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The tax system of OECD countries and main recommendations from the Organisation: Parameters for a tax reform in Brazil

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SUMMARY

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THE TAX SYSTEM OF OECD COUNTRIES AND MAIN RECOMMENDATIONS FROM THE ORGANISATION: PARAMETERS FOR A TAX REFORM IN BRAZIL[1]

Pedro Humberto Bruno de Carvalho Junior[2]

1 INTRODUCTION

The Organisation for Economic Co-operation and Development (OECD) was founded in 1961 to foster economic development and global trade through multilateralism, promoting democracy and market economy values. Currently, it has 38 Member States and deliberates on various issues, including taxation. Evidently, this does not mean that Member States have similar tax policies: on the contrary, the countries are quite different from each other (including in terms of income) and, therefore, have distinct tax systems. The role of the OECD includes cataloguing the policies and data of each Member State's tax system, providing general recommendations around tax policy, such as, for example, Brys (2011), Brys et al. (2016), Johansson et al. (2008), and O'Reilly (2018), as well as specific tax recommendations for the crises of 2009 (OECD 2010) and 2019 (OECD 2021a). Member States must make this information available to the OECD and can choose whether or not to follow the entity's recommendations. It is important to highlight that there has been a gradual shift through time of the OECD's recommendations on tax policy, from the defence of a simplified and harmonious tax system that would not hinder economic growth (Brys 2011, Johansson et al. 2008, OECD 2006a, 2006b, 2006c, 2007, 2010) to a more inclusive and progressive one (OECD 2021a, 2021b, 2018a, 2018b). For example, the entity went from having a stance that was against net wealth taxes, which had been abolished in many European countries in the 1990s and 2000s (Johansson et al. 2008, OECD 2004, 2006b), to even considering more extensive taxation on the wealth and capital gains of millionaires (OECD 2018a, 2018b, 2021b), especially after the COVID-19 pandemic (OECD 2021a).

The two current tax reform proposals under discussion in the Brazilian Lower House of Congress (*Câmara dos Deputados*) (PEC 45/2019) and in the Federal Senate (PEC 110/2019) are comprehensive and well structured, but they mainly prioritise the harmonisation and efficiency of the tax system as a way to foster investment and economic development. The recent international debate around an 'inclusive tax reform', especially in a post-pandemic world, has still not gained priority in the Brazilian national agenda, which seems to be stuck on outdated proposals. The international deepening of the concentration of income and wealth and the advantages granted to millionaires and large multinational corporations by traditional tax systems that are biased towards consumption and incentives to investment have jeopardised proposals that were previously considered almost a consensus among

1. This Working Paper is a translation of Carvalho Junior (2022).

2. Institute for Applied Economic Research (Ipea).

multilateral organisations. The goal of this paper, therefore, is to describe the tax systems of OECD advanced economies and assess the entity's recommendations on tax policy, applying them to the debate around tax reform in Brazil. It is not meant as a guide for OECD taxation to be copied by Brazil, but rather to provide tools to better foster the debate around a tax reform that is economically efficient and socially inclusive. It seeks to enhance the debate around tax reform, showing current international indicators and trends and the limitations of tax reform proposals, considering international benchmarks.

This paper contrasts a selection of 12-14 advanced economies in the OECD against 3-5 Latin American countries (both OECD Member States, such as Chile, Mexico, Costa Rica and Colombia, and those still vying for membership, such as Argentina and Brazil). It is subdivided into 8 sections, including this introduction. Section 2 analyses personal income taxes on labour and capital income (rents, dividends, capital gains, etc.). Section 3 discusses employees' and employers' social contributions. The fourth section is on corporate taxes. Section 5 deals with consumption taxes (value-added taxes and excise taxes). Section 6 focuses on tax on properties (recurrent property taxes, inheritance taxes, property transfer taxes and net wealth taxes). Finally, Section 7 analyses some countries' tax revenues in 2019 and offers policy proposals in case Brazil wishes to follow the OECD's recommendations, in addition to offering final comments. The study data are available at the OECD's database webpage, as well as other studies on specific taxes cited throughout the text.

2 PERSONAL INCOME TAX

This section provides a simplified analysis the personal income tax systems of 14 advanced economies and compares them against four Latin American countries (including Brazil). It is divided into two parts. Subsection 2.1 assesses the personal income tax on labour (wages), while subsection 2.2 analyses taxes on capital income (dividends, rents and capital gains).

2.1 LABOUR INCOME TAX

The OECD makes general recommendations regarding the income taxes of its Member States, in the studies OECD (2006a, 2006b, 2018a), Harding (2013), Harding and Marten (2018), Paturot et al. (2013), among others. It recommends a progressive system, but with a basic system for deductions/credits and without discriminating between the various sources of income which might lead to arbitrage, inefficient allocation of labour and capital, and horizontal inequity among taxpayers. However, the Organisation highlights that capital income is normally taxed at a much lower level than labour income in most of its member countries.

