THE GEORGE WASHINGTON UNIVERSITY

CLAI - The Center for Latin American Issues

IBI - The Institute of Brazilian Business & Public Management Issues

Minerva Program – Fall 2003

Globalization and Tax Systems –

Brazilian Experience

Author: Flávio Machado Galvão Pereira

Advisor: William C. Handorf, Ph.D.

Washington, DC

December 2003

TABLE OF CONTENTS

1 - INTRODUCTION

The costs of transportation, of travel and, above all, the costs of communicating information have fallen dramatically since the Second World War, almost entirely because of the progress of technology. And at the end of the last century a worldwide phenomenon started to take hold. A simple personal computer, connected to the Internet, put one through the world. Staggering volumes of capital cross borders in a matter of seconds and multinational enterprises expand rapidly. The influence of the international economic environment is hardly avoided by national economies. The availability of cheap, rapid and reliable communications, which permits such phenomena, is the key to the integration of the international capital market. The reduction in transport costs is also a key factor underlying the growth in the international trade.

Not only did that technological basis create the conditions for the globalization development but it also implied that this ongoing integration of the world economy is here to stay. If globalization stems from technological developments, rather than policy choices, trying to reverse it would be rather like “flogging a dead horse”. It is more productive to seek to maximize the benefits it offers and minimize the risks it creates.

All the same, from an economic standpoint and within a broader historic view, globalization may be understood as a natural consequence of capitalist development, always in search for the expansion of consumer markets and large-scale production. In the fifteenth century, capitalism, eager for new markets, dived into the ocean and discovered the “New World”. Since that time, the history of nations has been the search for internationalization and approximation between the countries, either through the metropolis-colony relationship, or in the most modern and democratic ways of political-economic cooperation.

Anyway, it does not matter whether left- or right-wing parties have the upper hand. The fact is that governments must cope with the economic effects of globalization. Those countries that do not involve themselves in internationalization can be compromising their long-term development, since they would not enjoy the benefits of a "globalized" market. Economic integration can lead to a greater productivity and social welfare due to a better international division of labor, i.e., every country could specialize itself in the production of goods wherein it has comparative advantage. In addition, globalization can also allow the production factors to move in the direction of the best remuneration rates (especially interest and salaries), therefore offering an incentive to projects or individuals that produce the greatest economic return. Of course, many obstacles must be overcome to reach that stage. In this context, many developing countries promoted market-oriented reforms, trying to adapt themselves to that new reality and take benefits from it. Brazil was no exception.

Since the early 1990s, Brazil has been engaged in a major reform of its economy, moving away from import substitution and state-owned enterprises towards greater emphasis on private initiative, competition and international integration. Considerable progress has been made in controlling inflation, which paved the way for creating an improved economic environment for private enterprise, fiscal adjustment and reform of the public sector. The economic stabilization program initiated in mid-1994, entitled the Real Plan, has played a fundamental role in these achievements. As a result of this plan, annual inflation declined from over 2,000% in 1993 to 12.5% in 2002 (measured by Extensive Consumer Price Index – IPCA, which is used by the Central Bank of Brazil to accompany the established purposes in the inflation targeting system).

To have an idea of inflation behavior after the Real Plan, a table of price indices used in Brazil to measure the inflation is presented below:

Table 1.1 - Price Indices
Percentage Variances

	INPC	IPCA	IGP-DI	IGP-M	IPC-FIPE
1995	21.98	22.41	14.77	15.24	23.17
1996	9.12	9.56	9.34	9.20	10.03
1997	4.34	5.22	7.48	7.74	4.82
1998	2.49	1.65	1.7	1.78	-1.79
1999	8.43	8.94	19.98	20.10	8.64
2000	5.27	5.97	9.81	9.95	4.38
2001	9.44	7.67	10.40	10.38	7.13
2002	14.74	12.53	26.41	25.31	9.92

Source: Foundation Institute of Economic Research (FIPE)

Because the country had adapted by indexing prices, wages and contracts to the price increases, to keep a floor under purchasing power, real comparative costs were soon difficult to sift out of the shifting plethora of figures. Tax indexation had also enabled diminishing the Tanzi Effect[1]. Price stability unveiled a structural fiscal deficit and, in addition, a dependence on large capital inflows, though.

The Brazilian Government responded to those shortcomings with a combination of tightened monetary policy and fiscal adjustment measures. So far Brazil has managed to limit the fallout of several external shocks to maintain relative economic stability. Yet the promoted reforms have been insufficient to produce the necessary economic growth to significantly reduce Brazil's serious social problems, including high unemployment and income inequality. All in all, that combination, taken together with the shift to a floating exchange rate in January 1999, seems to have placed the national economy on the path to sustained growth.

[1] Vito Tanzi, former-Director of the IMF's Fiscal Affairs Department, argued that real tax collection decreases with inflation rise (the longer the lag between sending out the tax bill and receiving people's tax payments, the lower the value of the collection). In Brazil, even in periods of high inflation (e.g. 2,708% in 1993), losses due to Tanzi Effect were less than 5% of revenues administered by the Secretariat of Federal Revenues - SRF, after the "UFIR" adoption (SRF/COGET in "Tributação em Revista", October/96, "Efeito Oliveira-Tanzi sobre a Arrecadação Recente").

Having that scene as background, this work aims to analyze the influence of globalization on the current tax systems. It will focus on the Brazilian effort, in the tax field, to adapt itself to that new world reality and to keep the fiscal balance, helping to maintain price stability.

2 - CONSIDERATIONS AND ASPECTS OF GLOBALIZATION

From an economic point of view, globalization has manifested in the growth of world trade as a proportion of output (the ratio of world imports to gross world product (GWP) has grown from some 7% in 1938 to about 10% in 1970 to over 18% in 1996). It is reflected in the explosion of foreign direct investment (FDI) that in developing countries has increased from US$2.2 billion in 1970 to US$190 billion in 2000. The FDI boom has precipitated tax competition to attract those foreign investments, mainly among developing countries, as we will see afterwards[2]. Globalization has also manifested in the increasing integration of national capital markets, to the point where some US$1.3 trillion per day crosses the foreign exchange markets of the world, of which less than 2% is directly attributable to trade transactions.[3]

While they cannot be measured with the same ease, some other features of globalization are perhaps even more interesting. An increasing share of consumption consists of goods that are available from the same companies almost anywhere in the world. The technology that is used to produce these goods is increasingly standardized and invariant to the location of production. Above all, ideas have increasingly become the common property of the whole of humanity.

