Introduction

The theme of this paper came from my perception of a growing dissatisfaction of the Brazilian people with the form and the structure of the whole tax system of the country.

Firstly, I believed that the growing demand for a new tax system was an exclusively Brazilian event. However, after I begun my research in Washington, I noticed it is an insatiable global phenomenon.

My first idea was to produce a comparative study among tax systems of several countries.
I noticed that the first difficulty we face, when we study tax systems of different countries, is lack of information. Tax codes are extremely dynamic, going by constant changes, which make it almost impossible to conduct a totally up-to-date research, if we are dealing with tributary matter or, to be more precise, when we want to learn what is a country tax code today.

Some statutory tax systems could be outlined by presenting the relevant information about rates, taxable bases, methods of payments, and so on, exactly as described in the laws. This information is generally available for many countries and for most taxes, although absence of codification often makes it difficult to trace. Locating a given tax law can be a major and frustrating enterprise and locating the regulations that accompany the law may be even more difficult.

I have learned that, nowadays, the diagnoses of different countries looked all alike. When someone talks about tax reform, the speech comes out like this:

"...taxes structures are: (1) complex (difficult to administer and comply with), (2) inelastic (nonresponsive to growth and discretionary policy measures), (3) inefficient (raise little revenue but introduce serious economic distortions), (4) inequitable (treat differently individuals and business in similar circumstances) and, quite simply, (5) unfair (tax administration and enforcement are selective and skewed in favor of those with the means to defeat the system)...."

In order to be a helpful study to everyone interested in this "sweeping the world idea" of tax reform, this paper is not just a long survey of the statutory tax systems of many different countries.

Little assistance would result from a list of taxes and legislation.

Although some different tax codes are cited, this is not the main idea.

This paper presents a light review of broad themes emerging from the tax reform movement, referring both to developing or developed countries.

Given the complexity of the subject, it would be impossible to explain it exhaustibly.

Therefore, these are a few topics singled out for this paper:

**Reasons for Tax Reforms**

All governments need resources, but the problem of raising revenue is often highly critical. Taxation is inevitable in any modern society and that is why taxes, and their impact on economic growth, are given so much attention in economics and economic policy.

Maybe the most important reason for a country to make a tax reform is to effect a fiscal adjustment in order to reduce its fiscal deficit.

It is known that a poor fiscal management or a fiscal deficit, particularly when it is monetized, is a source of high inflation, large current account deficit, and slow or negative output growth.

The decision on which measure to take involves reducing government spending and increasing government revenue.

Policymakers often take, or try to take decisions aiming at expenditure reductions in the initial stages of adjustment, postponing the negative effects on growth of raising taxes.

In many cases, raising tax rates can increase revenue. However, although this solution avoids reforms in the existing tax systems, it seems to be limited.
Thus, in order to meet the goal of raising revenue, the government must systematically investigate such a basic question of how tax system should be reformed and where additional resources should be sought.

In the other hand it must be evaluated to which degree taxes lead to diminished efficiency because they affect the decisions of personal and business sector.

From the viewpoint of allocation distortions, its is accepted that lower rates lead to smaller differences between pre-tax and post-tax prices, and thus to less extensive market disturbances. It is also accepted that broadening the tax base makes the tax authorities more indifferent to the source of the income what gives greater leeway to market forces.

In theory, horizontal equity can be promoted by making allowance in the tax structure for diverging circumstances. Fairness and simplicity then conflict. In practice, the complexity of the rules induces the emergence of all sorts of ‘grey’ areas. This does not contribute to greater clarity of the rules, and persons in comparable circumstances may still be treated differently. With lower and flatter rates, there is also less reason to take varying circumstances into consideration.

Tax reforms should always pursue simplicity of the structure and we must say that in this matter, improvements are always possible. The acceptance of taxation by the people regards directly to clarity.

A fundamental criterion for choosing among different alternate proposals is to point to simplicity of tax design and ease of administration.

I can not indicate, however, any definitive model or framework for evaluating the administrative efficiency of alternate policies or for estimating the relative order of magnitude of marginal administrative costs of various administrative measures.

Another important characteristic of any good tax policy depends heavily on the administrative ability and in the political will to collect revenues through fair and efficient enforcement. The revenue-generating capacity must be well assessed.

I have concluded that governments make tax reforms in order to improve in three main items: efficiency, equity and simplicity.

Another reason for tax reforms is the new challenge, which stems from the globalization trend or, we could say, the trend to economic integration among regional countries (i.e. Mercosur, Nafta, E.C.). How to deal with the problem when the power of taxation remains under the control of each national government, though their autonomy in fiscal matters is gradually being restricted by policies or measures adopted as a consequence of some treaties?

