



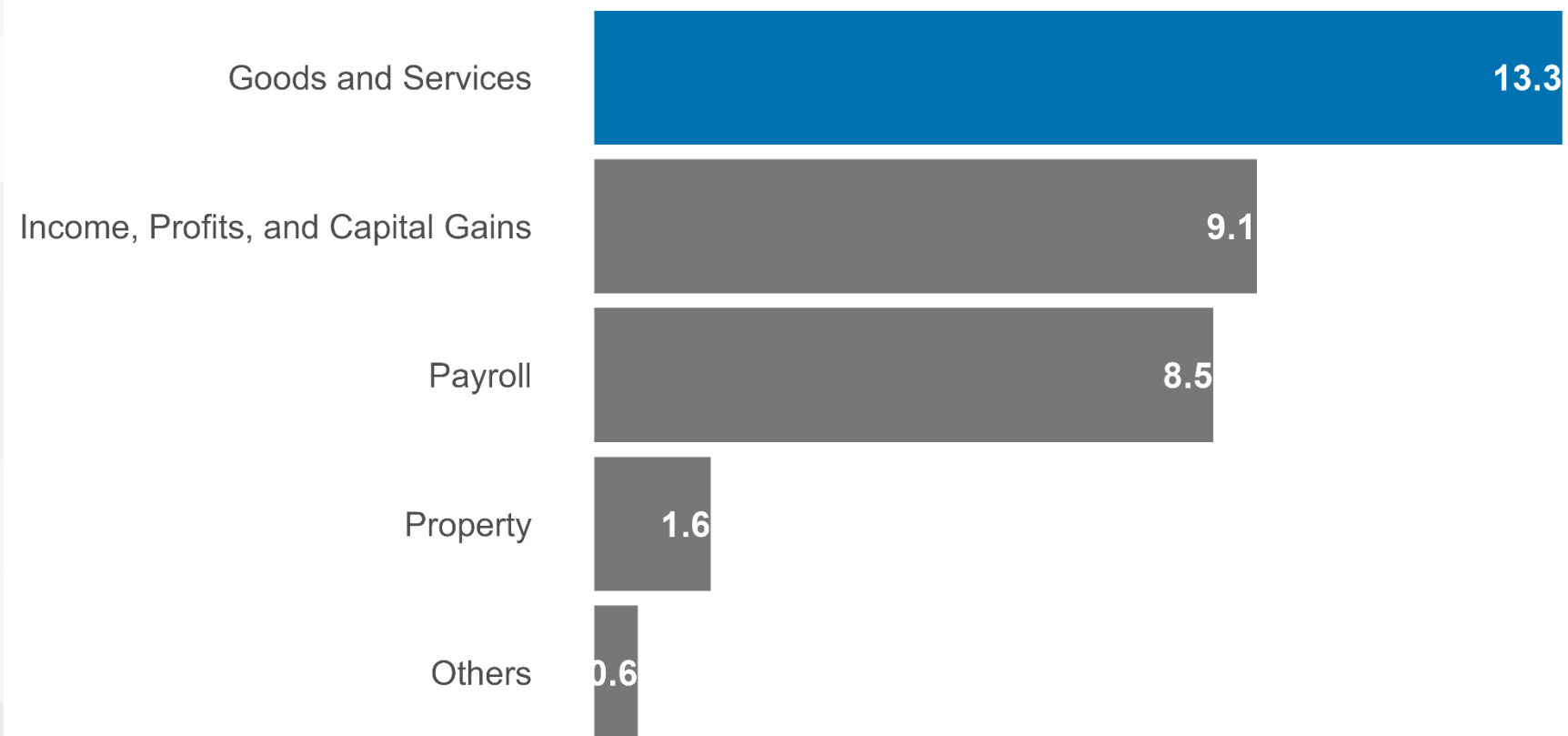
Tax policy to reduce inequality: tax progressivity in Brazil

Secretariat of Economic Policy

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Composition of the Tax Burden / GDP in Brazil (2022)



Tax burden (%)

Prepared by the author based on data provided by the Special Department of Federal Revenue of Brazil (2022).

