
Tax Reform in Brazil: Conceptual Implications for Tax Expenditures

Rodrigo Orair

Special Advisory Office for Tax Reform

Executive Secretariat of Brazil's Ministry of Finance

April 2026



Tax Reform Calls for a Redefinition of Tax Expenditures

Key message:

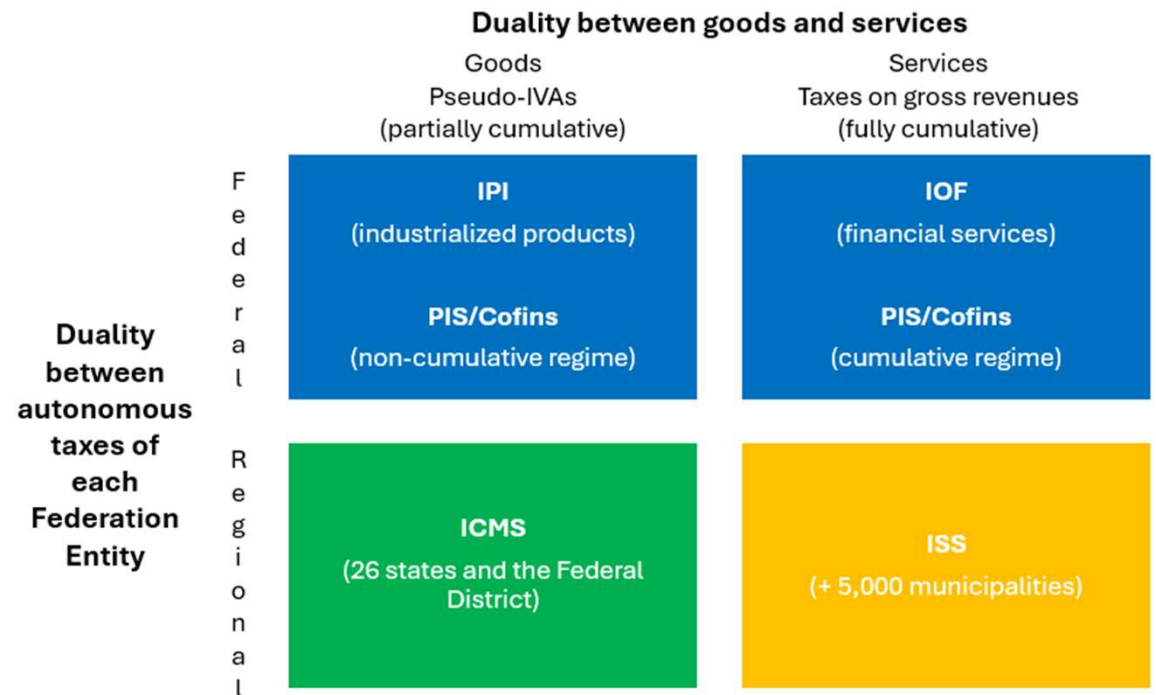
- The reform simplifies, but does not eliminate all tax expenditures
- The reference system changes, requiring conceptual and methodological revision
- Direct comparisons (before and after) will be misleading

Roadmap:

1. Why the old reference falls
2. What changes (and what doesn't) with the Reform
3. How this affects the measurement of the TE

Why reform the tax system

Double duality: the root of structural complexity



Why reform the tax system

Structural problems

- Fragmented tax bases and overlapping taxes
- Proliferation of product-, sector-, and region-specific tax rates and incentives
- Tax cascading that penalizes investment and exports
- Origin-based taxation fostering predatory fiscal competition (tax war)