Nowadays, environmental concerns become more and more a challenge for economics and economic policy and, thus, a revision of the tax system should be necessary. Many people question whether taxes should be used to steer production and consumption towards more environment-friendly activities. As far as the tax simplification undertakes in part to reduce the number of non-fiscal objectives of taxation, environmental considerations would be contrary to that aim.

An important aspect that must be highlighted, due to its importance to any tax-reform, is the relation between tax structure reform and tax administration.

Approaches to Tax Administration and Tax Reform

Many Tax Administration and Tax reforms have been contemplated without adequate knowledge of the real tax base, the nature of administrative cost functions (return to scale, discontinuities, etc.), and compliance reaction curves.
For example, in an environment where tax evasion is pervasive, many times it happens that higher penalties create increased incentives for corruption and therefore reduced compliance. I would say that more intense theoretical and empirical research on efficiency of tax administration could provide better insight into the appropriate path of tax reform. In particular, such understanding could ensure that the simplicity criterion in design of tax reform is put in proper perspective and is not overemphasized at the expense of other objectives, including equity.

There is a lot literature telling us that tax reform is an essential component of any strategy for structural adjustment and resumption of growth in any developing country.

I understand that it is true even for a developed country. I mean, as a variable in the macroeconomic environment, the tax system of any country is an important factor for the economy as a whole.

The fact is that, in many developing countries the existing tax systems are distortionary and contribute to a host of economic problems, including production inefficiency, capital flight, and fiscal and balance of payments disequilibrium. It is well recognized that fiscal imbalances can not be addressed simply by curtailing expenditures.

How might a country improve the performance of their tax systems?

If you analyze the tax reforms of any country you may get close to a good answer by asking: what motivated these tax reforms; what were they intended to accomplish; how were they implemented and how successful they have been in achieving their objectives.

We should learn also that four traditional public finances criteria, which are, revenue adequacy, allocative neutrality, taxpayer equity and administrative capability must be improved in their economic performance.

Anyone who intends to make some tax reform must keep in mind that relation and just can not ignore administration matters.

Joel Slemrod (1990) argues that this is exactly an aspect in which the optimal tax theory fails because it gives little attention to administration. He says if optimal tax theory is to become relevant to the formulation of tax policy, it must incorporate "tax technology"

About the importance that any tax reform must give to administration, we can mention two tax reforms in Israel. One, in 1975, and the other in 1987. It is said that there was twice the same mistake in Israel because the administrative limits had not been taken into account adequately into account. What happened was that it turned very different in practice from what it looked on paper.

On the Israeli reform this is what Jenkins (1989) said: "The 1987 tax reform commission in Israel is a classic example of people with good intentions proposing complex tax policies in order to ensure economic efficiency and fairness. Many of the proposals would be impossible to administer and were rightly resisted by tax administration". Any presumption that all administrative deficiencies can be easily remedied once the right tax policy is put in place would fail, as well.

On the other hand, many people advocates that administrative feasibility dominates tax structure decisions. Some authors, like Musgrave (1969) says that the tax structure of developing countries is dominated by their limited ability to administer taxes.

Policy changes without administrative change are nothing. Control over the statutory system must be accompanied by an even better control over the effective system.

One important thing we have to learn. That is, either the first approach, which suggests that tax reformers should concentrate on getting the tax structure right and should worry about fixing up administration, only after tax law
has been enacted, or the other, which suggests that what really matters is administration, both are false choices. Structure and administration are interdependent and tax reform must take these two aspects into account.

Bahl (in Gillis 1989) give us the best summary of the idea: "There is no point in administering more efficiently an inherently bad tax structure nor is there any point in designing a good tax structure that cannot, and will not, be administered effectively".

In order to achieve a successful tax reform we should design a tax structure that can be administered adequately with the available resources, while, at the same time making the best possible use of those resources from a long-term perspective should be adopted. Tax reform measures need to conform to existing administrative capacities.

Poor compliance and high evasion, (which compromises the goals of revenue), equity, and efficiency, are related in part with exceeding administrative capacities. This is the reason way tax reforms try to establish a simple tax system, with broader tax bases, which reduces both average and marginal tax rates.

A tax system comprises both structure and administration, and structural and administrative reform must be considered together if tax reform is to accomplish the goals usually attributed to it.

**Aspects of Tax Technology**

Always keeping in mind that by tax technology I mean the government attracting a high-quality staff in sufficient numbers, with the right facilities and a well-defined tax law with the means for enforcement, there are three administrative aspects of taxation I understand are worth discussion.

The first one is importance of administrative incentives in its various aspects.

Designing and installing a good computer-based management information system can make available basic information on the characteristics of taxpaying population that is needed to enforce taxes adequately and fairly. Tax theory emphasizes the importance of information for the design of taxes, but this information must be collected, the tax liability calculated, and payment enforced. Two of the most difficult problems are to collect and process the information efficiently and to audit, assess, and enforce the taxes in such a way that compliance is increased and evasion reduced.

