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TAX SYSTEM – A BRIEF COMPARISON BETWEEN BRAZILIAN AND AMERICAN TAX SYSTEMS

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ABBREVIATED CONTENTS

INTRODUCTION

Man in his quality of social creature decided to live in community. It's on form of group that he can satisfy some of his basic needs. To supply those needs it was essential the group had human resources. With the increase of the grouping and with the increase of the human relationship there was also a gradual development on the process of selection on the leadership of these groups and on the process of consecution of the necessary resources to satisfy the group's needs.

The process of evolution of the human grouping ended on the Modern State. Nowadays we have hundreds of National States composed by several forms or principles and been governed on different ways too, adopting different economic systems. We don't plan in this work to get involved on the merit of adoption of this or that economic system or on this or that form of government. Independently of the form of constitution, the principles that rule them, the form of government adopted or the economic systems used, all the government are supported by the resources taken from their population, in the form of tributes or taxes.

The relative growth of the public sector appears to be characteristic of all nations, whether developed or developing. As a society becomes urbanized and specialized, public service requirements increase, and higher levels of per capita income make it possible to finance such increases in demand. There is no reason to believe that this historical pattern of taxation will soon be altered. Because of that, the importance of a fair and efficient tax system has been increased.

This paper will describe the principles of an “ideal” tax system and analyze the tax system of Brazil and USA. We will establish a comparison between the two systems and the extent that the Brazilian system departs from the ideal. We will compare also the differences in the global tax burden levied on both the countries analyzed and the tax burden levied on the three main tax bases: income, consumption and property.

We intend with these comparisons to try to establish the relationship between the Brazilian several economic aggregates figures and the way the tributaries principles have been applied in Brazil. This relationship will be established without scientific concerns.

On the construction of the ideal tax system, we will adopt what, in our opinion, are the best principles to be adopted, so that we can have a fair and more effective system. It means that the country may have all the necessary resources to finance its activities and serve its population.

THE “IDEAL” TAX SYSTEM

First of all we have to keep in mind the modern role of government. Nowadays people consider that one of the most important roles of government is the distribution wealth. Therefore, at a modern approach, taxation is not considered anymore as a merely source of revenue, but it becomes a powerful instrument that policymakers use to attain social as well as economic goals.

“In general, the art of government consists in taking as much money as possible from one class of citizens to give to the others”. This Voltare assertion has some truth. Every important political issue has implications on distribution of income. However, there is no consensus on whether economists should consider distribution effects in their economic analyses. In addition, notions concerning the “right” income distribution are value judgments and there is no “scientific” way to resolves matters of ethics.

Another point to consider is that the distribution effect of a tax depends on how the government spends the money and the statutory incidence of a tax generally tells nothing about who is really bearing its burdens. Distribution may be set according to concepts of fairness or equity. Some think that it will depend on the individual’s taste, others think that income distribution should not consider that. Unfortunately, scientific tools do not provide the analytic references to establish fairness measures. Distribution is a matter of political opinion, not science.

The first conclusion is that to define an ideal tax system is a difficult task. There are a lot of subjective variables and each person can reach to a different tax structure. We will try to apply tributary principles and define, in our prospective, an approach of an ideal tax system.

The first thing to consider is that the tax system might be designed to yield revenues for public use at least satisfaction loss to society. Under an economic prospective, although it's necessary to impose taxes, it's important to know that taxes affect economic efficiency. And collecting taxes is not a costless activity, requiring the consumption of resources by the tax authorities. At the same time taxpayers incur costs in complying with the tax system. So, a tax must be collectible at reasonable cost to society. In general, taxes and tax provisions ought to be designed to keep total collection cost as feasible as possible, within the constraint of satisfactory equity.

Some argue that the tax structure ought to be designed to produce distortion on economic activities as low as possible; that is, being neutral in its effects. Others say that a tax system should have favorable economic effects: the outcome from market operations can be improved by using taxes to alter private behavior in some desired fashion.

DEFINITIONS

It's important to mention some characteristics that appear in most of the taxes. There is no direct relationship between the exaction of the revenue and any benefit to be received by the taxpayer. Taxes are levied on tax bases of predetermined criteria and on a recurring or predictable basis. Some are levied in an annual basis and some are levied only once.

Before starting to define the ideal tax system and the features that it should have, we need first to introduce some important concepts used in the subject tributes.

- Tax base – is that amount upon which a tax is levied. For instance, tax base of the Federal income tax is the taxable income;
- Income – any permanent increment to wealth generally is defined as income. Such increments may take the form of cash, property other than cash or even services that are rendered to the taxpayers; it should be defined as broadly as possible;
- Adjusted gross income – is the income minus some adjustments;

- Taxable income – is the adjustable gross income minus personal exemptions and either a standard deduction or allowable itemized deductions;
- Tax rates – is some percentage applied to the tax base to determine the taxpayer's liability. It can be proportional or progressive. A proportional tax rate is one that remains at a constant percentage regardless of the size of the tax base. A progressive tax rate structure is one in which an increasing percentage rate is applied to increasing increments of tax base. A regressive tax rate structure is one in which a decreasing percentage is applied to increasing increments in tax base;
- Marginal tax rate – is that percentage at which the next unit of income added to the tax base will be taxed;
- Effective rates – tax paid divided by the current income.

PRELIMINARY CONSIDERATIONS

Before any deep analyses about any tax system to be constructed in any State, it is necessary to study the Constitution of this State to know the principles that rule it and, from them, to know how to finance its institutions and how much we will need.

We consider as basic premises that the government must, as we have seen before, promote the national development and social justice. So it is necessary that the tax system can contribute to the accomplishment of these goals, giving conditions to the eradication of poverty and of the marginal population, to reduce the regional inequality and the construction of a free just and solidary society.

These considerations are important. The total revenue to be collected by the government from the society through taxes must be enough to support the necessary expenditures for the accomplishments of those goals. In the last analysis, it will define the several tax rates on the tax bases of the tributes that will be applied. The global tax burden is intimately linked to the total expenditures of the government and the services rendered to the society in retribution of the collected tributes.

We know the role of the government in all this process and the great importance of the expenditure policy in redistributing wealth. It reflects directly on the attainment of the constitutional goals. However we will not discuss the merit of the effective application of the amount of the collected tributes and either the return or not for the society of services theoretically due or the benefits legally ensured. It will depend on the inner political power of each country and can vary a lot in short space of time. We understand that it may have cases in which the tax system is very well elaborated and the expenditures are inappropriate. We want to focus only on one side of these issues. We will be worried about who have been paying the taxes, in a overview.

Substantial government expenditure is for public good and we will consider that the impact on income distribution is positive. We will consider that it benefits the richest and the poorest by the same amount.

IMPORTANT ASPECTS

The first important matter to construct a tax system is the choice of the tax bases on which the taxes will be levied. The modern tributary systems use, generally speaking, three bases: the income, the consumption and the property or any variant from them. Income is considered an especially appropriate tax base because it is the best measure of an individual's current ability to pay.

Taxes on income and consumption typically apply to current transaction values; property taxes apply to the value of holdings, not transactions. In many respects, that difference makes property taxes more difficult to administer, although problems of the underground economy have complicated operation of the other two taxes in recent years.