Consumption tax reform (VAT)

- Reducing complexity:
 - Merges five current taxes in a VAT
- Eliminating distortions
 - Ends cumulative taxes, tax wars, and administrative and judicial disputes
- Fairer tax system:
 - Reduces regional inequalities
 - Benefits the poorest more

Consumption tax reform (VAT): Basic basket and VAT refund (Cashback) for Low-Income Households

- Review of the current basic food basket with targeted tax relief on foods consumed by the poorest
- Direct tax refund for households with monthly income up to half a minimum wage (~ US\$ 134.00): one-third of the Brazilian population
- Refund of:
 - 100% of the CBS (Contribution on Goods and Services - Union) and 20% of the IBS (Tax on Goods and Services - subnational) for:
 - Acquisition of a gas cylinder (13 kg)
 - Electricity, water and sewage, and piped gas bills
 - 20% of the CBS and IBS on other products (except those subject to selective tax)

Consumption tax reform (VAT): Changes in Purchasing Power Across Income Groups*

Income Bracket in minimum wage(s)**	Conservative (%)	Optimistic (%)
0-1*	10.2	17.5
1-2	10.1	17.4
2-3	10	17.4
3-5	9.8	17.3
5-6	9.6	17.1
6-8	9.4	17
8-10	9.3	16.9
10-15	9	16.7
15-20	8.5	16.2
20-30	8.4	16.3
> 30	8.1	16.1

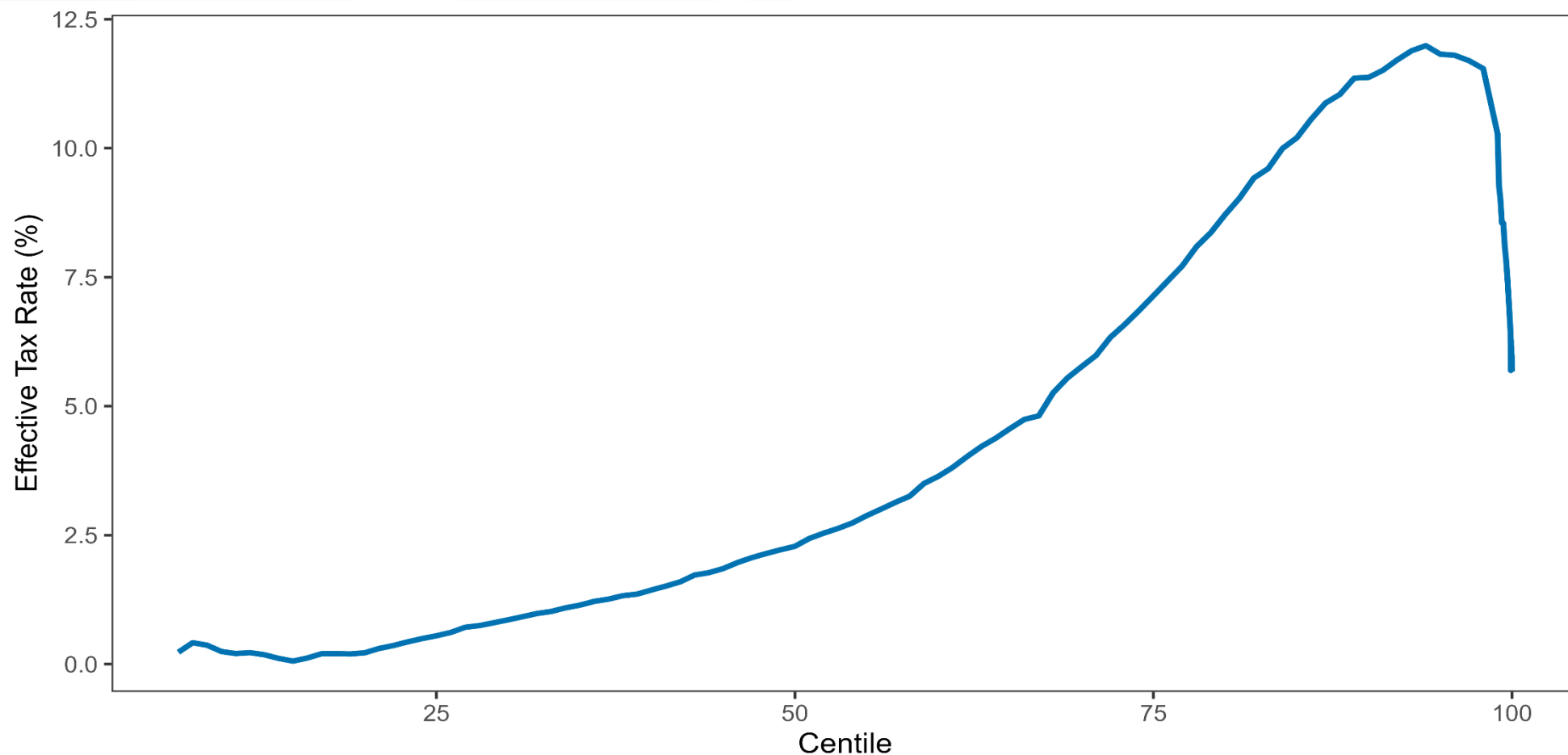
* Source: Domingues and Cardoso (2021), based on Borges (2019). Data corresponds to the direct impact over 15 years.