Designing organizational and individual incentives so as to ensure that the information, which is provided that way, may be satisfactorily used.

The reward systems, regarding to the universality of the problems arising from the low salaries paid to tax officials, are not minor matters. After systematic analyses, optimal way to reward them should be guaranteed.

There are a few cases in some developing countries, which illustrate the problem.

In Indonesia, for instance, as in Japan about 45 years ago, revenue targets quotas were for many years the principal way to manage tax officials rewards. This model was almost universally condemned as arbitrary, inequitable, and discouraging for good administrative practices. Even though, in the Indonesia case, it possessed the virtue of providing a predictable flow of revenue.

In 1985, when the government designed the tax reform, they were aware of the fact that the success of the reform depended critically upon the readiness of tax officials to change their ways.

Nonetheless, the reforms in the tax laws in Indonesia have had less impact on taxpayers than expected because improving the administration was a failure.

In the same extension, close attention must be paid to the internal incentive structure of administration. In Egypt, for example, based in a kind of target systems, tax officials receive part of their compensation in the form of untaxed payments. Some authors say that the precise nature of their workings and effects should be investigated.
In many others countries, Senegal for instance, tax officials receive much of their compensation from additional tax and fines they collect. This system is regarded as fraught with the certainty of abuse. There are countries where tax officials rely heavily on nontaxable travel allowances to make a living wage. It is a system that fosters unproductive travel.

Such aspects of the reward systems are not minor matters and all these details may determine the outcome of any major reforms in tax structure.

Another aspect worth remarking is the cost of taxation or the cost of levying taxes. This is obviously a relevant consideration in designing the tax system in any country.

The tax operating cost includes both public (administrative) and private (compliance).

Recent studies of the operating cost of the tax system in United Kingdom (Sandford and others 1989) showed that this cost came to around 4 percent of revenues, or 1.5 percent of GDP. The real resource cost of running the tax system in developing countries is probably greater.

If any government is planning a tax reform, despite the difficulties in accomplishing cost studies, it worth doing research to estimate the administrative and compliance costs of both existing taxes and of proposed tax reforms.

Knowing that changes create transitional costs, in order to ensure that the gains from change exceed its costs sufficiently to make the investment worthwhile, a closer study is needed to evaluate the costs that the change creates (i.e. start ups costs and learning costs).

Another important cost, focus of much economic analysis, is the efficiency cost that evaluates excess burden or deadweight loss. In many countries, in addition to the cost of evasion, it can sum at least 20-30 percent of revenues collected.

There are reports, (Gillis 1989) referring to unpublished studies, which suggested that for every $1 in bribes received by tax officials in Colombia and Indonesia, government lose $20 in tax revenues. On the other hand, the cost to the taxpayer of evading taxes was as low as 5 percent of the tax evaded for those caught.

A good taxpayer –government relations require attention not only to the control mechanisms (sanctions, audit probabilities) stressed in the economic literature but also to the important mechanism of social cooperation that constitute part of the "institutional constraints" that enable tax systems to collect significant amounts of revenue.

In Paraguay, where smuggling still constitutes a major economic activity, an estimated average of 10 percent of the value of the smuggled goods is spent in bribes, additional transport costs, and the like. A good solution could be a 10 percent fixed tariff rate in reform programs.

As we learn about the presence of this great "slack" in tax administration, its is worthwhile making greater investments in tax enforcement or target audits. It was estimated, in Mexico, that for every additional $1 spent in enforcement, an additional $25 in revenue is collected. In Indonesia, a especial "strike force" of auditors, focusing on a limited number of large firms, produced a direct revenue return equal to 340 times the investment.

In cases like these, as a result of the increased perceived probability of detection, a "quasi-voluntary compliance" makes these results even higher.

I should say that no government, no matter how authoritarian it may be, could, with impunity enforce taxes too harshly on political influential groups. Thus, no government pushes enforcement to the point at which marginal administrative cost is equated to the marginal revenue collected.

The link between expenditures and tax administration is the third item, which worth remarking.

The importance of an adequate legal framework both for the tax structure and such procedural aspects of administration as assessment, collection, review, appeal, and penalties is clear. So is the need for adequate
internal management and effective deployment of resources by administration itself. Both, the political authorities must support effective tax administration, and taxpayers must be neither excessively tolerant of evasion, nor implacably antagonistic to the administration. Taxes and tax officials are not very popular. They are likely to be even more unpopular than usual, when people feel that their money is being wasted and that the government is not acting in their interests.

