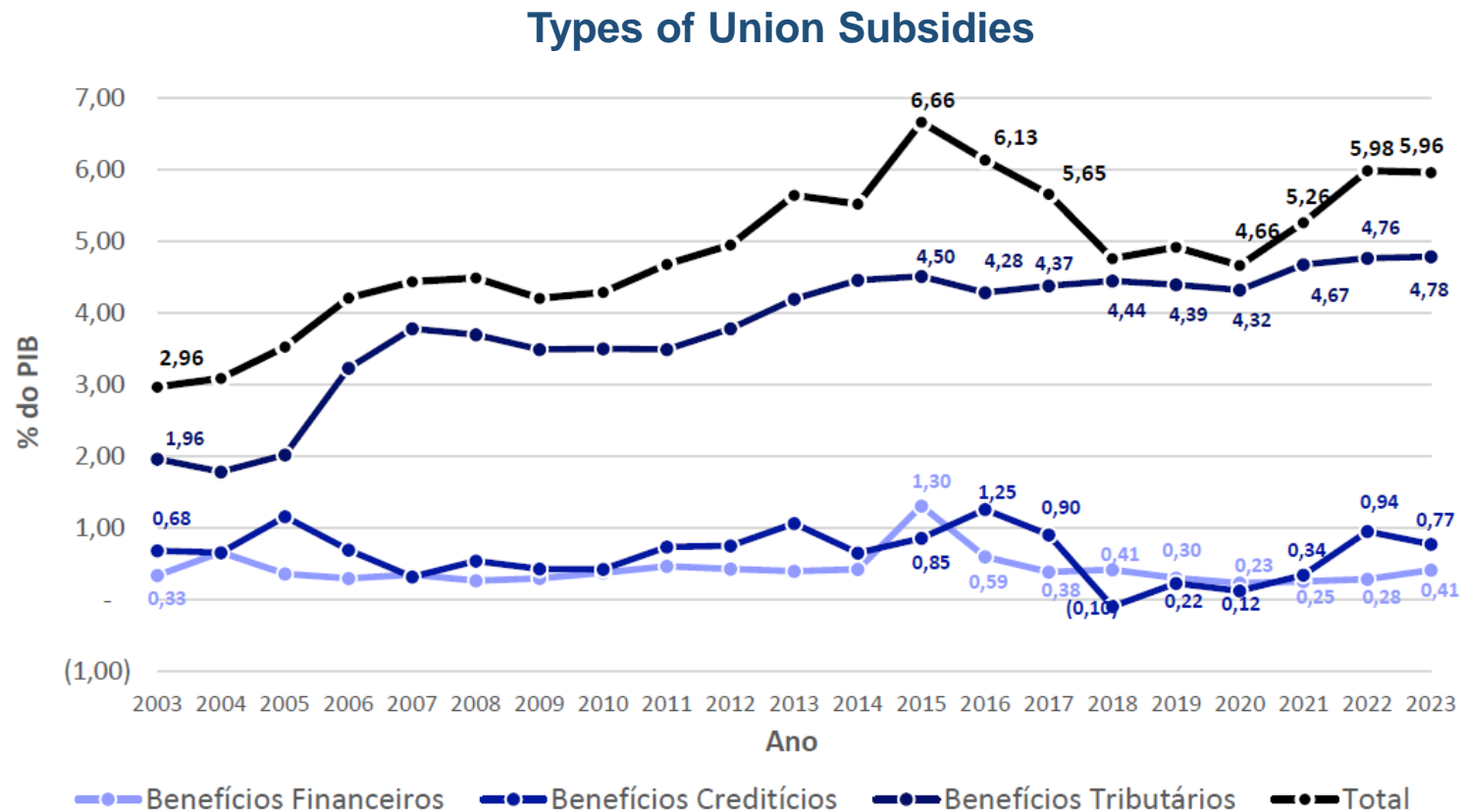


Tax Expenditures in Brazil

Débora Freire – Undersecretary for Fiscal Policy
in the Economic Policy Secretariat

A Challenge: the status quo of tax incentives in Brazil

- Greater predominance of tax expenditures



Fonte: SMA/MPO e RFB. Elaboração: SMA/MPO.