** 1 minimum wage is worth approximately US\$ 269,00.

Consumption tax reform (VAT): Cashback - an example

	Consumption	Tax rate (%)	Tax rate w/ cashback (%)	Refund
Basic food basket	R\$ 511,18	0,0	0,0	R\$ -
Extended food basket	R\$ 353,82	10,6	8,5	R\$ 7,51
Other foods	R\$ 280,37	26,5	21,2	R\$ 14,88
Electricity, water and sewage	R\$ 407,20	26,5	18,6	R\$ 32,41
Cooking gas	R\$ 138,29	26,5	14,2	R\$ 17,12
Goods subject to selective tax	R\$ 62,26	26,5	26,5	R\$ -
Other goods and services with reduced tax rates	R\$ 642,68	7,1	5,7	R\$ 9,17
Other goods and services	R\$ 2.505,71	26,5	21,2	R\$ 132,96
Total	R\$ 4.901,51 (US\$ 867,89)	20,1	15,7	R\$ 214,06 (US\$ 37,90)

Income taxation: Current Effective Income Tax Rate (2022)



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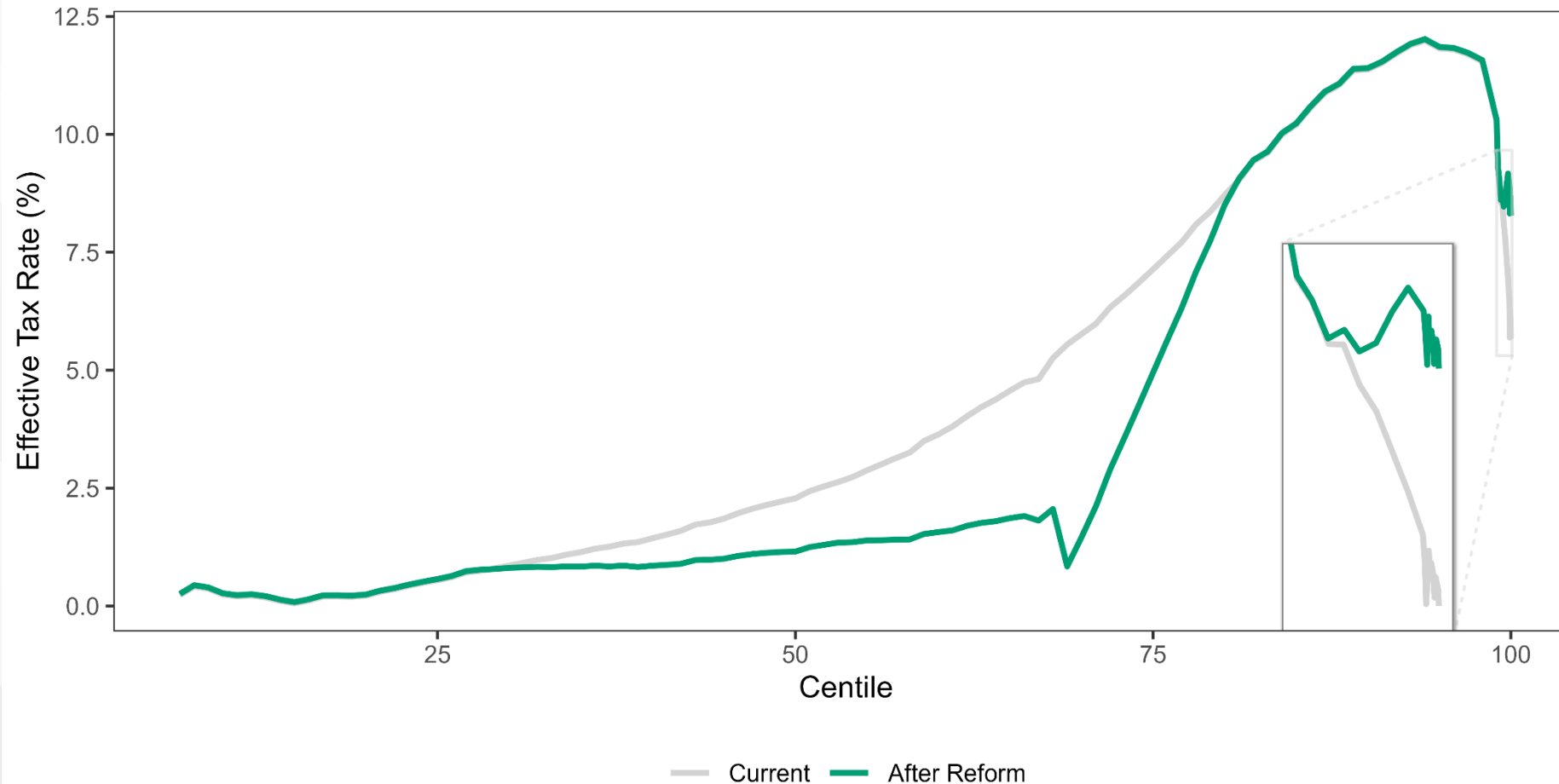
Income taxation: Tax Reform in Offshore Entities and Closed-End Funds

- Approved in 2023
- Goals:
 - Aligning Brazil's tax regime with international standards
 - Preventing tax deferral
 - Increasing revenue
- Fixed income tax rate of 15%
- Applies even if the profits have not been distributed