We should not expect a high degree of voluntary compliance in tax matter because it is like a myth. Every individual has the interest to reduce his share of total tax burden, even that one who fully supports all government actions and willingly accepts a resulting high tax level in principle. There is axiom, which says: "Tax systems depend more upon taking money away from people before it gets into their hands – and scaring them into paying the balance – then they do on goodwill"

People of any country do not like to pay taxes but they do prefer to do so if they know, or if they think the funds are well used. Still better if they come to know the funds are being used for their own benefit and if they feel fairly treated in comparison with other individuals and groups.

A very important key point to any tax reform is to link, the more explicitly you can, expenditures and revenues. As Breton (1989) demonstrates, linking expenditures and taxes will reduce the deadweight cost of taxes.

**Trends in Tax Reform**

In this part, it is summarized some ideas, which marks the trends in taxation, nowadays.

Studying different countries, which recently reformed their tax systems, we could say that there is a convergence of ideas on how best to deal with these problems.

The first conclusion we can take is that the value added tax - VAT - has become the mainstay of many revenue systems, accounting for a third or more of the total national tax revenue in many countries.

It is recognized that if there is a strong VAT administration system, with improvements in documentation, it is easier to obtain satisfactory compliance with the personal and corporate income tax.

Most countries have chosen the consumption type of VAT levied on a destination basis.

Some countries have a manufacturer’s level of application of the VAT, others have a wholesaler’s level, and most of them levy it at the retail level.

Some countries have some kind of mechanism for refunding taxes paid on capital goods.

Many countries have special regimes for small retailers, which simplify bookkeeping procedures.

It is almost an overall rule operating the VAT allowing exemptions for basic necessities.

Exports are invariably zero-rated, although in some countries the poor timeliness of VAT refunds implies that exports are subject to some unknown tax burden.

In most of the systems, the VAT has a single rate, although there are some countries in which higher rates are levied for luxury goods. In developing countries, besides contributing to increase the total revenue, luxury excise tax helps to make the burden of indirect taxation more equitable.

Nowadays, any tax reforms, which intend to establish a VAT tax system (or to improve a pre-existing system), should avoid adopting multiple rates and adding numerous exemptions, otherwise, a good VAT could become a bed one. Experience has shown that the political process, especially in developing countries, will force to extract concessions in form of multiple rate structure, in order to compensate any increase in the VAT rate. Most of the times, it impairs the VAT effectiveness.
Another trend, which can easily be noted, is that many countries have adopted different measures to expand both personal and corporate income taxes bases.

In order to achieve this goal, countries tend to reduce all kinds of tax incentives, including exclusions and exemptions. Fringe benefits have been incorporated into the tax base. Some taxes started being collected by withholding or presumptive methods.

Notwithstanding the great efforts, which many countries make in order to have broader income tax bases, for many different structural and economic reasons, this goal is not very easily achieved.

Especially in developing countries, due to a widespread informal sector, the reach of the income tax is very limited. Finding a method in which most the informal sector could be included in the taxpayers roll is a constantly endeavor.

The world’s privatizing wave is playing an important role as well because, after becoming privatized, many public enterprises, which were net drains on tax funds, have actually become taxpayers.

By different ways, (withholding method, for instance) many countries today tax interest income. While some of them tax nominal interest incomes fully, there are others, which tax only real interest income.

Due to the increasing integration of the world’s capital markets and the dismantling of capital market controls in most countries, there is a pressure on developing countries to reduce or even better, to eliminate their taxes on interest income.

If a country includes interest income in the tax base, it will probably have higher domestic interest rates and the effective tax burden shifts toward domestic consumers in general and to owners of land (real state) and labor. In such a case a tax-induced distortion in the capital market should be avoided by means of a higher reliance either on an income tax excluding interest income and other components of capital income, or on a general sales tax. But, if the interest income were excluded from the tax base, then it would be an argument for making interest expense non-deductible in order to restrain tax arbitrage. This approach would easily jeopardize the availability of foreign tax credits and make external capital more expensive.

Gains arising from real state transactions or from the stock market are in many cases taxed, as well.

Fewer countries continue to tax dividends at both the corporate and personal levels

After learning that almost no taxpayer ever paid tax at the highest rate, and that they spent resources to avoid that outcome, some countries have started to reduce the amount of nominal tax progressiveness, and align the corporate income tax rate with the top bracket rate of the personal income tax.

The idea is, merging the corporate and high-bracket personal rates, it will be easier to tax small businesses by reducing the temptation to convert capital income into labor income and vice versa. Doing so, closer parity of tax treatment between firms located in the corporate and unincorporated sectors is achieved.

Its is believed that the simplification and unification of the rates structures reduces opportunities for tax avoidance and even that lower personal rates weakens the temptation to evade personal tax.

Except for some products, (i.e. alcoholic beverages, gasoline, tobacco products), which have traditional revenue excise taxes, excise taxes have been given the task of granting more progressiveness to the system, while to tariffs have been given the protective purposes.