In the Brazilian case[4], globalization has undoubtedly altered the course of its economy since the early 1990s. Brazilian trade increased 103% between 1992 and 1997, going from

[2] Although we recognize the intrinsic link between trade and FDI, the analysis of the effects of tariff barriers would carry us far beyond our aim and will not be approached in this paper.
[3] John Williamson's speech, then Chief Economist for the South Asia Region at the World Bank, in Sri Lanka, December/98 and UNCTAD´s World Investment Report 2000.
[4] "The Adaptation of The Tax Systems to Globalization" – SRF.

US$56.3 billion to US$114.3 billion. This performance is the result of an increase of 199% in Brazilian imports, while exports increased 48%.

The movement of international capital has also experienced a significant expansion in Brazil. The flow of foreign investments into the country, FDI as well as portfolio investments, went from US$5.4 billion in 1992 to US$36 billion in 1996. Considering only FDI, it went from US$4.4 billion in 1992 up to U$32.8 billion in 2000[5]. According to the WIR-97 - World Investment Report of the United Nations Conference on Trade and Development - UNCTAD, Brazil occupied in 1996, the second place in the ranking of the main developing countries recipients of FDI, right behind China.

However, there are areas where globalization is incomplete, even in the economic sphere. In particular, migration is very far from being free. Highly skilled professionals have a relatively high degree of mobility, but those without skills often face obstacles to migrating to higher-wage countries. Despite the difficulties, substantial proportions of the labor forces of some countries are in fact working abroad.

But how can developing countries reap the benefits and avoid the drawbacks of opening to trade and FDI? John Williamson once answered this question. This can be accomplished by receiving foreign technologies, experts, and trade links with the home countries of the foreign investors. They can provide stimulus to competition, innovation, savings and capital formation, and through these effects, job creation and economic growth. It also gives those countries the advantages of being able to make relatively good use of their abundant unskilled labor and be able to access world-level technology. Nevertheless, if they rely simply on exploiting unskilled labor, they will never be able to advance far beyond the living standards of their poorest competitors, who will be exporting similar goods. In order to raise living standards progressively over time, it is at least as important to

[5] Source: Central Bank of Brazil.

raise educational standards as it is in a relatively closed economy. At first approximation, one may summarize the policy advice of how to prosper in a global economy as: give one's citizens a relevant set of skills through education and technology, and then let them get on with the job of producing whatever is useful to the world economy.

A second approximation requires that we recognize also the increased risks of full exposure to the world economy. Are there ways of reducing those risks? Prudence suggests that developing countries limit their integration in the world economy, and that concerns the liberalization of short-term capital flows. Since there is no persuasive analytical reason or empirical evidence for believing that freedom of short-term capital flows is a significant factor in contributing to economic growth, let alone distributional equity, it is advisable to seek to postpone rather than accelerate this particular bit of liberalization. Many developing countries, including Brazil, have been dependent on large capital inflows, becoming prey to short-term investments.

An IMF economic forum, called "Is Financial Globalization Harmful for Developing Countries?", held in Washington DC, May 27, 2003, drew important conclusions about the effects of trade and financial globalization on developing countries' economic growth. Some of them are highlighted below:

? It is hard to find a strong and robust effect of financial integration on economic growth in developing countries.

? Trade integration does help to promote economic growth in developing countries.

Those contrasting conclusions were confirmed from a number of different angles. For example, research has shown that whereas there is no significant correlation between more or less financial integration and higher or lower infant mortalities, the more trade integration the lower the infant mortalities.

The conclusions of that forum also strengthen the idea of postponing the liberalization of short-term capital flows in developing countries. In this sense, in the 1970s, James Tobin, a Nobel laureate economist, proposed a very small tax on foreign exchange transactions to deter short-term currency speculation.

3 - CURRENCY TRANSACTION TAX – "TOBIN TAX"

Global currency trade amounts to approximately US$1.3 trillion per day (by comparison, on the US stock market - NYSE, AMEX and NASDAQ combined - US$10 billion per day is traded). Of this massive amount, cross-border purchases of goods and services, which require foreign exchange, account for only 2% (US$5 trillion per year) of the total trading. Another US$50 trillion per year (about 17 percent) of foreign exchange trading takes place with futures, options and derivatives to hedge against future exchange rate fluctuations. Exchange rate speculation, short or long-term profit-seeking transactions, accounts for the remaining transactions of at least 80 percent.[6]

Professor James Tobin first suggested a tax to "throw some sand in the wheels of speculation" in 1972. His proposal was for a charge of between 0.1% and 1% on the conversion of one currency into another. This would be too low to discourage long-term investment; but would represent a substantial annual rate on speculative transactions, which involved buying and selling a currency within a single day, week or month.

The tax would have three main purposes:

? To reduce exchange-rate volatility by reducing currency speculation.

[6] Global Policy. International currency trade according to other sources: US$1.5 trillion/day - Jubilee Plus; US$2 trillion/day - Third World Network.

? To raise revenue for international organizations.

? And to make national economic policies less vulnerable to external shocks.

The European Parliament held in-depth discussions on the Tobin Tax and related issues, producing, among other documents, a report called “The Feasibility of an International Tobin Tax”, in March 1999. The conclusions of that work are worth mentioning:

? At the low rates that have been proposed it would represent a significant extra cost to speculators, while affecting capital investment only marginally. On the other hand, it would not have prevented the European Exchange Rate Mechanism (ERM) crises of 1992, that of the Mexican peso in 1995, or of the S.E. Asian currencies in 1997. Problems of international supervision and the ease of evasion also cast doubt on whether it could ever be a really effective deterrent.

? However, as a source of revenue for measures of international financial stabilization, and for development, humanitarian aid, peacekeeping, etc, it has great attractions. Even very low rates would raise very large sums. In 1995, David Felix made some calculations based on a figure for worldwide foreign exchange transactions of US$1 trillion a day, as shown in Table 2.

Table 3.1 – Tobin Tax Revenues

Taxable foreign exchange	**Annual Tax receipts ($US\$10^9$)**	
	1% tax rate	0.5% tax rate
US$1 trillion x 240 trading days = US$240 trillion		
Less 20% tax exemptions = US$192 trillion		
Less 20% evasion = US$144 trillion		
Less 50% reduction of trading volume[7]		
= US$72 trillion effective tax base	720	360

Source: "The Tobin Tax Proposal", David Felix, 1995.

[7] Assuming that the 50% fall is the "benchmark" figure for a 1% tax, the receipts from lower rates would be unlikely to fall in direct proportion, since the percentage fall in trading volume would be lower. Hence Felix's calculated annual revenue of US$360 billion from a rate of 0.5% - that is, half that from a 1% rate - is likely to be an underestimate, given his assumptions.

? In so far as it reduced exchange-rate volatility, it might also give governments more freedom of maneuver in the conduct of economic policy.

