governments enacted, the taxation system in Brazil is very complex, and this leads to an environment where the authorities require the taxpayers to comply with various obligations comprising tax collection as well as reporting. The tax regulations and laws in Brazil are among the most confusing and hard to comply with throughout the world. The many rules that the three levels of government set out are often confusing to the foreign investors and daunting for the Brazilians. For this reason, this research paper focuses on the taxation system in Brazil.

Gross Tax Burden

Brazil is among the leading economies in South America and emerging global power. The country has traditionally experienced strong economic growth. During the 1970s, the real GDP in Brazil grew by roughly 8 percent annually. Nonetheless, as a result of the debt crisis, high inflation, and large deficits in the public sector, annual growth in Brazil fell to about 3 percent during most of the 1980s (Brazil, 2000). The government in Brazil raises taxes totaling to 35 percent of the nation's GDP and spends over two thirds on the social programs.

According to the specialists, the gross tax burden level in Brazil is far above the average among the emerging economies. The burden causes distortions, which risk the quality of the tax system in Brazil through its redistributive

impact. In point of fact, Brazilian's gross tax burden raised from 14 percent of the country's Gross Domestic Product at the end of 1940s to over 35 percent in 2011. Therefore, it essentially became among the highest tax burden to have been paid in South America. The graphic below illustrates the country's tax burden as well as its related GDP growth rates in the period from 1990 to 2011.

During 2011, the gross tax burden in Brazil reached 35. 31 percent. The country registered highest taxes increase during 1960s. In addition, the taxes increased to 25 percent of Gross Domestic Product when the military ruled Brazil. In the late 1990s, the tax burden increased above 30 percent as a result of the introduction of new stabilization plan in the Brazil economy.

Financial Analysis of Brazil

Tax Administration in Brazil

In Brazil, there are some institutions whose roles are typical of tax administration. The Federal Revenue Service (SRF) is in charge of all the taxes that are assigned to the Union level as well as for more applicable Social Security contributions, with the exclusion of those on the self-employment and payroll. The National Social Security (INSS), which is an autarchy under the Welfare and Social Assistance ministry, is responsible for administering the social contributions that are levied on self-employment and payroll. The table below shows the revenue tax administration in Brazil during 2001.

The above table shows the number of units responsible of tax administration in Brazil. The remaining levels of government including the municipalities, the states, and the Federal District have their Tax Administrations for the

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taxes of their capability. To enhance its functions, the Brazilian Tax administration has essentially been outsourcing a number of its activities like printing, sale or distribution of forms by the private enterprises and receiving tax returns besides collecting taxes by a banking network.

Additionally, the withholding at source system is broadly used in the taxing model of Brazil. Under this mechanism, the third parties have the responsibilities of collecting some taxes that are associated with capital and labor income. The state tax administrators and SRF use the tax substitution mechanism for a number of specific products such as beverages, cigarettes, pharmaceutical products, fuel, and others. The Federal Revenue Service (FRS) is in charge of regulating, controlling, auditing and collection of custom taxes, domestic taxes, and federal contributions. In addition, it acts as an advisor in developing Brazil's tax policy.

Types of Taxes

Taxation in Brazil is categorized into several categories that are established and revised by the federal constitution through the national taxation system.

The major types of tax in Brazil include

Corporate tax

This is the proportion of tax that is charged to companies that operate in Brazil. The corporate tax system was revised in 2007 whereby companies with annual gross revenue of \$1372684(BRL2, 400, 000) would be subjected to a single tax in place of IPI(federal exercise tax), Municipal services tax, state taxes on goods and services, federal contributions levied on income(PIS and Cofins) and municipal services tax(ISS). Companies are allowed to

calculate their annual income tax either through presumed profits or actual profits method. The highest rate of corporate tax is estimated at 17.42% and a low of 4%. The rate is subject to change as a result of fluctuating status of the economy.

Individual income tax

This refers to the tax exerted on an individual citizen of Brazil depending on every person's earnings. The tax rate is applicable to both formally employed individuals and self-employed persons in Brazil. The progressive rate translates upwards from zero to approximately 27.5% of an individual's income. The Brazilian tax system provides several deductions before the rest is subjected to the prevailing tax rate. These deductions include donations, private pension plan contributions, medical expenses and education expenses up to an annual limit of BRL2,198 or approximately \$1266.

Municipal /local tax

It is the tax rate that is charged by the municipal council on urban real estates' properties and business premises located within the demarcations of a local authority. Moreover, an average of 2% tax is imposed on the transfer of real estate. Real estate tax in urban areas for property owners ranges from as low as 0.6% to a high of 1.4% of the current valuation of the property. The discrepancy depends on each municipality taxation regime. Imposto sobre Transmissão Inter Vivos de Bens Imóveis e de Direitos a eles Relativos (ITBI) is a category of tax imposed by the municipal authorities to the buyer or the transferee of the property or possession rights. According to the 2013 taxation statistics, the taxation rate of ITBI is approximately 2%.

Rental income tax

This refers to the tax rate imposed on the residents of Brazil at an approximate rate of 15%. However; the government reserves the discretion to provide relief and credits. It is worth pointing out that interest on the mortgage is not deducted when determining the taxable rental income.

Capital gains tax

This refers to a category of tax that is deducted on the gains from sale pertaining to property and the revenue accumulated from the sale of securities and bonds. A 20% tax of the gains from the sale of securities on public securities during a 15% tax rate is imposed to all individuals who benefit from capital gains (Read and Gregoriou, 2007). Additionally, all Non-Brazilian residents have to part with a 15% tax of the capital gains which are realized at the time when the gain is incur It is notably worth that the Brazilian regime subjects individuals to double treaties on taxation with several countries apart from the United States.

Social security tax

This refers to the tax that is deducted by the government to all employers and employees in the republic of Brazil. The rate is based on the contributions made to social organizations such as retirement benefits scheme. Employers and employees are subjected to different taxation modalities. All employees are deducted an approximate salary ranging from 7. 65% to 11% of the gross salary. This discrepancy depends on the rank of each employee as stipulated in the Government's salaries table. On the

other hand, all employers are subjected to a 37.3% that is comprised of 8.5% and 28.8% severance funding and social security funding respectively.

Export tax (IE)

Export tax is a tax charged on goods that leave the Brazilian borders from other countries. The tax is charged on both domestic goods, nationalized goods and those goods that were in the form of donations. The tax rate is calculated at the prevailing price of exportation from as low as 30%. However; the government cannot extend the tax rate beyond 150%

Import duty (II)

This is the duty that is deducted from all goods that enter through the Brazilian borders. The burden of import tax is borne by the importer at a low of 0% to a high of 20% depending on the good being imported (Tanzi, 2003). The Brazilian government reserves the discretion to revise the rate upwards or downwards in order to attain national goals or realign the rates according to the international standards.

Value-Added Tax (ICMS)

This refers to tax that is deducted to transportation and communication services, movement and supply of goods. The tax rate catered by all entities that import goods from abroad and those who purchase goods that have been seized by the custom authorities. The tax rates range from 7% to 25%. Imposto sobre a Propriedade de Veículos Automotores (IPVA)

This is a calculated tax that is accrued to every individual who possesses motorist in the country. The motor vehicles taxed are not limited to cars, trucks, motorcycles airplanes and boats. The tax rate ranges from 2% to 5%

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