The revenue collected from each tribute, regardless the fiscal evasion, is determined by the application of the tax rate on the tax bases, being the amount of tax rates defined after taking under considerations the economic policies, as efficiency and equity, considering the aim of the tributary income wished.

Based on countries organized under the federation form, our focus, the second important issue on the idealization of a tax system is the distribution of the power to tax among the several levels of government.

We can find advantages and disadvantages of a decentralized system, considering the efficiency and the equity issues. The tax system must be such that allows a certain level of financial autonomy from the members of the federation. According to the predominant theories, the federalist form will offer a more efficient use of the national resources by the decentralization of the production of the goods and public services in the different levels of the govern; an enlarging of the political participation of the society through the choice of its representatives on the locals legislative and executive powers; and a better level of protection on the basic freedom and individual rights of the citizens.

To know how a federation should be, or to determine the proper division of activities among the levels of government, we can use the optimal federalism theory. It establishes that spending and taxing decisions intended to affect levels of unemployment and inflation should be made by the central government. No state or local government is large enough to affect the overall level of economic activity.

In a federated state the attributions of duties and obligations must be shared among the several components of the federation. In order to preserve the autonomy of the subfederal unit of government and fulfill its duties without having financial dependence related to the central government, it is necessary that each entity may collect its own tax.

The tax revenue should reach enough amounts, collected through the taxation, practicing the power to tax that was given by the Constitution.

The economical theory doesn't have a closed formula to solve these two fundamental question, because there is not a single model of the tax system. Each country has its characteristics and peculiarities, showing common traces but also remarkable differences. The experience of the several countries in tributary matter is, therefore, an important source of information to analyze possible alternatives of tributary systems but not a decisive one.

PRINCIPLES TO BE APPLIED

According to the previously exposed, a tax system has as a purpose to collect resources for the financing of the government's expenses, but must also contribute to the economical and social development of the country. In order to reach these goals in a better way, the tributary system must be efficient. To be efficient as a whole, it must have the following characteristics: simplicity, flexibility, transparency, economic efficiency, efficiency on the public expenditures, productivity and sufficiency and yet promote the fiscal fairness.

- Simplicity – in fact we don't need to define simplicity, but only to stress that the system should be as simple as possible, such to taxpayers (firms or individuals) to pay as to the state to collect. If not, it will cost too much to the state to collect and, on the other hand, the taxpayers can be induced to evade instead of pay. A system is simple when it is cheap, on the view of the administration cost to inspect, as well as the cost of the taxpayer for compliance of the tributary obligations;
- Flexibility – the flexibility is the peculiarity that the tax system must have to respond in a easy way to the changes on the economic conditions;

- Transparency – the transparency of the tributary system occurs when it translates the society preferences and each person knows exactly how much he is paying on taxes;
- Economic efficient - a system is economic efficient when, for a given society and considering the aims of the State, it optimizes the revenue and the assignment of the economy resources. It means, among other things, that the tax burden should not be applied on the production, but on the individuals;
- Efficient on the public expenditures – being transparent the tax that are being collected and the services that are to be rendered by the government, the citizens feel stimulated in taking care of the acts of the governments. It means that the more decentralized is the government, the more stimulated are the citizens, considering that they feel close to the local levels;
- Productive and sufficient – the productivity and the sufficiency are linked to the amount of taxes collected and the capacity to reach the aims;

Tax Fairness

A tax system has to be impartial or fair about people treatment. However the conception of social justice is not a matter trivial. A current understands why is that a system is fair when each person pays tributes according to the benefits received from the govern for the provision of goods and services. Others argue that the criterion of benefits as the concept of social justice must not predominate because it doesn't take in account an important govern duty, which is to redistribute the society wealth. In order these aims are reached, each person must pay tax according to his capacity of payment that is, who possesses more pays more. This is a criterion of social justice that has equity as its basis.

Tax equity is important to taxpayer. However, whether a tax is fair or not depends on who benefits and who loses. In a pluralistic political economy such as the one we are studying, there is no one objective standard of fairness because such a standard depends upon the values of the group doing the measuring. Every tax benefits and hurts some more than others.

Tax fairness consists of two dimensions, both of which can be stated as questions: What does “equal sacrifice” mean? Who determines what is funded? Tax fairness, then, is concerned not only who pays and how much they pay, but also who determines which items and programs should be financed. As mentioned before, basically, two approaches are used to demarcate tax fairness: ability to pay, and benefits received. While interactions between the two occur, they are usually perceived as mutually exclusive for the most part. Consequently, the degree of tax fairness depends on which of these two approaches individuals or groups most value. Governments try to use taxes that represent each of these values, thereby keeping everyone satisfied and dissatisfied simultaneously.

The application of the ability to pay approach has two decision elements: selection of an ability measure and choice of the limits, inside which, tax payments should vary with that measure. The appropriateness of alternative ability measures varies with the economic circumstances of development.

For many people the overriding value that determines tax fairness is ability to pay. The ability to pay concept reflects the idea that taxpayers should contribute to the support of public goods and services in proportion their financial capacity. In other words, taxpayers with more income should pay proportionately more taxes (but how much more is the debatable point). The graduated income tax is based on the ability to pay concept. The ability to pay concept stresses “equal sacrifice”. Equality in taxation normally is defined as equality of sacrifice. The meaning of equal sacrifice, however, is problematical. John Stuart Mill and, later, other political economists transformed the term into a strictly subjective (though not necessarily inaccurate) concept focusing on the more general problem of income redistribution. In other words, the extent to which equal sacrifice occurs is contingent on individual interpretation. Disagreement over the degree to which equal sacrifice is achieved is inevitable. Taxes are assessed in some manner deemed equitable or just. Fairness is assumed to exist when taxes are distributed to minimize the total sacrifice involved. Such minimization is achieved by equating the sacrifices of all taxpayers. In short, each taxpayer should suffer equally, a purely subjective decision.

Another approach of equity of the distribution of tax payments from households has both horizontal and vertical components. The former considers equal treatment of taxpayers that have equal capabilities to pay taxes, and that is difficult to measure too. The latter concerns the proper relationship between the relative tax burden paid by individual with different capability to pay taxes. The comparison is between inequalities and the question is by how much tax payments should differ. No scientific guides indicate what the proper differentiation might be, but the common sense says that those with more capacity ought to pay more.

Another value applied to tax fairness is the benefits received concept, which suggests that those who benefit from public provided goods and services should bear the burden of their cost in proportion to the benefits received. In other words, a tax is fair when individuals pay taxes on a percentage of the value they receive. The more benefits he receives, the more they should pay taxes. Flat rate taxes are among the most widely used taxes based on the benefits received concept. Flat rate taxes are seen as fair because every person, regardless of income, pays the same tax rate per unit. Flat rate taxes include the property tax, and flat rate wage and payroll taxes. An individual is taxed in proportion to his or her income, and income is regarded as an indirect measure of the amount of benefits an individual receives from the society. Taxes, then, are seen as a price for services rendered by government. Individuals or groups pay the same tax rate, though the tax base may be different. For instance, the sales tax rate is the same for every one, regardless of income. The rate also is the same regardless of item, although more expensive items obviously would generate more revenue than would less expensive items.