? The Tobin Tax proposal cannot, however, be seen in isolation from more general developments at international levels, and in particular the search for "a new global financial architecture". Without such architecture the tax would not in any way be feasible. With it, the tax might be seen as an attractive "market-oriented" alternative to controls on capital movements.

4 - GLOBALIZATION AND TAX SYSTEMS

The Brazilian Secretariat of Federal Revenue (SRF) has already provided a study about the impact of globalization on tax policy and the Brazilian experience, in a paper called “The Adaptation of the Tax Systems to Globalization”. Given its similarity to our present subject, its considerations will be embodied in this work.

The current tax systems are structured on three traditional bases of taxation: income (individual and corporate), consumption and property. The composition of the tax burden in the Organization for Economic Cooperation and Development (OECD) countries in 1995 has been as follows: income, including social security, accounted for 57.5% of total revenues; consumption represented 31.9% and the other taxes contributed 10.6%. In Brazil, in 1996, income and consumption taxes accounted for 39.3% and 50.4%, respectively, of the tax burden. It should be pointed out that, at the OECD as well as in Brazil, employee and employer social security contributions have reached approximately 22% of total revenues.

According to the OECD Tax Policy Studies[8], the tax structure among its largest economies is that shown in Table 4.1.

Table 4.1 - Tax Mix by Source

Per cent share of total tax revenue, 1998

	OECD[1]	EU[1]	USA	Japan
Property and others	9	7	11	11
Corporate Income	9	24	9	13
Personal Income	30	32	41	19
Social Security	28	30	24	38
Consumption	24	8	16	19

1. Weighted average

Source: OECD, Revenue Statistics, 1965-1999

Therefore, the vast bulk of tax revenue comes from income (including social security) and consumption taxes, representing approximately 90% of tax collection. Thus it is important to analyze how the globalization process may influence those tax bases and the changes taking place in the tax models currently used.

The increasing mobility of the production factors, mainly capital and highly skilled labor, has allowed taxpayers to take advantage of the international differences of effective taxation. Accordingly, tax bases have migrated to the countries applying lower taxation or which intentionally give up tax revenues to attract investments from throughout the world. Offshore financial centers and tax havens have gained importance as conduits for financial investments. Their growth has been stimulated by the flow of digital information, which allows money and knowledge to be moved easily and cheaply in real time, and by the regulatory arrangements of several countries. Estimates of deposits in such legal entities as international business corporations and offshore trusts exceed US$5 trillion. It is unclear how much of the income earned on these is reported to tax authorities. Then the

[8] OECD Tax Policy Studies n.º 6, "Tax and the Economy: A Comparative Assessment of OECD Countries", Dez/2001.

freedom of factors and international competition has made taxation experience some process of convergence, in spite of linguistic, cultural and economic diversities among the countries.

The more mobile tax base, the more susceptible to globalization it is. In consequence, collection from corporate income taxation tends to be even smaller and more homogeneous. It should take into account that the fast growth in world commerce, especially in trade within (trans)multinationals, creates the potential abuse of the transfer pricings, including loans, the fixed costs allocation and the valuation of trademarks and patents. Corporations can choose the country wherein operations will be located so that they can reduce their tax liability. Of course, there are many other grounds beyond taxation for a company to apply transfer pricing and change its tax domicile. But it must be admitted that taxation is an important factor that influences profits and the competitiveness of a business. That influence increases to the extent that invested capital is of short-term nature and is essentially unrelated to any productive activity. For example, the portfolio capital is much more sensitive to taxation than direct investment, since the latter, having an indeterminate term of permanence in a country, depends on such factors as labor, infrastructure, political-economic stability and so on.

In regard to individual taxation, in general, the more skilled, the higher income and the more international mobility. That kind of taxpayer has more freedom to select their tax domicile and where they will invest and spend their money. Activities of highly skilled individuals outside their country of residence often permit them to underreport, or to fail altogether to report, their foreign earnings to their own tax authorities. At the same time, more and more individuals invest their savings abroad in ways that allow them to avoid paying taxes. Moreover, companies can have difficulty recruiting highly skilled professionals as a result of the high individual tax rates. It happened in

Sweden where corporations threatened to leave the country because of the individual tax rate that could reach as high as 56%.

The flight of this "mobile and skilled labor" causes a significant impact on the country's tax profile wherein this factor would pay tax. It increases regressive taxation, since the individual income tax burden will be borne by less qualified workers without the option for mobility or, that is, individuals with lower income or wage earners. Thus globalization may generate negative effects on the vertical equity of a tax system. That effect can be also felt in developing countries due to a phenomenon called "brain drain", the emigration of skilled workers for earning higher income abroad (India is a typical example). It worsens in so far as emigrants have had subsidized education in their home country.

Another aspect of substantial importance is the financing of social security. As a consequence of mobility, working relationships toward the end of the century are becoming less sound and more sporadic, mainly among the high-income population who lacks stable employment relationships. It is also obvious that the level of employment has not been in keeping with the growth of the world product. Between 1960 and 1994, in industrialized countries, the product in manufacturing and services sectors has increased, in average, 3.6% and 3.8%, respectively. Meanwhile, employment in the first sector has experienced no increase and in the second sector it has only increased 2.2%. Thus traditional collection based on the payroll tends to experience a sudden reduction, worsening the difficult situation of social security financing taking place in several countries. The trend is that other tax bases be used to collect resources for security purposes, an area where typically expenses tend to increase, given the greater average longevity of the population.

With reference to taxation of consumption, the influence of globalization can be felt at least in two aspects. First, the ease and low cost of transportation led to an enormous increase in foreign travel, which allowed consumers to shop in places where sales taxes are low. That behavior led the British government to set a cap on the excise duty on beer and spirits in order to stop the revenue losses due to the great number of Britons purchasing those products in France, where the tax levied was lower. Similarly, Canada's attempts at a steep tax hike on cigarettes to discourage smoking turned out to be ineffective because of the smuggling from the USA[9]. In addition, many small countries have reduced excises and other sales taxes on luxury products to attract foreign buyers. Those countries absorb a significant portion of the tax base of goods with a high value added which may be easily transported, typically goods requested by international travelers, such as electronic products, perfumes and jewelry.

Second, electronic commerce has been growing at very high rates. A large share of world commerce can soon be arranged through the Internet, which offers low cost, comfort and anonymity. According to "The Economist", such e-commerce amounted to over US$150 billion in 1999 but is projected to grow to more than US$3 trillion by 2003. In the United States, it is estimated that some states may consequently lose as much as 4 percent of their sales tax revenues by 2003. There is, at the same time, no political impetus to tax Internet business, at least in the short term. "Bit tax" may discourage the development of the Internet.