Income taxation: Proposed personal income tax reform

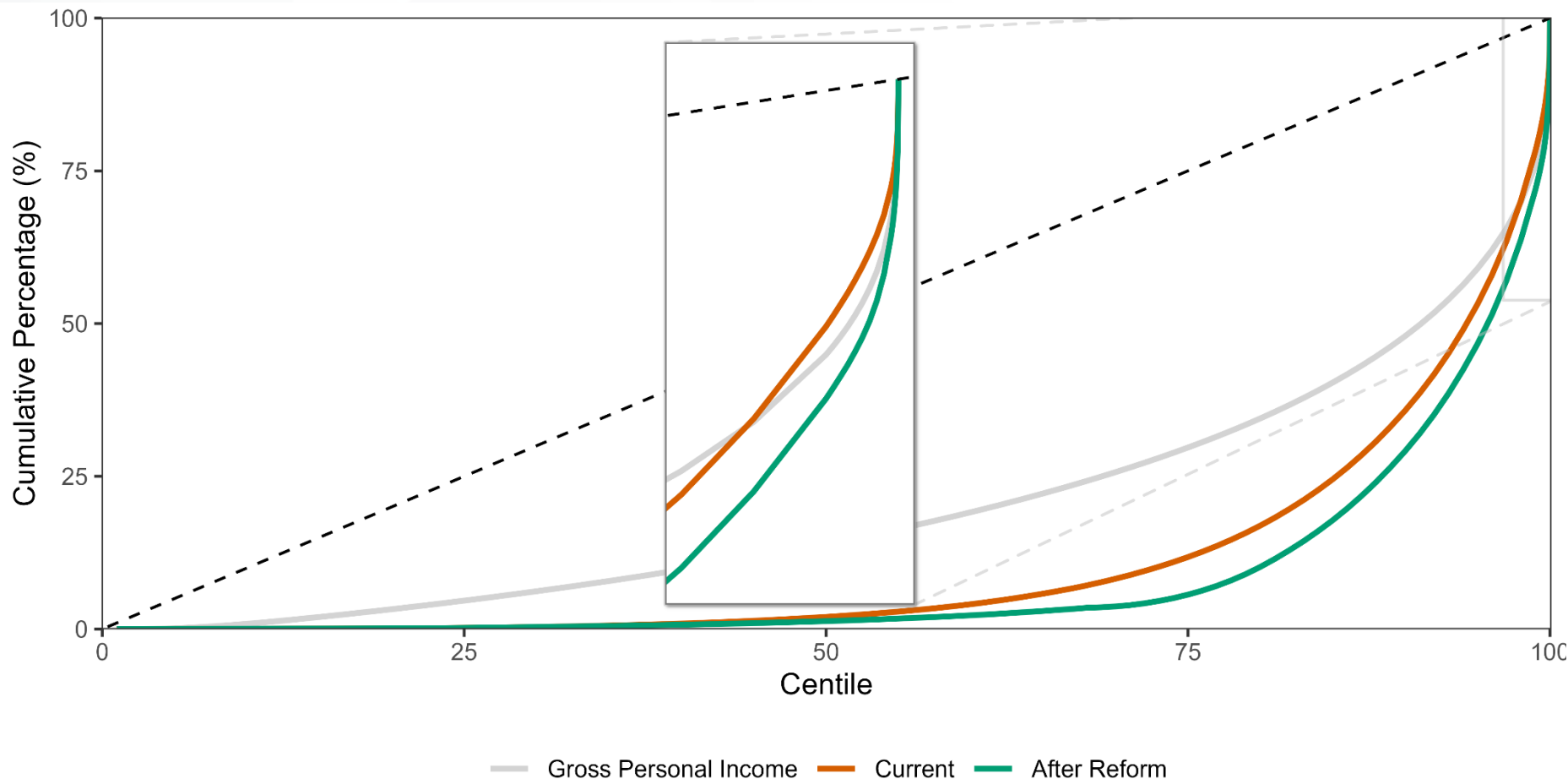
- Income tax exemption for monthly earnings up to R\$ 5,000.00 (~ US\$ 883.00)
 - Reduced income tax rates for monthly earnings up to R\$ 7,000.00 (~ US\$ 1,236.00)
- A minimum income effective tax rate for high-income earners
 - Incomes starting from R\$ 600,000.00 (~ US\$ 106,000.00).
 - Reaches 10% for annual incomes of R\$ 1,200,000.00 (~ US\$ 212,000.00) and above