Modern focus of the equity deals with this question as a function of social utility in which the welfare of each citizen is an argument of this function. Under this aspect, a tax system that produces the wished revenue and that, at the same time, maximize the welfare of society, would be fair

All the subjects treated above have different and subjective interpretations. We understand that in some kind of taxes the ability to pay concept is better and in others the benefit-received concept is better. Therefore, considering the whole revenue collected, the fairer is the system, the more revenue is obtained from the taxes in which the ability to pay approach is applied.

PROGRESSIVENESS AND REGRESSIVENESS

We don't want to discuss deeply the theory of regression or progression of a tax system. It's complex to determine the effective tax burden and it depends on various variables. That is not our objective, but only to establish, in a general view, the trend of the tax system under study.

Progressiveness occurs when individuals with greater ability to pay should pay more than those with less ability. A tax is progressive, then, when high-income taxpayers pay a greater percentage of their income in taxes than do low-income taxpayers

There is a consensus that a progressive system is fairer than any other. So, we understand that the system should be as much progressive as possible, taking under consideration that, after one limit difficult to establish, the efficiency cost grow up. We have to consider, however, that, in a given tax system, the exemptions and/or deductions have great influence in determining its grade of progressiveness.

Another relevant aspect is the distinction between direct taxes and indirect taxes. There is not a conclusive definition about this. Although some doctrinal approaches consider irrelevant this distinction we think it's important to mention this. According to some doctrines a direct tax is one that cannot be avoided or at least shifted to another with ease. Taxes levied on income and properties are generally considered direct taxes and taxes levied on consumption of goods and services are generally considered indirect taxes.

To make a link, tax systems based on indirect taxes are considered regressive. Lower income individuals pay higher proportion of their income in taxes. Most of doctrines consider the system fair if based in direct taxes, with the tax burden concentrated on the bases income and property, taxes in which the ability to pay approach is applied. So, the tax burden should be concentrated in direct taxes, that is, it’s preferable that the taxes be levied on the income and on the properties instead of on the consumption

DIFFICULTIES

All these characteristics can many times be mutually exclusives and can conflict with each other. Therefore, the balance of these criteria will reach the bigger or shorter efficiency and the choice must attend the preferences of society. In the political process, weights are assigned to each one of the criteria and the final result will depend on the values that society hardly establishes in a consensual way.

Sometimes systems that appear fair and efficient might be undesirable because they can be excessively complicated and expensive to administer. It’s very important to consider the administrative problem, many times undervaluated and underconsidered.

Another important characteristics, in face of globalization, are that the system should have harmony with the tax system of other countries so that it doesn't make difficult the exchange of merchandises. Nowadays, the amount of exchange of goods and services among several countries is intense and tends to be bigger and bigger. These trades are important to the quality of life development of several nations and the tendency is that the custom tariff will be smaller, so it is necessary that the involved trade countries have harmonic systems, that is, the tax burden on the production should be equivalent.

Distribution of Power to Tax

A normative important problem in a country organized under the federation form is the distribution of tributary competence among the several levels of governs. The first question that has to be dealt is the choice of the criterion for this distribution.

The distribution of power to tax must be done in such a way that the welfare of society as a whole be maximized. The institutional arrangement which allow each member of the federation choose freely its tributes would not be the right solution for society, because it would make happen to a number of negative effects proceeding from the inefficient and unfair taxes, which would end in lost of the welfare to society.

In the ambit of competence, the revenues of each federation member must, in order to preserve the financial autonomy, be as close as possible to the amount that attends its cash needs, considering its constitutionals duties. In this sense it is important to mention that intergovernmental transfers must be minimized. In addition there will always be a insecurity and instability about the amount and the regularity of the receiving by the payee, face to the criteria of distribution and political problems. There still is a trend of, because of the destination of the collected revenue, the entity that make the transference don’t be too much efficient in collecting.

As we have seen previously, to establish the ideal tax system is really an extremely difficult task and we hadn’t the intention to make such a thing. We intend only to introduce the main principles that should rule one, regardless of the strength that each principle will have in a real tax system in any country at a given political structure.

Tax Administration

As a part of the tax system and so important as the subjects previously mentioned we have the tax administration issues. As briefly mentioned before, the collection of revenue uses resources without directly improving the condition of society. The objective in revenue administration is thus to extract the desired revenues at minimum collection cost, while maintaining fair and uniform tax administration.

This collection cost includes both that of administration (the cost to government of collecting the tax) and of compliance (the cost to private firms and individuals of complying with the law).

Tax administration includes six general steps: (1) inventory preparation, (2) base evaluation, (3) tax computation and collection, (4) audit, (5) appeal-protest, and (6) enforcement. The specific activities in any step vary according to the nature of the particular tax. Now, we will have brief comments about some commons elements of each step..

In the first step you identify the taxpayer and the tax base and can involve the development of a mailing list for tax forms. This list later serves as a master file for comparing the list of those who have paid against the master list of those from whom payment is expected, as the starting point for delinquency control. The inventory of eligibles provides the foundation for the administration of any tax structure.

The second step can involve a compilation of transactions or can requires to do an estimate of the value of the tax base, being a critical step.

Depending on the kind of tax (taxpayer-active or self-assessed taxes), this step requires the taxpayer or taxpayer’s agent to apply a statutory rate schedule to the tax base previously valued and then submit a tax return, including any payment due, to the revenue collector. With taxpayer-passive taxes is different, and the administration by taxing authorities minimizes compliance efforts.

The fourth step seeks to ensure substantial taxpayer compliance with the tax law in a voluntary compliance system. It protects honest taxpayers, taxpayers who have voluntarily complied with tax liability. Audit maintains the balance between honesty and dishonesty by making it likely that the dishonesty will be caught and appropriately punished. Accounts may be selected for audit for three general reasons: to obtain revenue, to enforce the voluntary compliance principle, and to measure administrative effectiveness. The account selection should be done using a balance of those criteria in order to keep the system working and to induce the voluntary compliance as high as possible and to keep the "misinterpretation" as low as possible.

Tax statutes typically contain many uncertainties, some because the legislature slipped up and some because the legislature feels that tax administrators can better define technical points than it really can.. Appeals and protests help clarify these uncertainties, so they do play a valuable role in the lawmaking process.

The final step in the process is the enforcement, the step used when other remedies have not produced an appropriate payment of tax due. It should be the last resort for protection of the voluntary compliance system. It should involve action against the income or wealth of the taxpayer: seizure and sale of assets, attachment of wages,, attachment of individual or business bank accounts, closure of business establishments, and so on.

At the organizational level, we have to discuss the centralization and the integration of activities. Some activities of the process of tax administration should be decentralized. Regional offices establish a useful local presence for taxpayers contact and can be vital when there are concentrations of taxed entities at several locations around the taxing area. The keys to dividing functions are operating efficiency of the agency, convenience for the taxpayer, and uniformity of administration. Taxpayer convenience is especially important for taxes relying on voluntary compliance; there should be no artificial barriers to the taxpayer’s collection role. Following this guide, centralized activities logically include legal interpretation (to ensure that the effective tax structure is same everywhere), selection of accounts for audit (to ensure equal geographic treatment), return processing (to obtain scale economies), record maintenance and retention (to ensure that the effective tax structure is the same everywhere), and provision of technical specialists for assistance with special enforcement or audit tasks beyond the ordinary capacity of decentralized offices.