Several changes arising from electronic commerce will seriously challenge tax authorities. The first is a shift from paper transactions, which allow tax authorities to follow traces such as invoices, to virtual transactions, which may leave less identifiable traces. A second change is the important technological shift from the production and sale of physical products to digital ones. A number of products - such as music, photographs, medical and financial advice, and educational services - can now be downloaded directly over the Internet. This means that it will become

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[9] The Economist, edition of May 31st, 1997.

increasingly difficult to define a "permanent establishment" for tax purposes. With a vague concept of tax jurisdiction, it becomes hard to define who should pay the tax or collect the money.

Regarding the last traditional bases of taxation, property is least affected by economic globalization because of its immovable nature. However, in view of the difficulties in managing the other bases (income and consumption), its taxation is likely to be increased, since it represents one of the only secure sources of revenue under the control of the tax authority. The problem, once again, is that those individuals with greater mobility have the options of acquiring goods and real estate in countries with lower taxation. Therefore, the tax burden will affect the least "globalized" citizens, who will probably also experience greater taxation of income and basic consumption goods.

All in all, globalization is likely to affect both the ability of countries to collect taxes and the distribution of the tax burden. The two main consequences can be summarized as follows: the exhaustion of the current taxation models – as a result of the reduction of the tax administrations' sovereignty (their decisions are influenced by international considerations), degradation of the traditional taxation bases and harmful international tax competition (that can lead to a "race to the bottom") – and the increased levels of regressive taxation of those who do not have the opportunity or are not skilled to globalize themselves.

In harmony with the exposition above, in 2001, Vito Tanzi detected what he called the "fiscal termites" gnawing away at the foundations of tax systems, namely e-commerce and transactions, electronic money, intracompany trade, offshore financial centers, derivatives and hedge funds, inability to tax financial capital, growing foreign activities and finally, foreign shopping. He suggested that many countries, especially those with high tax rates, must prepare themselves for what could be sharp declines in tax revenues. They will also need to rely on taxes that will be less affected by the problems described above - such as taxes on immobile factors or resources - and on the development of new tax technologies. What can reasonably be assumed is that future tax systems will have different structures and probably lower tax rates than those of today – he concluded.

But can the appointed impacts of globalization already be translated into real facts?

5 - EVIDENCES OF GLOBALIZATION IMPACTS

The total tax burden of the member countries of the OECD has increased substantially over the past three decades, from 30.5 percent of GDP on average in 1975 to 37.4 percent of GDP in 2000. This growth, which has presented signals of inversion, or, at least slowdown, has been accompanied by some changes in the composition of tax revenue. For example, the share of social security contributions has increased substantially when compared to personal and corporate income tax performance.

The latest OECD reports point out a downward trend of tax burdens in many of its member countries. It fell in fifteen OECD countries between 2000 and 2001, suggesting a break in a tendency of continuous increases in the OECD average tax-to-GDP ratio during the previous five years.

Provisional figures in the OECD's Revenue Statistics display that the average tax-to-GDP ratio for the 25 OECD countries for which 2001 figures are available fell by one tenth of a percentage point last year. Between 1995 and 2000, the average tax-to-GDP ratio for all 30 OECD countries rose from 36.1% to 37.4%. See Table 5.1 below.

Table 5.1 - Total Tax Revenue as Percentage of GDP

	1975	1980	1990	1995	1999	2000	2001 Provisional
Canada	31.9	32.6	35.9	35.6	35.9	35.8	35.2
Mexico		17.0	17.3	16.6	17.3	18.5	18.3
United States	26.9	26.1	26.7	27.6	28.9	29.6	n.a.

	1975	1980	1990	1995	1999	2000	2001 (Provisional)
Australia	26.6	29.1	29.3	29.7	30.7	31.5	n.a.
Japan	21.2	27.2	30.1	27.7	26.1	27.1	n.a.
Korea	15.3	16.9	19.1	20.5	23.6	26.1	27.5
New Zealand	30.4	32.9	37.6	37.5	34.9	35.1	34.8
Austria	37.4	41.9	40.4	41.6	44.1	43.7	45.7
Belgium	40.1	45.6	43.2	44.6	45.4	45.6	45.3
Czech Republic				40.1	39.2	39.4	39.0
Denmark	40.0	47.4	47.1	49.4	51.2	48.8	49.0
Finland	36.8	40.1	44.8	45.0	46.8	46.9	46.3
France	35.9	43.8	43.0	44.0	45.7	45.3	45.4
Germany	35.3	37.2	35.7	38.2	37.8	37.9	36.4
Greece	21.8	28.6	29.3	31.7	36.9	37.8	40.8
Hungary				42.4	39.1	39.1	38.6
Iceland	29.4	28.3	31.2	31.5	36.9	37.3	34.8
Ireland	29.1	35.0	33.5	32.7	31.3	31.1	29.2
Italy	26.1	34.4	38.9	41.2	43.3	42.0	41.8
Luxembourg	37.3	44.8	40.8	42.0	40.9	41.7	42.4
Netherlands	41.6	42.6	43.0	41.9	41.2	41.4	39.9
Norway	39.3	43.3	41.8	41.5	41.6	40.3	44.9
Poland				39.6	35.2	34.1	n.a.
Portugal	20.8	26.6	29.2	32.5	34.1	34.5	n.a.
Slovak Republic					35.3	35.8	33.1
Spain	18.8	27.8	33.2	32.8	35.0	35.2	35.2
Sweden[1]	42.3	48.5	53.6	47.6	52.0	54.2	53.2
Switzerland	27.9	30.2	30.6	33.1	34.5	35.7	34.5
Turkey	16.0	15.4	20.0	22.6	31.3	33.4	35.8
United Kingdom	35.3	37.7	36.8	34.8	36.4	37.4	37.4
Unweighted average:	**1975**	**1980**	**1990**	**1995**	**1999**	**2000**	
OECD Total	30.5	33.9	35.1	36.1	37.1	37.4	
OECD America	29.4	25.2	26.7	26.6	27.4	28.0	
OECD Pacific	23.4	26.5	29.0	28.9	28.8	30.0	
OECD Europe	32.2	36.8	37.7	38.7	39.9	39.9	
EU 15	33.2	38.8	39.5	40.0	41.5	41.6	

1 - The figures in the table match those in the Revenue Statiscs. After the publication went to press in July 2002, the Swedish authorities provided updated information about their tax revenues for 2000 and 2001. It implies that the total tax revenue was 53.6% in 2000 and 50.8% in 2001.
Source: OECD - 2002 Edition of Revenue Statiscs

Steady growth in OECD tax-to-GDP ratios over the mentioned period, despite widespread cuts in tax rates, illustrates the complex factors that determine tax burdens. Part of the explanation for the rise lay in rapid economic growth, which increased company profits and lifted individual incomes into higher tax brackets. This is evidenced by an increase in the OECD average ratio of taxes on incomes and profits as a percentage of GDP from 12.8% in 1995 to 13.6% in 2000 (Table 5.2). The recent slowdown in the world economy, by reducing that effect, is likely to result in some of the tax cuts having their expected result of reducing tax-to-GDP ratios. Accordingly, the "Taxing Wages" (OECD's edition of April/2003) reported that total taxes on wages, including social taxes on employers, declined in many OECD countries between 2000 and 2002. It confirms a general trend of labor tax reduction that has been spotted.