In the previous section, "Approaches to Tax Administration and Tax Reform", we learned that all tax reforms nowadays recognize that tax administration have always to be improved.

Another effort that has been made, and it is a tendency in tax reform, is to create a unique taxpayer identification numbering system. This, together with a good computer-based management information system, facilitates a
better compliance.

In order to prevent, or at least to reduce, fiscal deficits during periods of stable economic growth, revenue-elastic tax systems are accepted as a good solution.

For example, when a small country with open economy rely heavily on export taxes as a source of revenue, it would be easily prone to fiscal deficits as a result of any downturn in the international economy and as it is known, fiscal deficits hinders any kind of economic stabilization.

Moreover, fiscal deficits are very often financed through central banks, engendering a pernicious inflationary impact and, of all the methods of taxation available to governments, this has been shown to be the least desirable.

Explicit taxation (i.e. high tax rates or expansion of the tax base) is almost always preferable to the implicit inflation tax. The trend has been to compare the efficiency costs of higher rates against the resource costs of grater administrative effort. When there is already high rates, tendency goes to more diligent administration. When the high inflation rate is impossible to keep from happening, both direct and indirect taxes would be indexed in order to maintain real tax revenues and avoid inflation-induced inequities and distortions in the tax treatment of capital and labor incomes.

**The Role of Incentives**

With the international trend toward globalization, the world has become high competitive. We now observe an international tax competition, where countries in order to attract investments, offer extremely generous incentives. Actually, in some cases, like in Brazil, there is actually a competition even among different states of the federation.

The question here is whether countries (or states) should offer or not such very generous tax incentives.

It seems to happen that with many incentives in one hand, you usually have high tax rates on the other hand. It might create even a negative marginal effective tax rates. The only reason why it is not negative is that there is no income against which to offset these various benefits when the investment is made. As investment begins to generate income, the marginal effective tax rates are going to be below zero, because the revenue does no pay those incentives.

Incentives create opportunities to manipulate transfer pricing and use other gimmicks to reduce taxes and most countries do not have means to evaluate the benefits of incentives.

The great difficulty is to eliminate incentives when they are offered by all competitors for foreign investment.

Some economists argue that it is necessary a kind of international agreement to limit investment incentives.

**Tax Systems in a Few Countries**

In the introduction we saw that, the first idea was to make a comparative study among tax systems of several countries. Although changed a bit, and it presents a light review of broad themes emerging from the tax reform movement, this section gives us a overview at the tax systems of some different countries.

Researchers, professors, economists or even government staff members (in Knoester, Anthonie. 1993), wrote different papers, which give us an idea of some of these systems. These people took part at the conference organized by the Royal Netherlands Economic Association for the Confederation of European Economic Associations (CEEA), in June 1991, and were invited to talk about important theoretical and empirical topics on taxation of theirs own countries.

**The Tax System of Italy**
A personal taxation through a unique progressive tax called Irpeg (*imposta sul reddito delle persone fisiche*) plays a very important role at the Italian tax system. It is assigned on all sources of income, except interest incomes of individuals and individual firms, that are separately taxed, through a final withholding tax, at an asset-specific rate.

At a 36 percent rate, there is a proportional corporation income tax, Irpeg (*imposta sul reddito delle persone giuridiche*). To shareholders, a full credit is imputed. NO property taxes are imposed, but a proportional *in rem* tax, called Ilor (*imposta locale sui redditi*) discriminates against on labor incomes.

The most important Italian indirect tax is the Iva, that is VAT, followed by an excise duty on petrol and other mineral oils, that plays a important role to fiscal revenue, as well.

The six main Italian taxes (Irpef, Irpeg, Ilor, and withholding tax on interest income, VAT and excise duty on mineral oils) account for 85 percent of the public sector and indirect tax revenues (see table below). So, there is no problem, so far. However, for the remaining 15 percent of the public revenue in Italy, there are around a hundred other tributes

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Revenue from Major Taxes (%)</th>
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<tbody>
<tr>
<td>Irpef</td>
<td>32.3</td>
</tr>
<tr>
<td>Irpeg</td>
<td>5.7</td>
</tr>
<tr>
<td>Ilor</td>
<td>6.8</td>
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<tr>
<td>Withholding tax on interest income</td>
<td>7.6</td>
</tr>
<tr>
<td>VAT</td>
<td>24.2</td>
</tr>
<tr>
<td>Excise duty on mineral oils</td>
<td>8.7</td>
</tr>
<tr>
<td>Other taxes</td>
<td>14.7</td>
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<tr>
<td><strong>Total tax revenue</strong></td>
<td><strong>100.0</strong></td>
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</tbody>
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In my point of view, it is just amazing because in Brazil there are a lot of objections against no more than fifty different taxes.