A second organizational question is whether the taxing department will be organized on a tax-by-tax basis or on a functional basis. That is, will there be independent divisions responsible for all administration of a particular tax or will those functions be the organizing units with a particular step in administration of all taxes to be done by that unit? There is not a simple answer to be done. There are some advantages and disadvantages in both way of organizing. Maybe the best way is to have some activities in a functional basis and others in a tax-by-tax basis.

The functional organization can use better the personnel because peak times for returning filling, can reduce the irritation of taxpayers with a single audit for all taxes, can produce specialization and develop general skills of personnel and will save travel costs and reduce time cost in gaining access to taxpayers files. On the other hand, as disadvantage, no one is responsible for operation and overview of particular taxes, in particular the way individual sections of the administration process and legal structure of the tax fit together, operating data for individual taxes are frequently lost and audits are seldom truly integrated – audit selection criteria are logically and practically not the same for all taxes and crosstraining of auditors is particularly difficult. Therefor, we need to find a way to organize the taxing department taking under consideration all those points discussed.

BRAZILIAN TAX SYSTEM

The tax system now available in Brazil was established by the federal constitution of 1988. The Constitution establishes that the States and Municipalities, beyond the revenue collected from taxes of its own power to tax (legislate, collect and inspect), would receive transfers from the Federal level and that the Municipalities would receive also transfers from the States. The tax system rules established limits to the action of the states and municipalities, taking from them some of their autonomy. Only the federal level has the authorization to create new tributes beyond the ones set in the Constitution. Another important characteristic of the system is that a great part of the revenues are already earmarked with some kinds of expenditures and transfers, taking from the government any discretionary power to establish its political priorities. This kind of characteristic can be, in a certain standpoint, a good idea but, in some cases, it can make difficult to manage with the budget in order to keep in balance.

At the time when the constitution was enacted, it was clear that there was a real difficulty at the federal level because its share in total available revenues has decreased, while not decreasing its attributions and expenditures. On the other hand, the states and municipalities had increased their share in total available revenues with the same attributions.

Using that power to create taxes other than that defined in the Constitution, several modifications were introduced in our tax system by Federal level and some taxes were created which revenues weren't transferred, altering however, for more a share of the Federal level in the revenues and less the share of States and Municipalities. With these alterations our tax system lost a lot of its harmony and became very complex in such a viewpoint of the fiscal administration as the taxpayer. The changes introduced had not solved the main problem existed about the taxes on the consumption levied by States (ICMS), which is ruled by 27 different legislation, one in each state.

The Federal level has the private power to establish and to collect the contributions for the social security. All the government levels have the power to create and collect charges and fees.

The larger proportion of the tax burden of about 31 % of the GDP results from indirect taxes. In 1994, the revenues collected from the income tax corresponded to 4.7 % of the GDP, while the revenues collected from the tax levied on the consumption was 15.1 % of the GDP. Bellow we have tables for the year of 1997, that indicates the total of the revenues, the total of each tribute, and the relative percentage to the total and the relative percentage to the GDP and also the differences on the value of the available income, after the constitutional transfers.

Most of the revenue at the federal level comes from the individual and corporate income tax and from the tax on the payroll, called contributions, to finance the social security system.

The amount of the gross tax revenue at the federal level, before the constitutional transfers, was about R$ 186,561 million of reais in the fiscal year of 1998 (01/01 to 31/12). The relative participation of the income tax from the individuals and from the contributions to the social security on the total revenue was about 40.07 %. The revenue from the income tax on individuals produced about the same amount of revenue from the corporate income tax (about 52 % and 48 % of total revenue from income tax respectively).

Taxes on the production of industrialized goods has a fairly important part of the total revenue collected by the federal govern, representing 13.84 %, in 1998.

We now intend to take a brief examination on taxes collected by the government, at the federal, state and local levels.

FEDERAL LEVEL

INDIVDUAL INCOME TAX

The taxable income is divided in three brackets and tax rate varies from 0 to 27,5 % (marginal tax rate). The table bellow shows the set of brackets and the respective tax rates.

Monthly Income	tax rate
R$	%
Until 900	exemption
From 900 to 1.800	15
Over 1.800	27.5

The tax system is universal, that is, it taxes the income from domestic or outer origin. There is, therefore, a credit towards the taxes paid on the income received in other countries.

The income tax is collected in current basis, that is, it’s collected as soon as the income has been received. Most of the revenue levied on individuals is withheld at the source (for example by the employer).

The legislation allows a preferential treatment and several special deductions to certain kinds of income.

CORPORATE INCOME TAX

All the corporations, regardless of their constitutional form, pay income taxes. Their administrators or stockholders, besides the income tax levied on the corporate, the stockholders still pay income tax as individuals on the distribution of dividends.

The legislation adopts the universal tax system to the corporate income tax, that is, it is taxed so the domestic revenue as the revenue earned in other countries. The legislation allows a credit by the tax paid on the external revenue.

CREDIT OPERATION TAX

It's a transaction tax based on the amount of the transaction. It's levied on credit operation, on exchange operation, on insurance operation and on any other finance operations, being more an instrument of market control than for revenue.

PAYROLL TAX – CONTRIBUTIONS FOR THE SOCIAL SECURITY SYSTEM

The social contribution most important in terms of revenue is the contribution collected to finance the retirement, paid by the employees, by the employers and by the autonomous workers. The employees pay according to their contribution wages, bearing the burden of three tax rates: 8, 9 or 10 %, depending on the legal situation. To the employers the tax base of this contribution is the payroll, applying a tax rate of 20 % on the total payroll, including the autonomous worker (not employee) and the partners or the company administrators. The thirteenth salary also takes part on the tax base of the contribution. In case of rural taxpayers the tax base is the commercialized production with a tax rate of 2.2%.

Social Contribution to Finance The Social Security (COFINS)

The contribution to finance the social security is owed by the corporation or entities to them equivalent, defined by the income tax legislation. COFINS has an tax rate of 2 % applied on the monthly revenue. For example, it is levied on the gross monthly revenue from the sale of goods, goods and services or services of any kind. The finance corporation don’t pay this tax, but have to pay a bigger tax rate on the social contribution on the net profit.

Contribution for the PIS/PASEP

The revenues collected from the Program of Social Integration (PIS) and from the Program of Public Employee Patrimony Formation (PASEP) are applied in a fund created to finance the FAT (Fund of Worker Protection) which is used to finance the unemployment program. forty (40) percent of the total revenue of this fund is a certain kind of source of resources destined to finance economic development programs through the BNDES (National Bank of Economic and Social Development).

The monthly contribution to the PIS/PASEP is done according to the tax rate and tax bases that vary from 0.65 % to 1 % of revenues or earnings, according to the type of taxpayer.

Social Contribution on Net Profits

This tax is levied on the net profits of all corporate established in the country and the tax rate is 8 %.

State Level

Most of the state level revenue come from the tax levied on consumption of goods and on the use of communication and interstate or intermunicipal transportation services (ICMS), representing 85.75 % of the total state revenue. Another sources of revenue are the tax levied on the possession of automotive vehicles (IPVA) and the tax levied on the inheritance and gift of goods and rights (ITCD).

A small amount of revenue comes from the charges and fees.

Local Level

Most of the local level revenue come from the tax levied on the possession of urban real estate properties (IPTU) and the tax levied on general services rendered other than the ones on which are levied the ICMS. Another source of revenue is the tax levied on the transmission of real estate properties and rights related to them

The municipalities also collect revenue from the charges and fees.