Table 5.2 - Taxes on Income and Profits as Percentage of GDP

	1975	1980	1990	1995	1999	2000
Unweighted average:						
OECD Total	11.7	12.8	13.3	12.8	13.3	13.6
OECD America	13.7	10.0	11.4	11.1	12.3	12.6
OECD Pacific	12.1	13.9	14.8	14.0	13.0	13.9
OECD Europe	11.4	13.0	13.3	12.8	13.4	13.6
EU 15	11.9	13.6	13.9	13.8	14.7	14.9

Source: OECD - 2002 edition of Revenue Statiscs

However, the enormous variety of country experiences shown in the report's tables illustrates that there is no single explanation for changing tax burdens. That edition of Revenue Statistics highlights some conflicting trends:

? A very wide range of changes to tax-to-GDP ratios between 2000 and 2001 among the countries for which figures are available. For example, while Norway's ratio increased by 4.6% due in part to volatile revenues from oil, the Slovak Republic experienced a decrease of 2.7 percentage points.

? Other factors beside income tax revenues also play a role. Korea's tax-to-GDP ratio rose because of higher revenues from consumption taxes, while Turkey's rose due to higher revenues from social security contributions.

Furthermore, the value of tax-to-GDP ratios as a basis for comparison between countries is limited by differences in the mix of tax reliefs (which reduce the tax-to-GDP ratio) and cash benefits (which do not) used to pursue social objectives such as assisting families with children. Also, countries differ in the extent to which they tax government-provided social benefits, and so increase their tax-to-GDP ratio without adding to the tax burden on economic activities.

But paying attention to another more homogeneous group, the trend of tax rates convergence and reduction can be spotted more easily. Since 1999 Member States of the European Union (EU) have carried out significant tax reforms. Most have reduced statutory corporate tax rates, simultaneously broadening the corporate tax base, mainly through less generous depreciation allowances. As a result, corporate tax rates have converged over the last few years. The EU average corporate tax rate has fallen from 32.42% in 1999 to 29.32% in 2002, and dispersion has decreased by over 10%. Moreover, taking into account ongoing tax reforms, statutory corporate tax rates will be reduced even further in the near future. That is what was reported in a recent European Parliament's working paper[10], as shown in Table 5.3.

Table 5.3 Statutory Corporate Tax Rates in EU member states
(1999 - 2002) Percentages[1]

	1999	2002	Variation %
Austria	34	34	0
Belgium	39	30[a]	-23.08
Denmark	32	30	-6.25
Finland	29	29	0
France	33.3	33.3	0
Germany	40	25	-37.50
Greece	40	35	-12.50
Ireland	10[b]	10[b]	0
Italy	37	34[c]	-8.11
Luxembourg	30	22	-26.67
Netherlands	35	34.5	-1.43
Portugal	34	30	-11.76
Spain	35	35	0
Sweden	28	28	0
United Kingdom	30	30	0

[10] "Taxation in Europe: recent developments" - Alicia Martinez-Serrano and Ben Patterson. European Parliament - Economic Affairs Series - ECON 131 EN - 01-2003

	1999	2002	Variation %
European average	32.42	29.32	-9.56
Standard deviation	7.29	6.55	-10.18

1 - Surchases or local taxes are not included.
a - Taking into account the Corporate Tax reform announced by the Belgian Government in September 2001. The standard corporate tax rate will be reduced from 39% to 33% and eventually to 30%.
b - In the case of Ireland, 10% is taken as the effective tax rate for most companies.
c - The Italian Government has recently approved the reduction of corporate tax to 34% for the next year.
Source: "Taxation in Europe: recent developments". European Parliament - Economic Affairs Series - ECON 131 EN - 01-2003.

That European Parliament's working paper also displays a tendency of convergence in relation to candidate countries. Most of them have also carried out important tax reforms in order to comply with the main criteria for joining the EU. As far as taxation is concerned, the EU "acquis" mainly covers indirect taxation, in particular the Value Added Tax (VAT) and excise duties regimes. In the case of direct taxation, the "acquis" is limited to legislation on corporate taxation and capital duty.

On the whole, candidate countries have an indirect taxation regime close to the EU's. By way of illustration, the average standard VAT rate in the thirteen candidate countries, at 19.1%, is only 0.2 points below the EU average.

Nevertheless, in the field of corporate taxation there are still wide differences between EU Member States and candidate countries. For instance, the rates in candidate countries are lower than those applied by EU Member States. The average EU corporate tax rate is 29.3%, while the average corporate tax rate of the thirteen candidate countries, at 25.5%, is almost four percentage points lower. From January 2003 on, when the rate was reduced from 25% to 10% in Cyprus by virtue of a tax reform, the overall average will be even lower, at 24.4%. Such significant differences between Member States and candidate countries are likely to cause a renewed downward pressure on tax rates, concluded the mentioned working paper.

Focussing our attention on the greatest economy of the world, the USA, we will realize that the American government initiated a process of major tax reforms in 2001, providing significant tax cuts, the largest since 1981. After the terrorist attacks of September 11th, new measures were implemented, introducing tax incentives for economic recovery. And that process has continued so far. By way of illustration, on May 28th, President Bush signed into law legislation providing US$330 billion in tax cuts, including temporary reductions in the tax rates on capital gains and dividends, and US$20 billion in state aid aimed at providing a boost to the economy and reducing the role of Federal government.

At first glance it may seem to bear no relation to globalization. We should bear in mind that some high-profile American companies have recently renounced their corporate citizenship in favor of relocating off-shore (e.g. in Bermuda) to avoid US taxes, though. Hence tax reforms are also aimed at encouraging companies to remain in the United States, an attempt to avoid US-generated income being transferred offshore, enhancing their international competitiveness. Yet the American corporate tax system has aroused argument with the EU, which was taken to the WTO.

Truly, it's a daunting task to measure the impact of globalization on taxation, mainly if we consider that economic, cultural and technological aspects are mixed in a single phenomenon. To what extent can we blame the cultural shock (or economic interests) between western and eastern world for the terrorist attacks of September 11th? And to what extent did the technology of information, broadcasting the attacks almost live across the world, influence the economy? Finally, to what extent was the effect of the American government's measures to recover its economy on the international structure of taxation?