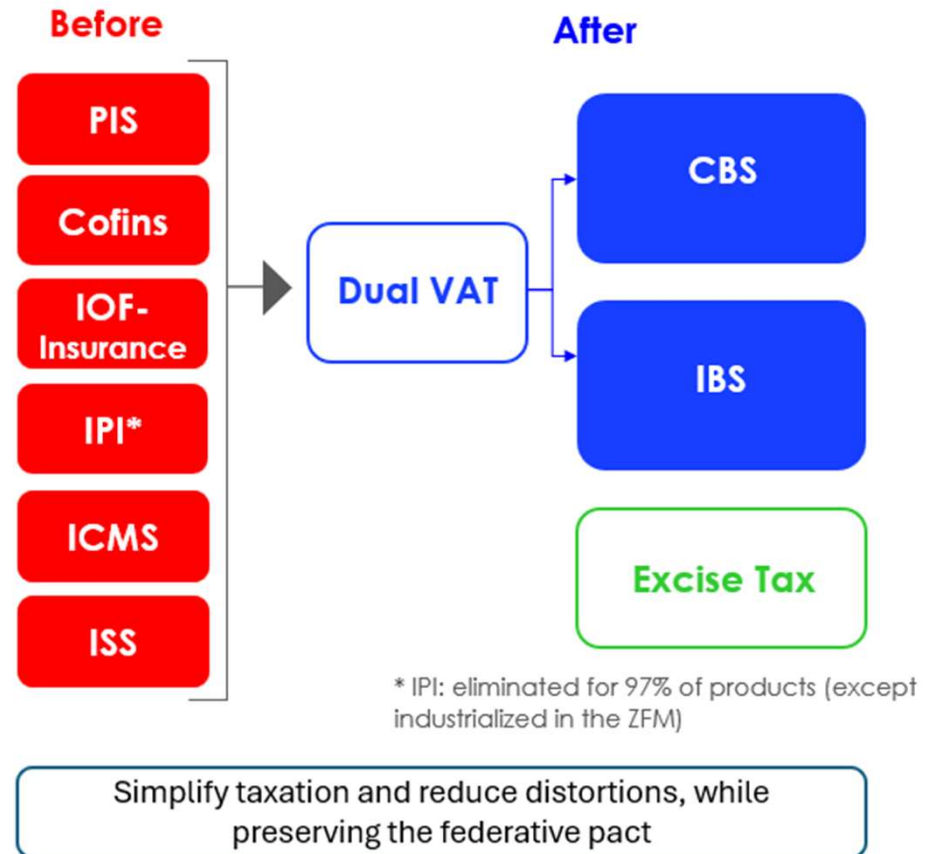
Economic effects

- High compliance costs and tax litigation
- Inefficient allocation of resources, distorting production and location decisions
- High investment costs and reduced international competitiveness
- Fiscal conflicts among federative entities

Overview of Tax Reform

- **Modern Two-Pillar System:**

- **Dual VAT** aligned with international best practices: broad base, full non-cumulativeness, destination-based, and few exceptions
- **Excise Tax** on goods and services harmful to health or the environment



Overview of tax reform

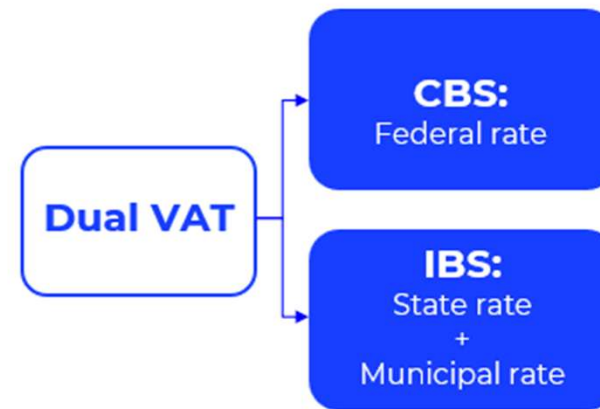
Common framework of CBS and IBS:

- National legislation
- Broad base
- Rules of incidence, crediting and special regimes
- Reference rates set by the Senate during the transition, in order to maintain the current burden

Exceptions:

- Federative autonomy: each entity may set its standard rate by its own legislation
- CBS collected by the Federal Revenue Office, while the IBS will have centralized collection through the Steering Committee

After



Modern-VAT enabled by cooperative federalism:

- Shared tax base, **rate autonomy preserved**
- Three rates, experienced as **one unified tax** by taxpayers

Basic structure of the Dual VAT (IBS and CBS)

General rule: regular regime subject to the **standard rate** and full crediting

Reduced rates:

- Four levels
- Pre-defined list in national legislation



Reduction	List of operations
100%	Basic food basket; medicines and medical devices; cars for people with disabilities and taxi drivers; higher education (Prouni); menstrual health; books, newspapers; urban public transport, among others.
60%	Education and health services; agricultural inputs and products (<i>in natura</i>); hygiene and cleaning and extended food basket; national artistic and cultural productions; sports activities; among others.
40%	Food and leisure/tourism services; intercity or interstate public transport and regional air transport; among others.
30%	Regulated professions.