Tax Administration

The tax administration in Brazil is decentralized. The federal, state and local levels have the power to collect and to administrate the taxes. Such fact causes a total autonomy fiscal to the states. However, this system of independent tax administration increases the costs for the taxpayers to comply the fiscal obligations and the administration costs for the governs. The amount of rules to comply is very large, existing yet a difficult of that some tax rate, to the same products, are different. Besides that, the companies that realize interstate activities must state full information.

INTERGOVERNMENTAL TRANSFERS

The constitution establish four kinds of intergovernmental transfers from Federal level to the States and three kinds from the Federal level to the Municipalities. The Federal level transfers to the States 21.5 % of the revenues collected from the income tax (IR) and on the industrialized products (IPI), through the States Participation Fund (FPE). Also 10 % of the revenue collected from the IPI is distributed to the exporting states, proportionally to their exports of industrialized products, 30% of the revenue collected from the financial operations tax referred to gold (IOF-ouro), and 20% of the revenues collected from any new tax that have been created goes to the states.

The Federal level transfers to the Municipalities 22.5 % of the revenues collected from the income taxes and on the industrialized products through the Municipalities Participation Fund (FPM). Also 70 % of the revenues collected from the financial operations tax referred to gold (IOF-ouro), and 50 % of the revenues collected from the rural land property tax goes to municipalities.

States transfer to the Municipalities 25 % of the revenues collected from the consumption tax (ICMS), 50 % of the revenues from the automotive vehicle possess tax (IPVA) and 25 % from the revenue received from the federal level from IPI.

All the transfers mentioned before are distributed based on rules established by law, federal or state. This law tries to diminish the regional differences.

Net tax burden after constitutional transfers			1998	
			(R$)	%
FEDERAL LEVEL		**OWN REVENUE**	**186.561**	**69,34**
	-	TRANSFER TO STATES	-14.288	5,31
	-	TRANSFER TO MUNICIPALITIES	-11.393	4,23
	=	**AVAILABLE REVENUE**	160.880	59,80
STATES		**OWN REVENUE**	70.995	26,39
	-	TRANSFER TO MUNICIPALITIES	-17.447	6,48
	+	TRANSFER FROM FEDERAL LEVEL	14.288	5,31
	=	**AVAILABLE REVENUE**	67.836	25,21
MUNICIPALITIES		**OWN REVENUE**	11.492	4,27
	+	TRANSFER FROM FEDERAL LEVEL	11.393	4,23
	+	TRANSFER FROM STATE	17.447	6,48
	=	**AVAILABLE REVENUE**	40.332	14,99
		TOTAL	**269.048**	**100,00**

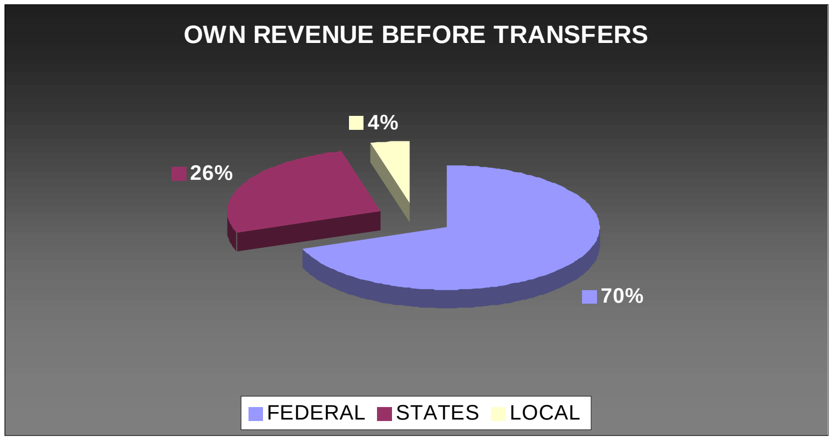
Source: Federal Revenue Secretariat

ANO 1998	PIB R$ 901649 Million

	REVENUE (R$)	% GDP	% of Total
FEDERAL LEVEL	**186,561**	**20.69%**	**69.34**
Fiscal Budget	74,542	8.27%	27.71
- Income Tax	47,724	5.29%	17.74
Individuals	2,826	0.31%	1.05
Corporate	12,058	1.34%	4.48*
Retain at the source	32,840	3.64%	12.21
- Industrialized Product Tax	16,097	1.79%	5.98
- Financial Operation Tax	3,521	0.39%	1.31
- Customs Taxes	6,504	0.72%	2.42
- Rural Real Estate Tax	206	0.02%	0.08
- Charges and fees	490	0.05%	0.18
Social Security Budget	89,395	9.91%	33.23
- Payroll tax	46,641	5.17%	17.34
- COFINS	17,664	1.96%	6.57
- Temporary Finance Flow Contribution (CPMF)	8,113	0.90%	3.02
- Net profit tax	6,542	0.73%	2.43
- PIS / PASEP Tax	7,122	0.79%	2.65
- Public Servant Social Security Tax	2,483	0.28%	0.92
- Others Social Taxes	830	0.09%	0.31
Miscellaneous	22,624	2.51%	8.41
- Time of service insurance fund - FGTS	16,782	1.86%	6.24
- Economc Contributions	935	0.10%	0.35
- Education Wage	2,460	0.27%	0.91
- "S" System	2,448	0.27%	0.91
STATE LEVEL	**70,995**	**7.87%**	**26.39**
- Consumption Tax - ICMS	60,886	6.75%	22.63
- Automotive Vehicles Property Tax - IPVA	4,451	0.49%	1.65
- Inheritance and Gift Tax - ITCD	318	0.04%	0.12
- Charges and Fees	1,398	0.16%	0.52
- Civil servants social security tax	3,633	0.40%	1.35
- Others	309	0.03%	0.11
LOCAL LEVEL - MUNICIPALITIES	**11,492**	**1.27%**	**4.27**
- General Services Delivery Tax - ISS	4,522	0.50%	1.68
- Urban Real Estate Tax - IPTU	3,550	0.39%	1.32
- Real State Property Transmission Tax - ITBI	793	0.09%	0.29
- Charges and Fees	2,108	0.23%	0.78
- Civil servants social security tax	383	0.04%	0.14
- Others	135	0.01%	0.05
TOTAL	**269,048**	**29.84%**	100.00