In sum, statistics as well as multilateral initiatives start to confirm the mentioned conclusions about the globalization impacts.

6 - DEALING WITH GLOBALIZATION

To face the challenges stemmed from this new economic order is the crucial importance to intensify international cooperation. To provide a framework within which all countries can work together to establish a harmonious and advantageous coexistence of the various national tax systems, sharing information across borders. Exchange of information among tax administrations is also widely recognized as an effective means of deterring and discovering non-compliance in cross-border transactions.

In this context, many regional tax organizations have emerged in the world, like: The African Association of Tax Administrations (AATA), The Commonwealth Association of Tax Administrators (CATA), Inter-American Center of Tax Administration (CIAT), The Caribbean Organization of Tax Administrators (COTA), "Le Center de Rencontre des Dirigeants des Administrations Fiscales" (CREDAF), Intra-European of Tax Administrations (IOTA), Pacific Association of Tax Administrators (PATA), and Study Group on Asia Tax Administration and Research (SGATAR).

To gives us an idea of how those tax organizations work, we quote the way CIAT views itself: "as an organization that: furthers an environment of mutual cooperation among its member countries to fight tax evasion and avoidance; offers a forum for the exchange of experiences in the search of solutions for tax issues worldwide; has information and normative system models, standards and prototypes; uses and disseminates administrative practices and state-of-the-art technology for the betterment of tax administrations."

To strengthen cooperation among international tax organizations, the IMF, OECD and World Bank have proposed an International Tax Dialogue (ITD). According to that joint proposal, it is consistent with the revised draft outcome of the UN Conference on Financing for Development, which emphasizes the importance of enhancing the revenue-raising capacity of developing countries, and with the crucial role of international organizations in supporting these efforts.

Another outstanding initiative in this field is the OECD's Project on Harmful Tax Practices, including member and non-member countries, which has sought to encourage an environment wherein free and fair tax competition can take place.

7 - BRAZILIAN EXPERIENCE

With the FDI boom many developing countries introduced tax incentives in order to reduce the overall tax burden for foreign investors and to attract multinational enterprises. In Brazil it triggered an internal dispute in the subnational levels (states and municipalities).

These incentives consist of tax holidays (exemptions from paying tax for a certain period of time) and exemptions from import duties on raw materials, intermediate inputs and capital goods, and the like. They create distortions in the resource allocation, afford opportunities for abuses, such as round tripping by resident investors to take advantage of them, and may prove futile if other countries offer similar incentives.

Furthermore, FDI still have not provided the expected economic growth in many developing countries[11]. On the contrary, unemployment and informal economy rose. Even though their tax burden did not follow the downward trend of the world, as we will see in the Brazilian case.

Yet one cannot deny that the adaptation of national tax systems to globalization is fundamental. It helps attract foreign investments, mainly the long-term ones, and diminish the so-called "fiscal termites", averting new ways of tax avoidance and tax evasion arose from the ongoing integration of the world economy.

[11] It's true that countries, as Asian Tigers, experienced faster economic growth due to a buoyant international market than other countries that remained reluctant to participate fully in the global economy.

Aware of the need of adjusting its tax system to globalization, the Brazilian tax administration has implemented a series of measures in this direction, which gained momentum with the Real Plan implementation. Since then, price stability, taken together with broader use of technology, has allowed collecting more trustworthy information and, in consequence, introducing an improvement in the decision-making process in the tax field.

In terms of foreign trade, despite the progress reached in increasing its participation in the world market, Brazil must still attain a higher level of integration in world trade. Hence it is also important an adaptation of the national customs.

Some initiatives of the Brazilian tax administration are described.

7.1 - Broaden Use of Electronic Tax Administration

The Federal Revenue Secretariat (SRF)[12], which is responsible for more than 40% of the Brazilian tax collection, turned the Internet into a great ally. Its site, www.receita.fazenda.gov.br, renders a great variety of services, besides providing tax information, tax legislation and statistical data. It has been systematically awarded as the best in the Government and Public Services categories, in accordance to technical and popular criteria. Through the Internet it is possible to obtain a negative certification of debts, to verify whether the income tax refund is available, to download programs, to access the Integrated Foreign Trade System (SISCOMEX), to pay debts etc. Electronic tax returns filed via the Internet turned out to be the most impressive success achieved by the Brazilian tax administration.

[12] The SRF's activities encompass administration of internal taxes and customs duties. In 2002, it was responsible for 48,95% of the Brazilian tax burden (source: "Carga Tributária no Brasil – 2002", SRF).

Electronically filed returns as well as electronic data processing enhance service for taxpayers and boost productivity by reducing errors, speeding refunds and reducing labor costs. It also improves the process of selecting a return for examination.

In 1991 and 1992, the first two softwares to help Brazilian taxpayers fill out income returns (individual and corporate, respectively) on a computer became available. The adherence to computing and electronic systems has been massive, as shown in Tables 7.1.1 and 7.1.2.

Table 7.1.1 - Corporate Income Tax Return
Means of file (thousand)

	Form	Disk	Internet	Total
1994	1,837	316	0	2,153
1995	1,873	813	0	2,686
1996	1,639	1,348	0	2,987
1997	1,104	1,915	126	3,145
1998	556	1,925	1,121	3,601
1999	0	784	2,142	2,926
2000	0	123	2,785	2,908

Source: SRF/IRPJ System

Table 7.1.2 - Individual Income Tax Return
Means of file (thousand)

	Form	Disk	Internet	Phone	Form on line	Total
1994	4,799	1,224	0	0	0	6,024
1995	4,260	2,279	0	0	0	6,54
1996	4,671	3,449	0	0	0	8,121
1997	3,891	5,183	0	0	0	9,075
1998	3,32	4,961	2,765	0	0	11,047
1999	2,015	3,384	6,096	68	69	11,634
2000	887	1,277	10,181	33	187	12,565

Source: SRF/IRPF System

In 2002, until the final deadline for filing, 96.13% of Individual Income Tax returns were filed by electronic means. In 2003, 94.29% of 17,505,626 Individual Income Tax returns were sent solely via the Internet, using the "Receitanet" system. The SRF achieved two records in the current year: the largest number of returns received in a single day (2,007,959) and the largest number of returns filed per minute (2,600). Once again, Brazilian taxpayers demonstrated the high level of acceptance of the new technologies for complying with their tax obligations.

The European Economic Commonwealth awarded "Receitanet" as one of the best examples of solutions of Electronic Government in the world, having been presented in the "European Conference on eGovernment Applications: from Policy to Practice", in Brussels, in November/2001. In the Bill Gates site "Business at the Speed of Thought" and in his book of the same name, Microsoft also recognized the "Receitanet" as an unpublished solution in the world that comply with the requirements defined by Bill Gates in its conceptualization of "Digital Nervous System".