Basic structure of the Dual VAT (IBS and CBS)

Additional hypotheses of differentiations defined in national legislation:

1. Specific regimes: originally technical motivations
2. Pre-existing preferential regimes and immunities
3. Deferrals and suspensions

Summary: uniformity is broad, but not absolute.


Category	List of operations
Specific Regimes	Fuels; margin services (financial, health plans, prognostic contests); Real Estate
Pre-existing regimes	Simples Nacional; ZFM and ALCs; Automotive regime until 2032
Immunities	Political parties; religious entities; nanoentrepreneur; IPSFL; etc.
Presumed credits and deferrals	Rural producer; recycling; autonomous transporter; cooperatives; agricultural inputs
Special customs	EPZs; Reporto; Reidi; Renaval; Exports and capital goods

Implementation timeline

Transition for taxpayers: test year + 7 years

Federative Transition: +45 years with gradually reduced compensation mechanisms





Why Systemic Reform Changes the Concept of Tax Expenditures?

Tax expenditures: maintained vs. revised

Partial standardization of the TEs:

- The main TEs were preserved, especially through reduced rates and preferential regimes.

Why is the new tax expenditure still unknown?

- Even maintained TEs had their format changed.
- The Reform changes the reference system used to measure tax expenditure.
- It will be necessary to review the estimation methodology in the new tax system.

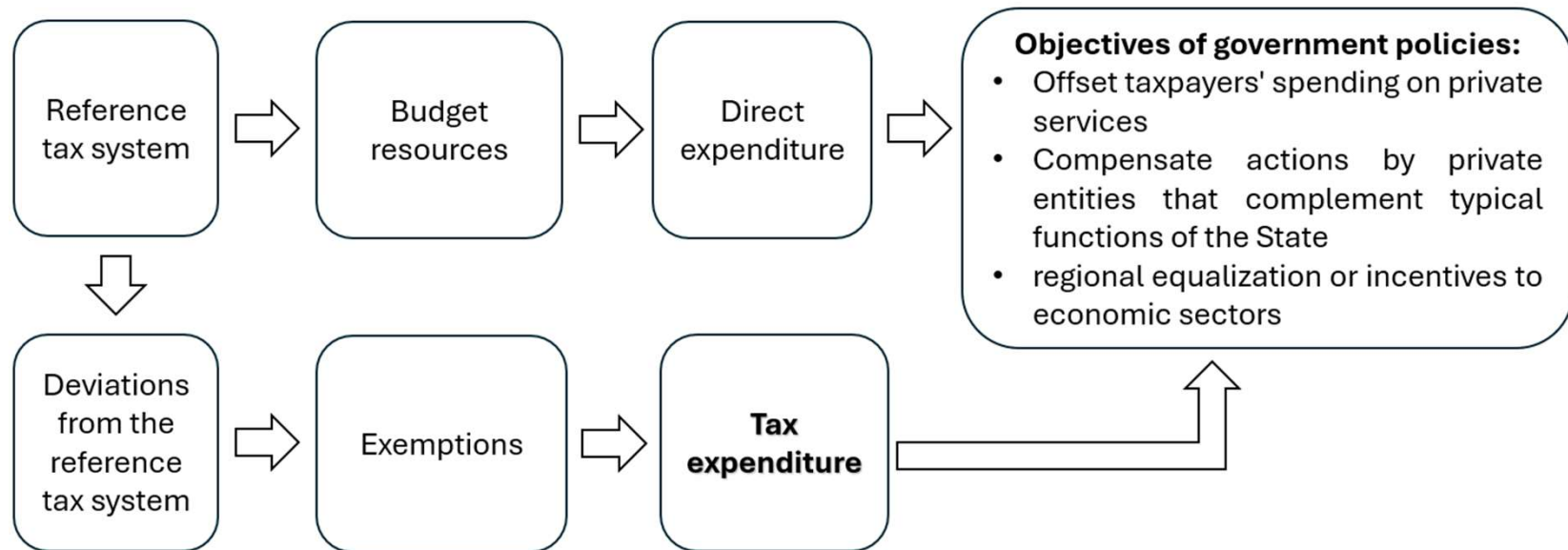
Beware of a flawed comparison:

✗ Current tax expenditures ≠ future CBS estimates

2026 Projections: PIS/Cofins + IPI	Value (R\$ billion)	% GDP	% Total
1. Simples Nacional	57.89	0.43%	29.88%
2. Basic Basket	44.74	0.33%	23.09%
3. ZFM e ALCs	28.47	0.21%	14.69%
4. Medicines and medical devices	12.15	0.09%	6.27%
5. Immunity for IPSFL (Health and Education)	6.78	0.05%	3.50%
6. Collective passenger transport	2.35	0.02%	1.21%
7. Cars for people with disabilities and taxi drivers	2.,11	0.02%	1.09%
8. Books, newspapers and magazines	2.,83	0.02%	1.46%
9. Others (artistic and cultural productions; PROUNI; etc.)	2.09	0.02%	1.08%
Maintained	159.40	1.17%	82.28%
Excluded or revised: 49 TEs	34.32	0.25%	17.72%
Total	193.72	1.42%	100.00%

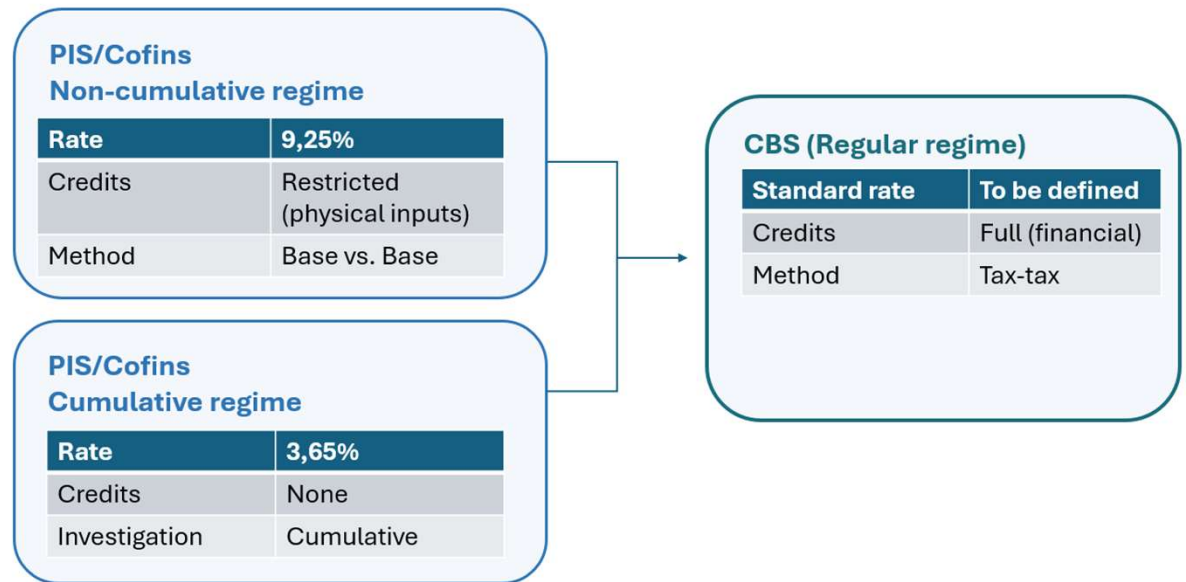
Concept of Tax Expenditure

TE changes with the reform of the reference system



Structural change in the Reference Tax System - CBS

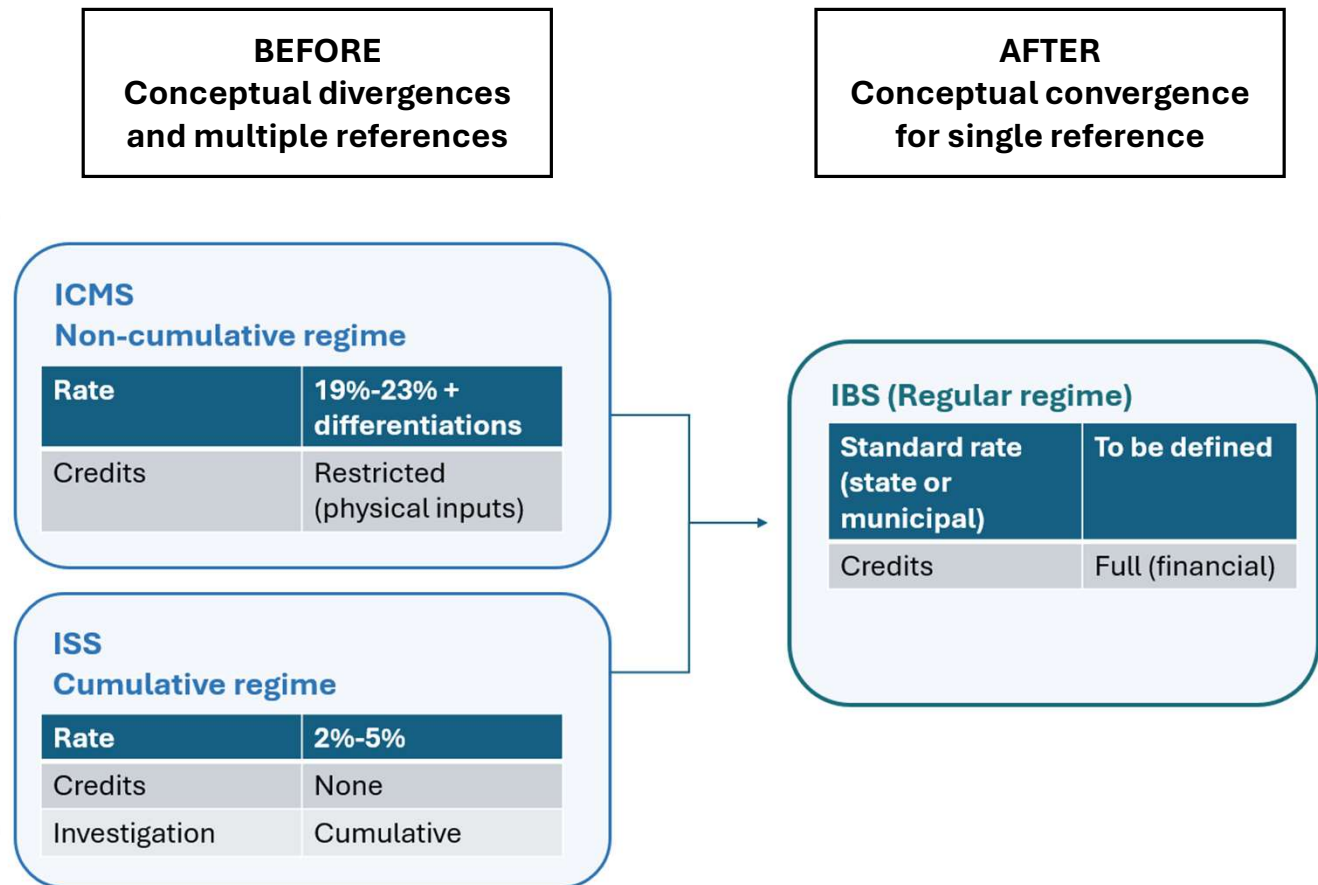
Merger of regimes: unification of the reference



Structural change in the Reference Tax System - IBS

Similar process within the scope of the IBS:

- Transition to a nationally uniform tax structure, with variation limited to the standard rate
- Implicit unification of the concept of TE



Final Remarks

Political Economy of Reform

- Trade-off between technical optimality and political feasibility
- Technical ideal — the backbone of a modern VAT: broad tax base, full non-cumulativeness, destination, and minimal exceptions
- Targeted accommodation of tax-favored treatments as a precondition for political viability

Key takeaway:

- Tax expenditures do not disappear — they are redefined.
- Their nature and measurement depend on the new reference tax system.

Final Remarks

Important: Direct comparisons between pre- and post-reform figures are conceptually invalid

Pre-Reform:

- Historical fragmentation of reference systems and of the very concept of TEs

Post-Reform:

- Common structure for IBS and CBS
- Conceptual convergence of TEs
- Need for a **new measurement methodology**

During the transition:

- Coexistence of multiple references (transitory legacy).