While in Italy the political debate, the reform proposals and the tax policy are primarily concerned with these six main taxes, in Brazil people is always claiming to get free from so many different taxes.

The Italian tax system was regarded, as one, which had too many kinds of exemptions, preferred regimes and deductions. Thus, there was a gap between actual and taxable personal income.

In 1988 it was provided a unique fiscal code on direct taxation, which contained some revisions of previous laws, but the overall result was a shrinking, instead of a broadening, of the tax base.

The new code restricted or even eliminated tax avoidance practices through firm mergers. It prevented a complete spreading of the income of family firms among the members of the family, used till then as a device to reduce the overall burden of the progressive tax.
The new code also introduced rules, enforcing a more precise certification of sales and purchases in order to improve the assessment of VAT. These rules implied an externality for the assessment of personal independent workers and small-unincorporated firms. Like Brazil, Italy has a wide diffusion of small economic agents, which makes it difficult to implement a through control.

The Italian tax system is criticized for having a too broad definition of economic sectors what makes harder to get a fine tuning of the percentages to be applied; it lacks transparency of the employed methodology to calculate these percentages, and a too strong reliance on self-assessment of gross receipts.

**The Tax System of the Netherlands**

What is interesting in the Netherlands public economy is the fact that 75 percent of the public outlays are financed out with taxes and social security contributions. Non-tax revenues of public sector and new debts cover the remaining gap.

Accounting for more than 25 percent of total tax revenues, the most important tax in Netherlands, is the personal income tax, more than 90 percent of which (i.e., wages, private pensions, social insurance and welfare benefits, and dividends) are collected by withholding at the source. Less than 10 percent is collected by assessment.

Private capital gains are taxed only if they are realized in the course of conducting a business, or if such gains qualify as income from independently performed activities or are derived by a shareholder who disposes of his substantial interest in the capital of the company.

The number of brackets, reduced from nine in the 1990 tax reform, are now just three. The top rate is 60 and it still suggests that Netherlands have one of the heaviest income taxes of OECD (Organization for Economic Cooperation and Development) countries.

There are social security taxes, (general social insurance contributions and employee social insurance contributions). What makes this heavy tax burden acceptable, although participation in these programs is mandatory for all workers in the market sector, is the fact that four different very good general insurance programs cover all residents, providing benefits in case of unemployment, sickness and disability.

The VAT, liable to every business, is the second most important tax levied by Netherlands government.

Corporation income tax is levied both at the level of the company as well as at the level of shareholders. The taxable profit is the tax base; there are fairly generous rules for depreciation of assets and the valuation of inventories.

**Netherlands revenue from major taxes (%)**

- Personal income tax 26
- General social insurance contributions 21
- Value added tax 17
- Employee social insurance contributions 16
- Corporate income tax 8
- Other central government taxes 11
- Local government taxes 2
The Tax System of the United States

United States is a federation of 50 states. Thus, federal, state and local governments levy taxes.

Each government imposes its own taxes, there is shifting of money through shared expenditure programs from higher levels of government, but, different from Brazil, more than one government may exploit the major revenue sources.

For instance, the federal government, many states and some local governments impose income taxes.

The most important taxes are income tax at the federal level, sales taxes at the state level, and property taxes at the local level.

At the federal level, the income tax applies to every individual, corporations, trusts, states, and partnerships. Exclusively individuals file individual tax returns.

The tax base is all income derived from whatever source and it is taxable after subtracting allowable exclusions, exemptions, and deductions from gross income.

For individuals, gross income includes almost all income and the tax base is the gross income minus personal exemptions.

There are five brackets for personal tax, which rates are 15, 28, 31, 36 and 39.6 percent.

For corporations and other entities it is required to file the corporation income tax return. They are taxed in their gross income, also after subtracting allowable deductions. Domestic corporations are taxed on worldwide income, but in many cases they receive credit for tax paid to foreign countries.

There are four brackets for corporate tax, which rates are 15, 25, 34, and 35 percent.

Exactly like in Brazil, certain nonprofit organizations (i.e., charitable, religious, educational, and medical organizations, trade associations, labor unions, and fraternal organizations) are exempted from corporate income tax.

To ensure that all corporations pay tax, even those benefiting from extensive tax preferences, they are also subject to an alternative minimum tax, which tax base is calculated in a different way. Corporations must pay estimated taxes each three months, based in their estimated current or previous earnings. On their annual tax return they will reconcile their total tax liability with the total already paid.

In Brazil there are a quite similar method for both, federal and state level, called "lucro presumido" (presumed profit) at federal and "estimativa" (estimative) at state level.

The social security tax, which finances social security programs, is a payroll tax. It applies for employees, employers and self-employed. It consists of two components. The largest is the OASDI (old-age, survivors, and disability insurance tax), and its rate is 6.2 percent on employees and 6.2 percent on employer. HI (hospital insurance tax) is the second component, and its rate is 1.45 percent on employees and 1.45 percent on employer. Self-employed pay employee and employer components, with a 7.65 percent deductions of his/her earnings.