Drawing a parallel, in the USA, the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 established a goal of 80% electronic-filed returns by 2007. To reach that congressionally-mandated goal, in 1999, the IRS began the first pilot project to communicate taxpayer account data over the Internet with a group of 100 practitioners.

With regard to customs activities, SISCOMEX has made possible an improvement in controls and greater effectiveness in the management of the Brazilian trade balance. The fully computerized system integrates the activities of several government institutions, besides importers and exporters. They interact with it, as regards, orientation, follow-up and control of the different stages of import and export transactions, including those relative to change. It is thus an instrument of fundamental importance in tax adaptation to the globalization process, as it reduces the costs related to foreign trade operations and speeds up the clearance of merchandise.

In customs field another software that is worth mentioning is the so-called "RECOF". Because of it, the Company Briefing Books section of the Wall Street Journal's site has already published that Brazil customs overhaul brings joy to computers makers, as reported.

RECOF allows electronic manufacturers, mainly computer makers, to have their imports clear customs automatically into their in-bond warehouses, bypassing a process that typically can take two weeks to a month. As a bonus, they can defer their import-duty payments until the sale of the product that uses the imported part. If the companies' technology is sophisticated enough, all can be done via the Internet, giving computer makers a better shot at executing "just-in-time" manufacturing processes.

By making things easier, more efficient and productive for electronic manufacturers, the tax man is helping the growth of a domestic industry that will end up contributing more taxes, while making Brazil more viable as an electronics manufacturing and export center for the rest of Latin America.

7.2 - Tax Legislation Updating

The Brazilian tax administration did not disregard the national insertion in the world economy. On the contrary, tailored legislation came into force taking into account issues linked to globalization. Among them are those undertaken in the field of corporate income tax, related to worldwide taxation, transfer pricing and tax havens.

Starting in 1996 (Law 9,249/1995), changes have been introduced in the Brazilian model of corporate income taxation. Moving from territorial to worldwide taxation was the first step to adapt corporate income tax to globalization and to align itself with the great majority of tax systems of the world. In Latin America others countries, such as Argentina, Chile, Colombia, Ecuador, Mexico, Peru and recently Venezuela, followed this trend.

Through this new system, the earnings, revenues and capital gains obtained abroad by Brazilian corporations, as well as those of their subsidiaries, branches, whether controlled or related, are computed in the determination of the taxable results. A credit is granted for taxes paid abroad up to the rate of the domestic tax.

In this way, taxation of worldwide income helps reduce tax avoidance and evasion, chiefly with respect to those operations based on tax havens. In addition, it broadens the tax base, reaching the increasing Brazilian enterprises abroad. It is worth mentioning that the gross flow of Brazilian investments overseas, which was approximately US$200 million in 1992, reached US$1.9 billion between January and September of 1997.

With reference to transfer pricing, it should be emphasized that prior to the introduction of the respective legislation, that notion was not strange to Brazilian tax legislation. However, in the same way that happened in the USA, the initial concern was related to handling of prices in domestic transaction. The need of regarding the economy internationalization became evident in the first International Conference of Transfer Price in Brazil, sponsored by SRF, CIAT and OECD in July 1996.

For the first time that issue was approached in Law 9,430, of December 1996. Despite some existing differences, the Brazilian tax legislation followed the same logical structure used by the USA and OECD, adopting the same principle, “Arm’s Length” or “Prices without Interference”, as well as the same verification methods.

Through verification methods are evaluated prices negotiated between corporate bodies or individuals, considered related, for purpose of calculating the amount of the tax obligation in international transactions (exports and imports). Transfer pricing legislation is also applied when one of the dealers belongs to a tax haven, no matter if they are related or not. It aims to curb the handling of prices, preventing profits from being taxed abroad.

By the way, the Brazilian legislation established an objective definition of tax haven, that is, every country that does not tax income or does it with a maximum rate lower than twenty percents. An official list is issued with this criterion.

To enforce the new tax legislation related to transfer pricing and worldwide income taxation, in 1998, the International Affairs Special Office (DEAIN) was created.

Finally, it should be pointed out that the Brazilian tax administration has not disregarded micro and small enterprises. A favored tax system for them, called SIMPLES (Integrated System of Tax and Contribution Payment for Micro and Small-Sized Enterprises), was implemented by Law 9,317/1996. That kind of enterprise plays a significant role in the generation of formal jobs and in the dynamics of the economy, chiefly in a country wherein the informal economy accounts for approximately 50% of the GDP.

7.3 – Tax Burden

In spite of the general downward trend of tax burden, Brazil has presented a steady growth in its tax-to-GDP ratio in the last years, attained levels comparable to those of many OECD's country members. As with all developing countries, Brazil must raise the revenues required to finance the services demanded by their citizens and the infrastructure (physical and social) that will provide better economic and social conditions. In addition, tax collection is fundamental in the fiscal adjustment process. Primary budget surpluses large enough to reduce the debt-to-GDP ratio, and thus future spending on debt service, are demanded. Besides other measures, it is essential to safeguard economic stability.

Brazilian tax burden went from 29.74% in 1998 to 35.86% in 2002. It corresponds to a percentage variance of 20.6%. In 2002, tax revenues increased 7.57%, in real terms, while the GDP increased only 1.52%. The widest variation was in the federal level, 9.36%. In the state and municipal levels, it was 3.09% and 6.45%, respectively. Table 7.3.1 shows the behavior of the tax burden in those years.

Table 7.3.1 – Brazilian Total Tax Revenue as Percentage of GDP

	1998	1999	2000	2001	2002
Union	20.41	22.17	22.47	23.35	25.15
States	7.78	8.06	8.56	9.01	9.14
Municipalities	1.55	1.54	1.45	1.49	1.56
Total	29.74	31.77	32.48	33.84	35.86

Source: "Carga Tributária no Brasil - 2002" - SRF

In fact there has been an increase in the tax rates and a widening in the tax base. But it must be recognized that part of the tax burden rise is in virtue of measures to collect overdue debts, to optimize tax procedures and to eliminate tax loopholes. By way of illustration, it can be mentioned the incentives for early payment of back taxes, including those disputed at court, and the information usage for selecting taxpayers' return or accounting for examination.

In general terms, the SRF[13] explained the tax burden rise in 2002 as a result of the growth of the collection of two taxes: corporate income tax and federal contribution for intervention in the economic domain (CIDE). The increase of the former amounts to 1.06% of the GDP, whereas the latter amounts to 0.58%.