The OECD also recommends that the tax relief system for specific expenditures, such as health care, education and pension funds, be granted through tax credits instead of deductions in the tax base. This is because a fixed and equitable tax credit granted to all taxpayers provides proportionally more benefits to poor people, who might even have a negative income tax (if the calculated tax is less than the credits received). The system of deductions in the tax base, as adopted in Brazil for healthcare expenditures, ends up disproportionally benefiting better-off taxpayers, who can deduct a higher share of their expenditures in their income tax declarations, in addition to incentivizing these expenditures in a very inefficient manner. For example, high-income taxpayers can deduct expenses with health insurance and various medical appointments, but poorer taxpayers who use the public health care system cannot deduct their medication-related expenses.

Other examples of regressive tax reliefs that are commonly granted, both in advanced economies and in developing countries, include deductions for expenditures in private pension funds and in financing home purchases (this incentive is not granted in Brazil, but it exists in various other countries). Pension fund participants usually have an income that is stable and higher than the ceiling of social security benefits. In the case of home debtors, only those with stable employment and access to housing credit can enjoy this benefit.

Table 1 synthesises the personal income tax system of various OECD countries and Brazil. It shows the number of tax brackets, the existence of tax credit, the threshold level, the minimum and maximum tax rates established by legislation and the top tax bracket income. The monetary values are always presented in thousands of international dollars (Int$) in purchasing power parity (PPP) to enable a comparison between countries. Of course, the statutory tax rates in the table do not measure the effective taxation of labour income (tax wedges), which is subject to deductions and applied credits, the taxation by lower brackets, as well as the taxes on social contributions. Social contributions end up making the taxation of labour overburdened and regressive for the low-income population, because they are usually limited to a maximum ceiling, relieving taxpayers whose income is above the social security ceiling (who might have a pension fund that is deducible from their personal income taxes, further deepening the regressivity). The analysis of global wage taxes is presented through the annual OECD report, "Taxing Wages" (OECD 2021c).

OECD advanced economies usually have income taxes with a progressive schedule, with bottom rates between 10 per cent and 20 per cent and top rates between 40 per cent and 50 per cent. Tax-exempt income is around Int$ 1,200 per month (around BRL2,832 in 2020). In three Latin American countries that are part of the OECD, Colombia, Chile and Mexico, the top income tax rate is restricted to very high income levels and the bottom rates are usually lower than in advanced economies.

In Brazil, both exemption bracket and the lowest rate are lower than in advanced OECD economies. The highest rate applied in Brazil—27.5 per cent—**applies to an extremely low income level** (Int$ 2,000), the lowest level of all selected countries. This is shown in Table 1.

To follow the advanced economies of OECD Member States, or the entity's recommendations, Brazil should:

- End unlimited health-based deductions and grant flat-rate tax credits equally to all taxpayers for any health-based expenditures (including for the purchase of medications), with the possibility of generating a negative tax for the poorest population.
- Increase the personal income tax exemption limit by about 50 per cent, from BRL1,903,98 to something between BRL2,800 and BRL3,000.
- Increase the maximum tax rate to something between 40 and 45 per cent, creating one or more brackets in the schedule and removing the 7.5 rate.
- Apply the higher rate of 40-45 per cent to incomes over BRL44,000 monthly, which would represent an almost tenfold increase over the current top bracket (at a 27.5 per cent rate), which currently applies at BRL4,664,68.

Table 1. Personal income tax characteristics in OECD advanced economies and in Latin America, selected countries, 2020

Country	No. of brackets	Tax credit	Exempt share[a]	Min. rate	Top rate	Max bracket[b]
Australia	4		1.03	19.0	45.0	10.20
Belgium	4		0.99	25.0	50.0	4.57
Canada	5	x	0.93	15.0	33.0	15.13
France	4		1.14	11.0	45.0	17.94
Germany	3[c]		1.06	14.0	45.0	30.48
Italy	5	x	1.01	23.0	43.0	9.47
Japan	7		0.39	5.0	45.0	32.42
Korea	7		0.14	6.0	42.0	48.24
Netherlands	3	x	2.94	9.7	49.5	7.20
Portugal	7		0	14.5	48.0	11.61
Spain[d]	5		0.74	19.0	45.0	7.99
Sweden	1	x	4.85	52.0	52.0	4.85
UK	3		1.44	20.0	45.0	17.30
US[e]	7		0	10.0	37.0	43.20
Colombia	6		2.39	19.0	39.0	68.04
Chile	6		1.61	4.0	35.0	14.33
Mexico	19	x	0.03	1.9	35.0	30.93
Brazil	4		0.81	7.5	27.5	1.98
OECD-14 average	**5**		**1.19**	**17.4**	**44.6**	**18.61**
LA-4 average	**9**		**1.21**	**8.1**	**34.1**	**28.82**

Notes: a) Monthly exempt share, in thousands of international dollars. Int$1=BRL2.36 (2020).
b) Monthly bracket where the top rate is applied, in thousands of international dollars.
c) Germany: In the first bracket, between 14% e 42%, the rate increases linearly according to income.
d) Spain: Sum of central and regional taxes. Example refers to Madrid.
e) US: Only federal taxes.