	TAX		GROSS

			REVENUE		
		COLLECTED BY	R$ MIL	% TOTAL	% GDP
1	CONSUMPTION TAX – ICMS	STATES	60.885.712,00	22,63	6.75
2	INCOME TAX	FEDERAL	47.723.797,12	17,74	5.29
3	PAYROLL TAX – INSS	FEDERAL	46.640.974,00	17,34	5.17
4	SOCIAL SECURITY FINANCE TAX – COFINS	FEDERAL	17.664.188,77	6,57	1.96
5	TIME OF SERVICE INSURANCE TAX – FGTS	FEDERAL	16.781.697,82	6,24	1.86
6	INDUSTRIALIZED PRODUCTS TAX – IPI	FEDERAL	16.096.731,09	5,98	1.79
7	TEMPORARY FINANCE FLOW TAX – CPMF	FEDERAL	8.112.838,14	3,02	0.90
8	PIS/PASEP	FEDERAL	7.121.848,17	2,65	0.79
9	NET PROFIT TAX – CSLL	FEDERAL	6.542.091,84	2,43	0.73
10	CUSTOMS TAXES	FEDERAL	6.503.673,51	2,42	0.72
11	GENERAL SERVICES DELIVERY TAX – ISS	MUNICIPALITIES	4.522.374,29	1,68	0.50
12	AUTOMOBILE VEHICLE PROPERTY TAX – IPVA	STATES	4.451.016,00	1,65	0.49
13	STATE SERVANTS SOCIAL SECURITY TAX	STATES	3.633.000,00	1,35	0.40
14	URBAN REAL ESTATE PROPERTY TAX – IPTU	MUNICIPALITIES	3.550.384,24	1,32	0.39
15	FINANCE OPERATION TAX – IOF	FEDERAL	3.521.098,82	1,31	0.39
16	PUBLIC SERVANTS SOCIAL SECURITY TAX	FEDERAL	2.482.705,09	0,92	0.28
17	EDUCATION TAX	FEDERAL	2.459.813,64	0,91	0.27
18	SYSTEM "S"	FEDERAL	2.447.619,62	0,91	0.27
19	MINICIPALITIES CHARGES AND FEES	MUNICIPALITIES	2.108.109,78	0,78	0.23
20	STATE CHARGES AND FEES	STATES	1.397.963,00	0,52	0.16
21	OTHER SOCIAL CONTRIBUTIONS	FEDERAL	830.301,00	0,31	0.09
22	REAL ESTATE TRANSMITION PROPERTY TAX – ITBI	MUNICIPALITIES	793.083,97	0,29	0.09
23	FEDERAL CHARGES AND FEES	FEDERAL	489.725,08	0,18	0.05
24	MERCHANT MARINE TAX	FEDERAL	426.867,61	0,16	0.05
25	LOCAL SERVANTS SOCIAL SECURITY TAX	MUNICIPALITIES	383.000,00	0,14	0.04
26	FUNDAF	FEDERAL	367.498,04	0,14	0.04
27	INHERITANCE AND GIFT TAX – ITCD	STATES	318.060,00	0,12	0.04
28	OTHER STATE TAXES	STATES	309.438,00	0,12	0.03
29	RURAL REAL ESTATE PROPERTY TAX – ITR	FEDERAL	206.250,39	0,08	0.02
30	ECONOMIC CONTRIBUTIONS	FEDERAL	140.521,38	0,05	0.02
31	OTHER LOCAL TAXES	MUNICIPALITIES	135.271,46	0,05	0.02
32	IPMF	FEDERAL	348,14	0,00	0.00
		901.649.413,11	269.048.002	100,00	



THE UNITED STATES TAX SYSTEM

The federative structure of the United States is defined by federal and state independent systems. The U.S. Constitution defines the power of the federal level allowing a relative autonomy of the states. The tenth amendment of the constitution says that the powers not specifically delegated to the federal level and not denied to the states are reserved to them. In this context the states have almost total freedom to build their tax systems.

The power to tax at the federal level and at the states is completely independent. The states can implement a diversity of taxes, with freedom on the institution of the tax base and the tax rate, except if it can conflict with any constitutional statement. Because of that there is no single system of taxation, but rather there are 51 different systems, one for each state, plus the District of Columbia, and a great many subsystems, derived from local variations in tax measures.

Taxes are levied in the USA by the federal, state and local governments and each government imposes its own taxes. There are no shared taxes, although more than one government can exploit the major revenue sources. In addition, there is considerable shifting of money through shared expenditure programs from higher to lower levels of government. The federal government, most state governments, and some local governments impose income taxes. The most important revenue sources are income and payroll taxes at the federal level, sales and income taxes at the state level, and property taxes at the local level.

In the year of 1998, the global tax revenue in the United States was $ 2,639 trillion dollars, representing 31.4 % of GDP, 20.49 % collected by the federal level and 10.91 % by the state and local levels. The tax revenue at the states and local levels were $ 917 billion dollars.

FEDERAL GOVERNMENT

In USA, the federal level collects revenue from the income tax applied to every individual and entity having taxable income and from the payroll tax to finance social security programs. This tax consists of two components, the old-age, survivors, and disability insurance tax (OASDI), which is levied on gross wages at the rate of 6.2 % on employees and 6.2 % on employers and the hospital insurance tax (HI), with a rate of 1.45 % on both employees and employers. The total revenue collected from this source represents 33 % of the total tax revenue at federal level.

At the federal level there is not a broad-based federal sales or consumption tax, but a variety of excise taxes levied on alcohol, tobacco, gasoline and other fuel and telephone.

There is also a federal wealth tax, the unified estate and gift tax, levied on the transfer of wealth.

The total of the revenue collected by the federal government was $ 1,721.8 trillion dollars in the fiscal year of 1998 (from 10/01 to 09/30). The relative percentage of the individual income tax revenue plus the payroll tax revenue on the total revenue was 80,3%. At the federal level, the individual income tax produced more than four times the revenue from the corporate income tax (48 % and 11 %, respectively).

We clearly notice that the direct taxes represent a great share on the total revenue. The relative participation of the social security on the total tax burden is about 35%.

The excise tax doesn't have a great importance on the total revenue collected by the federal government, representing only 3 % in 1998. The rest of the revenue come from inheritance and gift tax and customs tariffs, representing 4 % of the total revenue.

State and Local Governments

The tax structure is very different among the fifty states. In the year of 1998, the tax on the consumption, retail and excise was the main source of revenue in great part of the states (thirty-four states), being the sale tax on retail the greater source of revenue to nineteen ones. In six the participation of these taxes on the revenue were over 50%. Only five states of the federation don't collect this kind of tax, collecting only the excise tax. The revenue from this source for all states represents 40 % of the total tax revenue for state and local levels.

The individual income tax and corporate income tax, was the great source of revenues in thirteen states. Seven states don't collect revenue from individual income tax and, among them, four also don't collect revenue from corporate income tax. The revenue from this source for all states represents 19 % of the total revenue for state and local levels.

The local government depend strongly on the real property tax. Some districts and counties also have sales and income taxes, generally as add-ons to state taxes. The total revenue collected from tax levied on the properties represents 19 % of total state and local revenue.

Tax Administration

The tax administration of the United States is decentralized. Each level of government, federal, state and local has its own tax administration. Such fact creates total fiscal autonomy to the states. However, this system of independence of tax administration increases the costs of compliance to the taxpayers and the administrative costs for the government as a whole. The taxpayers sometimes have to fill on three income tax reports, having an extra difficulty because exemptions, deductions and tax rates can vary a lot among local, state and federal levels.

Relative to the income tax there is a administrative coordination between the federal and the state levels. The federal legislation allows that the taxpayers income tax reports can issued to the state tax agencies.

Now we intend to take a brief on the main, at a revenue basis, taxes collected by the government, at federal, state and local levels.

Individual Income Tax

The individual income tax is by far the largest source of federal revenues. Revenues from individual income taxes are more than four times those from the corporation income tax; together, the two income taxes account for 60 % of federal tax collection.

The top marginal tax rate of the income tax of individual income tax is 39,6 %. The table bellow shows the brackets and the respective tax rate for the single taxpayer and for the married. The American system also levies individual income tax on shareholders when the companies distribute dividends.

Corporate income tax

The legislation adopts the universal tax system for the corporate. It means that the profit earned abroad is taxable, with a credit applied to the income tax paid in U.S..