There are two others payroll taxes, which are the unemployment tax (to employers) and the railroad retirement tax, similar to the social security tax. Both are relatively small.
The federal government has excise taxes, which are taxes on alcohol and tobacco, gasoline and other fuel taxes, and the most widespread federal tax, as 94 percent of households have telephones, the telephone tax.

The United States have two environmental excise taxes, which produces a negligible amount of revenue, the first one, on petroleum, other on certain chemicals, both to fund the Hazardous Substance Superfund.

There is also a tax on wealth and capital transfers. The unified estate and gift tax, with rates from 37 to 55 percent on taxable lifetime gifts and transfers occurring at death.

At state level, there are 43 states that impose personal income taxes and 44 states that impose corporate income taxes. There are 45 states that levy a sales tax, and many impose a wealth transfer tax, as well.

The property tax on real property, based on its assessed value, is the primary tax at the local level. The problem with this tax is that it is assessed many times and the market value varies greatly according to jurisdiction and type of property.

Depending on its use, property may be categorized into different classes. Residential properties are taxed on lower rates than commercial and industrial properties.

Many localities tax also tangible personal properties. The most usual one is automobile.

Dale W. Jorgenson and Kun-Young Yun (in Knoester, Anthonie. 1993) argue that, even after the tax reform of 1986, which indeed led to improvements in efficiency, the US tax system have has kept the basic structural defects. They say the US system relies too heavily on income taxes, (most at the federal level), and on those relative to sales and property (most at state and local level, respectively).

New Taxes Ideas

Before I came to United States, I knew that, in Brazil, the great demand for a new tax system brought about some unusual proposals for tax reform.

After arriving in the U S, I learned that here you find unusual proposals as well.

In this section I make a summary of two of these proposals for taxes reform. The first one is the Fair Tax, in the United of States. The second one is the "Imposto Único", (Unique Tax), in Brazil.

They are both non-partisan proposals that will abolish all federal tax in United of States, and all tax at all levels, in Brazil.

U.S.A - The Fair Tax

In the United States, Americans For Fair Tax Taxation is a non-profit and non-partisan organization, which call themselves a "grass roots organization".

They have a motto to express their will: "April 15 – Make it just another day"

The idea they preach is to abolish all federal income taxes, including capital gain taxes, all payroll taxes (i.e., Social Security and Medicare taxes), estate and gift taxes, and corporate and self-employment taxes and replace them all with one simple, straightforward federal sales tax of 23 percent.

The problem is that it would probably be very regressive or at least much less progressive.

Adopted on February 25, 1913, the 16th amendment of the American Constitution made it possible to tax income.
It says: "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

Thus, the idea is, besides enacting the Fair Tax; repealing the 16th amendment of the constitution, making all taxation on income once again unconstitutional.

Moreover, the Fair Tax would provide a universal rebate equal to the sales tax paid on essential goods and services to ensure that no American pays taxes on necessities. Every citizen with a valid social Security card would be paid in advance, in equal installments each month. The size of the monthly rebate would be determined by the government’s poverty level for particular household size, multiplied by the tax rate.

The propose is not to just exempt food and medicine from the tax, what should seem fairer and more simple, because it is believed that the wealthy, despite they spend proportionally less of their income on food, clothing, housing, and medical care, they spend more than do the poor. Thus, exempting these goods would give the wealthy a disproportionate benefit.

The FairTax supporters say that, exempting one category of goods or services but not another will open the door to the army of lobbyists and special interest groups of the political systems, who have money to obtain tax breaks that are in their own interest. This process causes unfair and inefficient distortions in the economy.

About the 23 percent rate, the argument is that most people are paying that much or more today. Just because it is hidden from view, people don’t know it.

Thus, the appropriate tax rate has been carefully determined, providing for raising the same amount of federal funds as are raised by the current system; paying the rebate, and paying the collection fees to retailers and state governments.

For the Social Security, employers would continue to report wages for each employee, in order to determine the benefits. But there would be no more payroll taxes, because the funds would come from the federal sales tax. There would be no change on the Social Security structure, except the revenue source.

Another argument pro the Fair Tax is that consumption is a more stable source of revenue than income. During difficult times due to unemployment or an inability to work, people may not have as much income, or may have no income at all, but they borrow funds or use savings and continue to consume.

The collecting process would be the same as it is now for 45 states, which already have sales tax system. The Fair Tax would simply be an additional item on the current sales tax reporting form. However, there would be cases of business that produces goods or services, which are not currently taxed and would begin collecting tax for the first time.