A Challenge: the status quo of tax incentives in Brazil

América Latina y el Caribe: evolución de los gastos tributarios, 2007-2019
(En porcentajes del PIB)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Argentina	2,1	2,0	2,0	2,2	2,3	2,4	2,5	2,5	2,7	2,9	2,8	2,5	2,3
Bolivia (Estado Plurinacional de)	1,6	1,6	1,4	1,1	1,0	1,2	1,2	1,5	1,4	1,2	...	...	...
Brasil	4,0	3,8	3,7	3,6	3,5	3,8	4,2	4,5	4,6	4,3	4,1	4,0	4,1
Chile	4,9	5,3	5,1	5,0	5,1	4,4	4,5	4,3	4,5	3,5	3,1	3,2	2,9
Colombia ^b	1,2	1,4	1,4	1,4	0,9	0,9	0,9	1,2	1,3	1,3	1,3	...	...
Costa Rica	...	...	...	5,0	5,0	5,1	5,3	5,0	4,9	5,3	5,5	5,5	5,5
Ecuador	4,5	4,4	...	5,0	5,5	4,9	4,8	4,1	4,7	4,6	4,7	...	...
El Salvador	...	...	2,7	3,9	3,5	3,3	3,2	3,1	3,9	3,8	...	...	...
Guatemala ^c	...	...	6,0	6,3	6,7	6,9	2,8	2,7	2,6	2,3	2,3	2,3	2,3
Honduras	...	...	...	...	...	...	...	...	5,8	6,4	6,2	6,2	6,2
México	5,9	7,4	3,9	4,0	5,1	5,0	3,6	2,9	2,9	3,5	3,9	3,7	3,1
Nicaragua	6,5	7,4	5,6	5,1	...	...	...	...	...	...	...	...	...
Panamá	...	...	...	...	...	4,9	4,5	4,3	4,2	3,6	...	...	...
Paraguay	...	...	...	...	...	...	1,7	1,9	1,7	1,7	1,6	1,5	1,4
Perú	2,2	2,1	1,8	2,2	2,0	1,9	1,9	2,1	2,2	2,1	2,2	2,2	2,1
República Dominicana ^c	...	6,6	5,9	5,8	5,2	5,0	5,9	6,6	6,7	6,6	6,2	5,1	5,1
Uruguay	4,3	5,7	5,7	6,3	6,1	6,6	6,4	6,2	6,5	6,4	6,4	...	...

Fuente: Elaboración propia sobre la base de información oficial.

^a Con la excepción de Chile, donde el GT total incorpora los efectos conjuntos o de derogación simultánea, en los demás países el total no representan una estimación de la recaudación que podría obtenerse en caso de que se eliminaran todos los gastos tributarios. En los informes de Colombia, México y Panamá los resultados no se presentan totalizados.

^b Solo se incluye el gasto tributario de los impuestos sobre la renta.

^c Países con cambios metodológicos significativos que invalidan las comparaciones para ciertos años: Guatemala (2013) y República Dominicana (2013, 2014 y 2018).

The need for a comprehensive institutional framework for the governance of tax expenditures in Brazil

- **Relevant role of tax expenditures:** significant and growing amount of tax collection waiver.

- In 2023, approximately R\$540 billion in tax incentives (4.78% of GDP) were spent.
- Tax subsidies represented 80% of all federal subsidies.

- **Challenge:** Absence of an institutional framework that imposes a continuous and integrated flow of basic criteria for

- approval, monitoring and impact assessment – ex-ante and ex-post – in different dimensions, of public policies that are financed through tax incentives.

Current governance of tax expenditures


- **What are the main rules for granting tax incentives in Brazil?**

- **Fiscal Responsibility Law (LRF):**

- ✓ Requires a statement of the budgetary-financial impact, in addition to the presentation of compensation measures.