State and local income tax

Individual income tax produce about 19 % of state and local revenues and corporate income tax provide about 3 %. Of course, the amount varies from state to state and from locality to locality.

Many states levy income taxes on the corporation.

Social Security Tax

The social security tax in the United States is levied on the payroll and is an important source of revenue to the federal government. The tax is levied equaly on the employers and employees.

Sales tax

The sales tax is levied in forty-five states, and in the District of Columbia, being collected also by some districts and counties. The states have autonomy on the determination of the tax rate. In most of the states the tax rate vary from 4% to 6%. The tax base is the price of the products. Some states charge reduced tax rates (or exempts) on food and medicine.

Excise tax

The excise tax is collected such by federal level as state level. This tax is an important source of revenue to most of the states, cities and counties.

Property tax

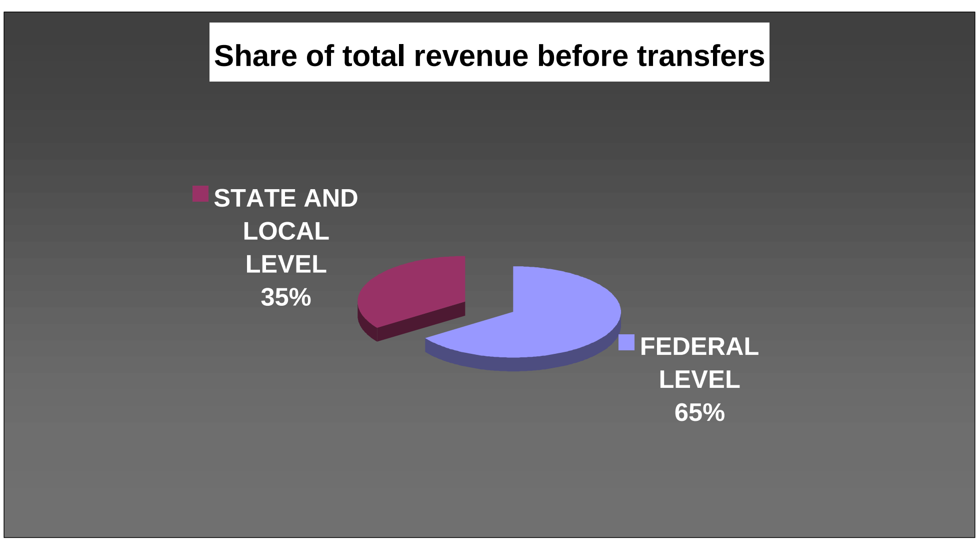
This tax provides almost 80 % of total local revenue.

Inheritance tax

This tax is collected by federal level and is levied on the transfers of propriety during lifetime or left as inheritance.

The tax rate is about 18 % for the first $ 10.000 dollars the tax base and 55 % for transfers over $ 3 million dollars. An overtax of 5 % is applied for transfer between $ 10.000.000 and $ 21.040.000. First 600,000 is exempt and this will gradually increase to $ 1.2 million.

ANO 1998	PIB - BILLION U$ 8,404.5		
	REVENUE U$ BILLION	% GDP	% OF TOTAL
FEDERAL LEVEL	1,722	20.49%	65.25%
INDIVIDUAL INCOME TAX	829	9.86%	31.41%
CORPORATION INCOME TAX	189	2.25%	7.16%
SOCIAL SECURITY AND RETIREMENT TAX	572	6.81%	21.67%
EXCISE TAX	58	0.69%	2.20%
ESTATE AND GIFT TAXES	24	0.29%	0.91%
CUSTOMS DUTIES	18	0.21%	0.68%
OTHER MISCELLANEOUS RECEIPTS	33	0.39%	1.25%
STATE AND LOCAL LEVEL	917	10.91%	34.75%
INCOME TAXES	181	2.15%	6.86%
NONTAXES(tuition, hospital fees, fines, etc.)	35	0.42%	1.33%
OTHER(estate and gift, motor vehicles, personal property, etc.)	25	0.30%	0.95%
CORPORATE PROFITS TAX ACCRUALS	35	0.42%	1.33%
SALES TAXES(general, gasoline, liquor, and other)	272	3.24%	10.31%
PROPERTY TAXES	217	2.58%	8.22%
OTHER(motor vehicles, business licenses, etc)	70	0.83%	2.65%
CONTRIBUTION FOR SOCIAL INSURANCE	82	0.98%	3.11%
TOTAL REVENUE	2,639	31.40%	



CONCLUSION

As we have mentioned before, it is difficult to define a “model” tax system. There are some different approaches and, depending upon the political group in power, it can have different solutions. Although it is not only the tax system that has influence on the accomplishment of the constitutional goals, taxes have a critical role and are big issues. The allocation of resources has a definitive role in this matter. Besides, we also understand that the tax system imposed in a country shows the level of the development of its society.

The Brazilian tax system, regardless of recent minor changes introduced in recent years, make the Brazilian products less competitive. It became too complex and makes easy or even stimulates the fraud, and it is not good to the harmonization with the tax systems of our main trade partners.

Our proposal, therefore, was not to discuss these kind of difficulties on Brazilian tax system. These aspects of the problem have only secondary importance on the objective. As we have discussed before, there is not a consensual approach of tax fairness and tax equity and even when a tax system is concentrated on indirect taxes – considered by most of the tax scholars as regressive – the exemptions, if applied in a “good” way, can make the system “fair”.

At the beginning of this work, when we established the general principles that must to rule an “ideal” tax system, we said that the Brazilian State has, as constitutional goal, the development of the nation and the social justice. Our work has the focus on how our tax system is not contributing to the consecution of these goals. We know that many factors are also very important and that there is not a direct relation between the characteristics of a tax system and the level of development of a country. Therefor, we can verify that the developed countries have a tax system with less imperfections on the doctrinaire point of view, probably one of the reasons that contributed to the development.

There are several ways to measure the development of a country and we can get to different conclusions in each case. In another hand, there are cases in which the country is considered economically developed and yet socially undeveloped. There is also some philosophic questions about the need of the technologic and scientific development for the social development. These complaints came from deepest philosophic question, about the real meaning of the human being on earth. We won't get into this discussion. Such subjects were mentioned only to conclude the difficulties in analyzing the many indicators of development that we will herein discuss and in analyzing the economic aggregates.

Nowadays we use the Index of Human Development (IDH), which consider the process of broadening the people chooses and the level of welfare reached. The goal of the human development must be the creation of a proper place for people have a long, healthy and creative lifetime, being such premise forgettable when we take into account only the accumulation of richness and properties.

This IDH was created using three indicators as parameter, Long life, Education and Income, all with equal weights, although many people may understand that one or other must have a bigger weight.

Besides all, different people analyzing the same indices and basis could get to different conclusions. It's notable this difficulty we verify that Brazil, on the last Human Development Report was considered a country with a high level of human development, together with other countries, off course much more developed than Brazil, in all aspects. What is relevant in this analysis is the fact that, considering each parameter individually, the relative position of Brazil is so different, being much higher on the Income parameter. This would indicate that the economical increasing didn't translate, correspondingly, in a better conditions of the population life, meaning probably that the income in Brazil has not been distributed fairly. In fact, recent indicators show Brazil as a country with the worse distribution of income in the world. Another difficulty in this analysis is the fact that it exists so big diversities domestically in Brazil. All the indices represent medium values. In many countries, mainly in case of Brazilian, they don’t mean anything. They don't even represent the different population profile. The IDH - Global varies in its geographic regions, since 0.596 until 0.855; in the parameter Income, from 0.440 to 0.96; in the Education, from 0.696 to 0.871; and in the Lifetime, from 0.652 to 0.749.