The Fair Tax is said to be fairer than the income tax because wealthy people spend more money than other individuals, and they would be taxed in all kind of expensive stuffs they buy. However, if the money is used to finance any economic activity, instead of in consumption, it will not be taxed. Because of the rebate, equal to the federal sales tax paid on essential goods and services, poor people would pay no federal taxes at all.

Because of the repeal of the income tax, which together with the payroll taxes are embedded in the price of everything we buy, (hidden cost), when these tax are removed, prices would come down. Thus, with no penalty for working harder and earning more, people could save as much as they wished, and could invest more in business.

Whether the Fair Tax is going to be enacted or not we will know in due time. The truth is that we cannot find any country in the world, whose revenues do not rely on the income tax. It will be not very easy to repeal the income tax and the 16th Amendment.

**BRAZIL – UNIQUE TAX**
The "Imposto Único" in Brazil, like the Fair Tax in the US, proposes an entire revolution in the national tax system.

Its structure is to tax every bank operation. Every time a quantity of money is taken out of a bank account the tax is going to be collected. Every time a check is paid or, whenever the money goes to another account, the bank system itself would hold a small percentage of this amount, which is the tax, and credit it directly to in the government account.

With a 2 percent rate, it is said it would collect 20 percent more than the entire federal, state and municipal revenue does nowadays. Thus, the "Imposto Único" would replace the Income Tax (personal and corporate); the IPI (federal VAT) FINSOCIAL, PIS, PASEP and INSS (social contributions and social security), the ICMS (state VAT) and the ISS (municipal tax on services). All these taxes should be repealed.

The supporters of the tax say that the Brazilian economy has all conditions to support the change.

First, in Brazil no more than 3% of the monetary base is currency in the hands of the public. Most are deposits in banks or other deposit institutions.

Probably, it would change very quickly if that tax became the only source of revenue for the government.

Second, Brazil has a high-developed computerized bank system, which is nationally integrated.

In order to allocate savings efficiently in the economy, the stock market operations and other saving operations would be taxed in a special structure and rate.

Cash withdraw of any bank account would be higher taxed to prevent the percentage of currency in hands of the public to increase.

The most important characteristic of the "Imposto Único" is to simplify the tax system. Because the cost of levying taxes is very high, using the bank system, which already exists, to collect all the revenue, would decrease the cost of collecting it.

It really innovates in the manner of collecting taxes. Monitoring and enforcement would be more thorough and efficient, avoiding cheating and evasion.

Brazil has a huge number of independent workers and small-unincorporated firms. The "Imposto Único" would incorporate all this "informal economy" in the tax base. To control, enroll and audit such a kind of economic agents have always been a problem.

The interesting point in the case of this tax is that their supporters proposed a gradual introduction instead of doing it all at once, through a drastic substitution in the entire system.

The old taxes would still be collected and the new one, the "Imposto Único", would start with a very small rate. As time goes by the rate would increase till the exactly proposed one, and all the old taxes would be repealed.

What happened was that the federal government liked the idea and enacted it. They call it CPMF "Contribuição Provisória sobre Movimentação Financeira", or Provisional Contribution on Financial Movement. It is provisional because it is supposed to last till the end of the year, but it is already three years old and every end of the year the government gets its prorogation approved by the Congress and it goes on for one more year.

Moreover, the government says that they do not intend to repeal all the other taxes and transform the system in a Unique Tax system.

The majority of politicians and economists don’t like the idea of just one tax. What is going to be the next step, we don’t now yet.
CONCLUSION

Taxation affects economic and political developments. It affects even architecture.

In Amsterdam, the commerce was made directly through the canals where the boats used to navigate and deliver goods to the homes/warehouses. There was a period of time when the taxes were levied on the number of windows in the facade. Thus, if we walk through the city, we will note that some of the houses along the canals are clearly narrow.

In the past many kings were deposed as a result of a tax rise. The introduction of 10 percent turnover tax was the immediate cause of the independence of the Netherlands of the Spanish Kingdom, after eighty years of war.

The United States have also their independence related with a tax. In 1765, the British Parliament adopted a Stamp Act, requiring Americans to validate various documents, transactions, and purchases by buying and applying stamps issued by the royal government. The passage of the Stamp Act aroused widespread indignation and opposition among the American colonists. The upsurge against taxation would culminate in the American Revolution and Independence.

More recently many politicians can get into serious troubles because of taxation. For instance, the resignation of Margaret Thatcher in which the commotion around the introduction of the "poll tax" played a prominent part.

The most important conclusion is that taxation is inevitable in any society, but it is a very delicate political matter as well.

Anyone who wants to make any kind of tax reform, should take a look on some characteristics of a desirable tax system, and should study some tax reforms, which took places in different countries.

I have tried to summarize some of those characteristics and different proposals of tax reform.

My expectations are that this paper may be just a helpful reference for any study aiming at a tax reform.

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