In January 2002, when the Provisional Measure 2,222 came into force, the change in the corporate income tax levied on pension funds shed light on this controversial issue in Brazil. Under that new legislation, pension funds are taxed with the same rules applied to natural persons and non-financial institution legal persons. They are forced to pay 20% of investment returns as income tax. Nevertheless, a special tax regime was offered, reducing to 12% the income tax levied. In order to make use of that reduction, funds have to expressly drop any ongoing actions related to the mentioned income tax. Those news rules provided a boom in the tax collection. Last year pension funds were

[13] "Carga Tributária no Brasil - 2002" – SRF.

responsible for 27% of incorporate income tax collection. It explains a percentage variance of 81% in the collection of that tax.

With regard to CIDE, Law 10,336, of December/2001, introduced this contribution in the sector of fuel. This contribution replaced with advantage an old device, called PPE, used to offset the impact of fluctuations in the international price of oil on domestic fuel prices for this purpose. It has given more effectiveness and transparency to the collection. The introduction of CIDE did not create an additional burden on the economic activity, once the PPE was not taken into account in the previous tax collection results.

In 2002 tax revenue was also very favorably influenced by extraordinary receipts due chiefly to legal measures adopted with the aim of collecting overdue taxes. The respective figures are summarized below:

Table 7.3.2 - Extraordinary Revenues in Brazil

UNIT: R$ MILLION

ITEM	2002 (A)	2001 (B)	(A - B)
INSTITUTION OF CIDE-FUELS (Law 10,336/01)	7,241	0	7,241
PROVISIONAL MEASURE (PM) - 38/02 (Art. 11)	2,233	0	2,233
PM-66/02	3,547	0	3,547
Art. 20 (Debts not linked to judicial cases)	1,453	0	1,453
Art. 21 (Desistance from judicial actions)	239	0	239
Art. 24 (Pension funds – deadline extension)	1,833	0	1,833
Art. 32 (Wholesale electricity market)	22	0	22
PM-75/02 (Art. 14)	1,295	0	1,295
PENSION FUNDS (Except Art. 24, PM-66/02)	7,773	0	7,773
REDEMPTION FINANCIAL INVESTMENT. FOREIGN RESIDENT.	511	60	511
STATE SECTOR (Profits from exchange rate variation)	550	0	550
JUDICIAL/ADMINISTRATIVE DEPOSITS	4,049	3,206	844
STATE-OWNED ENTERPRISE (Profit from sale of public securities)	1,549	0	1,549
TOTAL	**28,749**	**3,266**	**25,483**

Source: Ministry of Planning, Budget and Management / Ministry of Finance

Considering that the total federal tax collection in 2002 was R$332,387 million, the extraordinary receipts correspond to approximately 8.6% of it. Nevertheless, it should be pointed out that part of those revenues, which have helped increase collection, has a transitory character. In this sense, the 2003 Budgetary and Financial Programming, elaborated by the Ministry of Planning, Budget and Management and Ministry of Finance, foresees a reduction in the tax collection. The tax burden is assessed to drop by more than 2 percentage points of GDP in 2003.

It means that additional efforts are needed to maintain the level of tax revenues attained in 2002. A field where there is room for improvements is the recovery of active debt. It consists of tax debts that are regularly registered at the competent administrative government office after the period set by law for payment or by ultimate issue resolution. The Federal Revenue Secretariat (SRF) sends to the General Attorney's Office of National Finance (PGFN), for recovery purposes, all debits electronically registered in its systems. However, the evolution of the inventory of the mentioned active debt displays an opportunity to enhance the tax collection (see Table 7.3.3).

Table 7.3.3 - Active Debt (only related to taxes controlled by the SRF)

UNIT: R$ BILLION

Period	1994	1995	1996	1997	1998	1999	2000	2001	2002	Oct/2003
Inventory	8.76	19.72	40.19	101.65	111.87	125.29	125.68	150.83	174.18	204.41
Collection	0.11	0.40	0.64	0.65	1.99	1.01	1.80	1.64	1.97	1.56

Source: General Attorney's Office of National Finance (PGFN).

Among other measures to improve the performance of the active debt recovery, it can be quoted the inclusion of that activity in the organizational structure of the tax administration and reforms in the legal system that rules it.

There is also a large inventory of pending tax cases involving disputes between taxpayers and the Union in the administrative sphere. At least in some cases, they could be solved in a single instance consisting of just one administrative judge. It would speed up the collection of those taxes that are in dispute. Nowadays all administrative judgments are delivered by two instances of collective entities.

8 - CONCLUSIONS

From an economic point of view, globalization is not a new trend. On the contrary, Greeks and Phoenicians traded across the Mediterranean Sea centuries ago. Marco Polo's trip to China and Christopher Columbus's search for resources of India also illustrate the economic integration propensity along the human history.

Moreover, the conclusion that technological improvements have allowed the globalization boom means that this trend is stronger as time goes by. In the tax field it represents a tendency towards regressive tax systems, due to the increasing mobility of capital and qualified labor, and a decrease in the tax revenues, as a result of the reduction of the tax administrations' sovereignty, degradation of traditional taxation bases and harmful international tax competition.

To face those challenges, first, countries should establish more efficient tax systems and deliver better service for taxpayers in order to improve voluntary compliance. Second, they should intensify tax co-operation among themselves and pursue a harmonious coexistence of the various tax systems, putting in place a national one in line with international norms. Both entail well-trained personnel, up-to-date equipment, reaching agreements to solve tax disputes, sharing information and good practices, and curbing harmful tax competition.

The employ of new technologies has a fundamental role in this context. Brazilian tax administration has succeeded in broadening use of electronic tax administration. Electronically-filed returns have enhanced service for taxpayers and boosted productivity by reducing errors, speeding refunds and reducing labor costs, besides improving the process of selecting returns for examination. Brazil has also coped with the mentioned challenges taking part in the CIAT and providing new tax legislations aligned with the international tendency. Substantial efforts have been made to provide a stable and transparent legal and regulatory framework in order to encourage sustained investments.

Although Brazil has presented a steady growth in its tax-to-GDP ratio in the last years, there are signals that in the current year tax collection will decrease, mainly because of the reduction in the extraordinary revenues. Extra efforts will be demanded to keep the level of tax revenue attained in the future. The large inventory of active debt and pending tax disputes can turn out to be an option to enhance the tax collection, since some structural and legal changes are adopted.

Finally, it is worth mentioning that so far the changes implemented in the Brazilian tax system have not done enough to push many workers to the formal economy, to stimulate economic growth and to reduce the regressive taxation. These are also key factors to keep the level of tax revenues and to fight against the huge inequality of the income distribution existent. The increase in the progressiveness of property and income taxes, the reductions of payroll-related social program taxes paid by corporations and the share of indirect taxes in the revenues, chiefly the cumulative ones and those levied on products consumed by low-income population, are efficient devices to achieve those goals. The current government has proposed a tax reform addressing these questions. The results remain to be seen.

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