More important than any of these indexes is the Gini index. This index reflects the percentage share of either income or consumption accruing to segments of the population ranked by income or consumption levels. The higher this index value, the more the degree of inequality. The Gini index’s table for all the countries shows us that Brazil has the second highest index value. It means that Brazilian distribution of income is the worst of the world but one. People consider this index as a convenient summary measure of the degree of inequality. So, we could see how big is the distributive problem in Brazil. As already mentioned more than once before, the quality of expenditures has a remarkable effect in this matter. But we don’t want to discuss that at this work. Our approach is on the other hand. We are concerned about which part of the population bears the bigger share of the tax burden. We consider that a great part of the inequality problem is due to the tax system. From the prospective of various principles the Brazilian tax system is regressive and for many years has been that way.

When we’ve tried to describe the “ideal” tax system, even knowing such a difficult task it could be, we’ve mentioned some principles that have to be present in a tax system. Under our point of view, some principles have not been used in the way they should be in the Brazilian tax system. We’re not interested in making any assessment on the American tax system. We only want to compare some figures and some indexes values for both the countries. We will not say if the American tax system is good or bad, fair or unfair or that promote or not the equity. Although there are inequities in USA, they are in lower grades than in Brazil. The American Gini index is 40.1 and Brazilian is 60.1. It means that Brazil has a much greater problem of income and wealth distribution than and USA.

Looking through the figures on the tables, we can notice some characteristics on the Brazilian tax system:

I. In Brazil, the federal level concentrates about 70% of the total tax revenue before the constitutional transfers and about 60 % of total available revenue after these transfers. In USA, before the transfers the federal level collects about 65 % of total revenue and about 56 % after the transfers;

II. The tax burden in Brazil is concentrated on the consumption. Individually, the valued added tax at state level (ICMS) is the tax that yields the greater percentage of GDP (6.75 %). Of the total tax revenue, 46.86 % is levied on the consumption, representing 13.34 % of GDP. In USA, about 13 % of total revenue is levied on the consumption, representing 4.14 % of GDP;

III. On the other hand, only 1.77 % of the GDP is levied on individual income (we assumed that 40 % of retained at the source income tax was paid by individuals), representing 5.93 % of total revenue. In USA, about 38 % of total revenue is levied on individual income, representing 12 % of GDP;

IV. Property and inheritance taxes in Brazil yield 3.46 % of total revenue, representing 1.06 % of GDP. In USA, property and inheritance taxes yield 10.08 % of total revenue, corresponding at 3.17 % of GDP;

V. The corporation income tax in Brazil yields 3.52 % of GDP, corresponding to 11.81 % of total revenue. In USA, the corporate income tax yield about 2.7 % of GDP, representing 8.49 % of total revenue; and

VI. The taxes levied to finance the social security, with the payroll tax included, yield 33.23 % of total revenue, representing 9.91 % of GDP. However, some of these taxes are levied on the consumption and have already been included in item II. Only the payroll tax yield 19.75 % of total revenue, representing 5.89 % of GDP. In USA, the payroll tax plus the contributions for social insurance yield 24.78 % of total revenue, representing 7.79 % of GDP.

We have seen many figures about Brazilian tax system related to the respective figures of American tax system. It should be necessary so many hours of study and research to calculate the level of equity, the index of regressiveness or progressiveness and to get any conclusion about the fairness or not of the tax system. We don't want to do that. We neither have any of the values of these measures for the American system. We do know that the American Gini index is 40.1 and it means that the distribution of income in USA is better than in Brazil, although there are so many inequalities either.

Through the figures related to the Brazilian tax system we can take some conclusions. We are not concerned about any scientific approach or any technical detail. Our conclusion will consider the general aspects, that is, we will see over a broad prospective:

1. The Brazilian tax system structure contradicts the efficiency of public expenditure principle. It is too much concentrated at the federal level, so at the side of the revenue as at the side of the expenditures. The services delivered to the population may not have good qualities and may cost higher prices. Considering that most of the population that need that services are poor, it contributes to some inequalities. For accountability and allocation efficiency, local governments should have sufficient discretion on own-source taxes;

2. Most of the tax revenue collected in Brazil come from taxes levied on the consumption. Only a small share of the total revenue comes from income and property. It is extremely unfair. The taxes levied on consumption are considered indirect and are the most regressive. Certainly it contributes a lot to our bad distribution of income index.

Comparing with USA with can see how important it could be. Brazil collects about 46 % of total revenue from consumption and about 9.5 % on property and income. USA collects about 13 % of total revenue from consumption and 48 % from property and income.

Under the tax system approach on the distribution of wealth issue, the situation overwritten is the most important. Brazil is a poor country with a small amount of savings and taxes levied on consumption is one way to create incentives for the population to save. On the other hand, the country needs to have the production to grow and taxes on the consumption make prices higher, diminishing the population consumption level. When designing a tax system you have to think about both of these aspects.

In case of Brazil, particularly, the share of consumption taxes on total revenue is much higher than the reasonable value, which one we really don’t know. With poor population and low level of consumption, it’s easy to realize that most of the goods consumed are subsistence ones and is extremely unfair to levy taxes on these kinds of goods.

In addition, as we have already mentioned, the more the share of consumption taxes on the tax system, the more regressive it will be, depending on base what is taxed. The probably extreme regressiveness of our system contributed a lot to our shamed distribution of wealth index.

Another point to consider is the low share on the total revenue levied on individual income or property. Income is the best measure of an individual ability to pay. We cannot understand a tax system where the majority of the revenue doesn’t come from income taxes. The less the share of revenue from income tax on the total revenue, the more regressive and unfair it will be. That characteristic of Brazilian tax system also has been contributing to reduce the wealth distribution effect of the country and keeping the inequality.

Considering that corporation in Brazil, in general, are less profitable than in USA and that corporate income tax share on total tax revenue is bigger than in USA, we can suppose that tax burden on the corporation income in Brazil is excessive. Another distortion in the system is that finance corporate pay lower rates of income taxes. It means that industrial and commercial corporation have been paying too much, levying too much burden on productive sector.

Although some argue that the final incidence of any tax on corporate is on the individual because business can react increasing its price, reducing the prices it pays to owner of resources it purchase or returning lower profits to its owner, the corporate income tax fills a gap. Without it, the portion of corporate income not distributed would go untaxed. In addition, the corporate income tax probably increases the progressiviness of the system because income tends to be more concentrated in higher income groups.

We don't want to make any assessment about the taxes collected to finance the social security system. We understand that the total of taxes collected has to be sufficient to support the expenditures and the services delivered to the population. Depending upon the decision of the population, the revenue can be higher or lower and the expenditures should be higher or lower.

We are sure that the Brazilian tax system can be better and promote the growth with more social justice and we don't have the intention to give the solution. We don't even know if there is "a" solution. With this work we intend only to contribute to discuss and to present, in our point of view, some problems that can be taking negative influence on the Brazilian "governability".

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