Personal income tax reform proposal: impacts on Effective Income Tax Rate



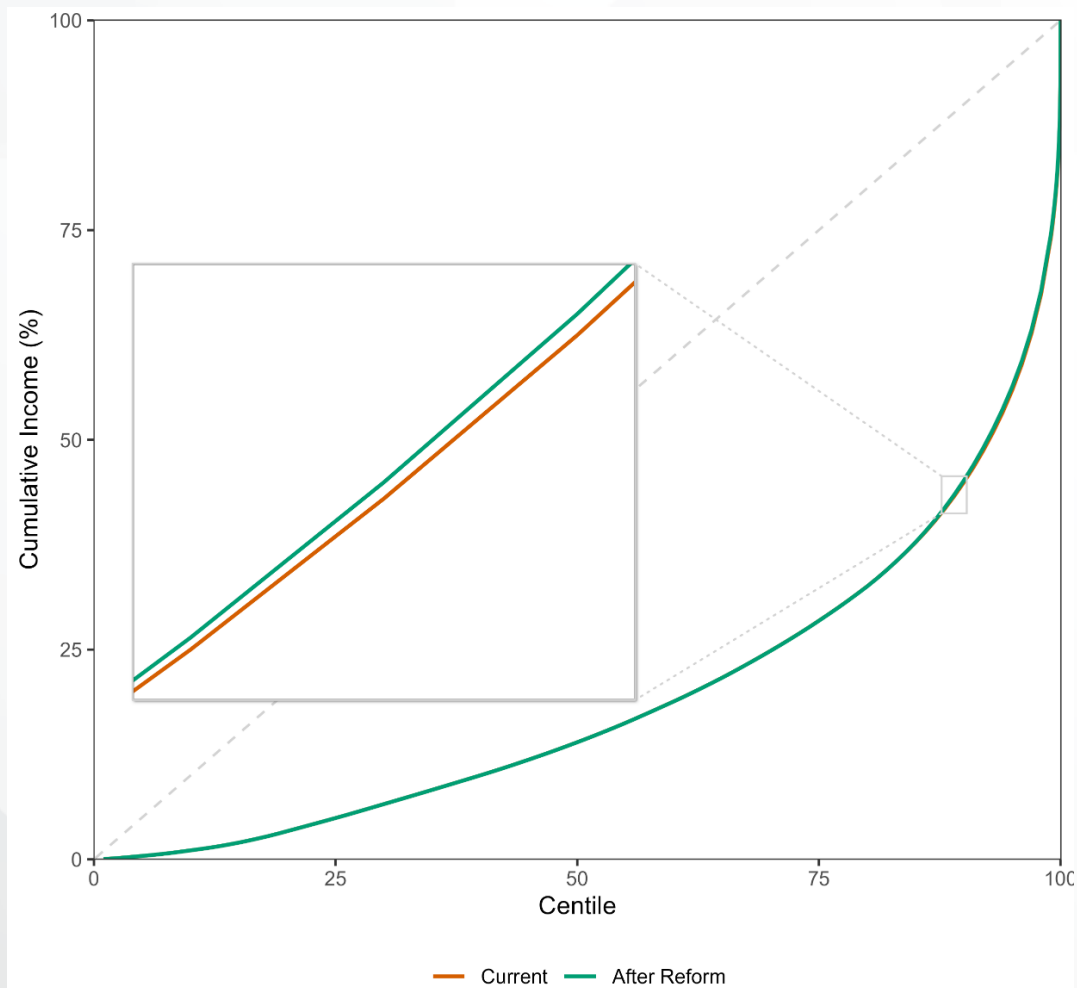
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Personal income tax reform proposal: Impacts on Income Tax Concentration Curves



Prepared by the author(s) based on data provided by the Special Department of Federal Revenue of Brazil and the Brazilian Institute of Geography and Statistics (2022).

Personal income tax reform proposal: Impacts on Lorenz Curve of Total Income



Prepared by the author(s) based on data provided by the Special Department of Federal Revenue of Brazil and the Brazilian Institute of Geography and Statistics (2022).

Pos-tax Income	Gini
Current	0,6185
After Reform	0,6178
Prepared by the author.	

Final remarks

- Brazil has a very regressive tax system: the largest proportion of the tax burden is on consumption and income taxation has distortions in its progressiveness, being regressive at the top.
- Consumption tax reform approved in 2023 and which is being regulated mitigates the regressiveness of consumption taxation
- Taxation of offshore companies and closed-end funds helps reduce asymmetries between taxation of capital and labor income and has been relevant for raising revenue
- Proposed reform in personal income taxation has virtuous effects of increasing progressiveness, partially correcting the distortion of regressivity at the top and reducing income inequality

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