- **Budget Guidelines Law (LDO)**

- ✓ Each year, the LDO requires that legislative proposals that grant, renew or expand tax benefits must:

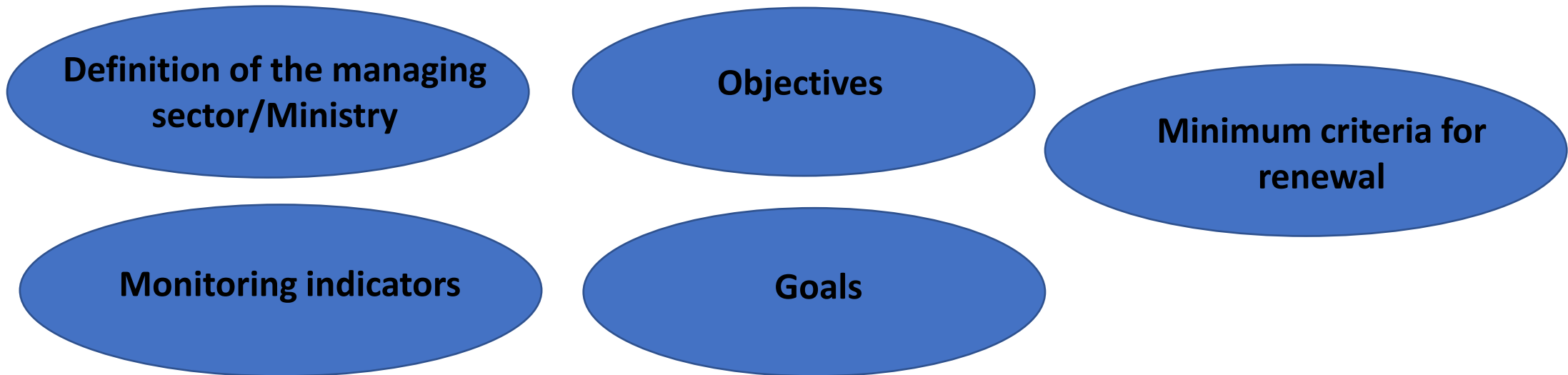
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- I - contain a clause valid for a maximum of 5 years;
 - II - be accompanied by goals and objectives, preferably quantitative;
 - III - designate a management sector/Ministry responsible for monitoring and evaluating the tax benefit regarding the achievement of the established goals and objectives.

Current governance of tax expenditures

- **How are tax expenditures monitored and evaluated in Brazil?**
 - **Ex-ante:** only from a fiscal-budgetary perspective.
 - **Monitoring:** The LDO determines that the responsible sector/Ministry will define indicators to monitor the goals and objectives established in the program and will publicize its assessments.
 - ✓ However, there are no operational mechanisms that require counterparts to maintain the subsidy.
 - **Ex-post:** The Public Policy Monitoring and Assessment Council (**CMAP**) assesses public policies. The subsidies assessed are selected annually based on previously determined criteria.
 - ✓ **There is no assessment of ALL incentives.**

Problems with the current governance of tax expenditures

- In general, tax expenditures approved by the Legislature do not meet basic criteria such as:



- CMAP makes recommendations, but does not have the institutional capacity to indicate the discontinuation of a tax benefit.

Problems with the current governance of tax expenditures

- **Main Problems of the current arrangement:**
 - 1) Maintenance of economic, social and fiscal distortions generated by these benefits: once granted, there is difficulty in reviewing them and possible discontinuation.
 - 2) The country's fiscal situation is aggravated by “leaks” of tax revenue.
- **It is necessary:** to change the legislation to institutionalize and modernize the process of granting and reviewing tax incentives in Brazil.

What is needed in a new governance for tax expenditures in Brazil

Constitutional Amendment 109/2021: Reduction of tax expenditures to up to 2% of GDP by 2029.

Objective: Recomposition of the tax base.

Fiscal balance – helps raise revenue and seek budgetary balance and debt sustainability in the medium term.

Opening up fiscal space to finance other relevant public policies.