Source: Author's elaboration based on OECD (2021c).

3 CAPITAL INCOME TAX

The mapping, analysis and general recommendations for the taxation of capital income (rents, interests, dividends and capital gains) are foreseen in many OECD studies, such as Harding (2013) and OECD (2006b; 2018a). Table 2 shows the top effective rate (marginal rate) of taxation on dividends and capital gains. In addition, it shows the marginal rate on global corporate profits, represented by the sum of corporate taxes and the individual taxation of distributed dividends. It features examples from 14 OECD advanced economies and 4 Latin American countries.

Regarding the taxation of dividends:

- Some countries tax dividends as regular income under the income tax schedule (US, Australia), but most have a separate system with a proportional withholding tax rate on capital, usually lower than the one for labour income, the so-called 'Dual Income Tax System'.
- Six countries (Australia, Canada, Korea, Colombia, Chile, and Mexico) allow for the partial or total deduction of the corporate taxes paid by the company on personal income taxes on dividends as a way to reduce the impact of dual taxation. In the case of Colombia, the legal rate of 10 per cent is completely compensated by this deduction, effectively making the effective taxation equal to zero.

- Brazil exempts dividends from personal income taxes. Although it has higher corporate tax rates than the other countries in the sample, this does not compensate for the exemption of dividends, making the global taxation on corporate income lower than the average of OECD countries, as illustrated by the third column in Table 2. To reach the average of OECD advanced economies with a marginal global taxation on profits of 48.5 per cent, Brazil could institute a taxation of dividends on the order of 20 per cent, maintaining the current corporate tax rate of 34 per cent, or reduce the corporate tax rate to 25 per cent and tax dividends with a top rate of 30 per cent under a progressive schedule (or around 25 per cent with a single rate).
- The advantage of taxing dividends over corporate profits through corporate taxes is that the first is personal, and can follow a progressive schedule, which makes it more equitable. On the other hand, the main advantage of taxing corporate profits through the corporate income tax is directly taxing the profits of subsidiaries of multinational corporations. In practice, the best system should include both categories of taxation on profits.

Table 2. Marginal effective taxation on dividends, capital gains and global corporate profits, 2020

País	Distributed profits		Global profits	Capital gains[a]
	Personal income tax dividends		Personal + corporate income tax dividends	
	Rate[b]	Corporate income tax deductions	Rate	Rate
Australia	24.3	x	47.0	11.8
Belgium	30.0	-	47.5	0.0
Canada	39.3	x	55.2	13.4
France	34.0	-	55.1	34.0
Germany	26.4	-	48.4	26.4
Italy	26.0	-	43.8	26.0
Japan	20.3	-	44.0	20.3
Korea	40.3	x	56.7	22.0
Netherlands	26.3	-	45.6	31.0
Portugal	28.0	-	50.7	28.0
Spain	23.0	-	42.3	23.0
Sweden	30.0	-	45.0	30.0
UK	38.1	-	49.9	20.0
US	28.9	-	47.2	29.2
Colombia	0.0	x	37.0	10.0
Chile	33.3	x	40.0	40.0
Mexico	17.1	x	42.0	10.0
Brazil[c]	0.0	-	34.0	15.0
OECD-14 average	**29.6**		**48.5**	**22.5**
LA-4 average	**12.6**		**38.3**	**18.8**

Notes: a) For assets withheld for a period of over two years.
b) Effective rate considers the impact of the total or partial deduction of corporate taxes paid by the company on distributed profits in Australia, Canada, Korea, Colombia, Chile, and Mexico.
c) Brazil: capital gains of up to BRL5 million.

Source: Author's elaboration based on OECD (2021c).

Regarding **capital gains taxes**, some points can be drawn from the table and the OECD makes some recommendations:

- All countries tax capital gains (the effective profits resulting from the sale minus the cost of acquisition) only upon realisation—that is, when the asset is sold. The OECD posits that unrealised annual capital gains should be subjected to at least an interest rate to mitigate the tax incentive on capital holding.
- On the other hand, the asset appreciation resulting simply from inflation (in countries with relevant inflation rates) becomes a problem. This is the case of Brazil, where legislation does not allow to discount inflation from appreciation, which incentivises retaining assets for longer periods of time through lower rates.
- To recompose public finances and ameliorate the growing wealth concentration in a post-pandemic scenario, the OECD, IMF and other institutions are discussing the annual taxation of unrealised capital gains—at least on financial assets, where the information on prices is readily available. This system is known as 'Mark-to-Market Capital Gains'.[3]
- Brazil has a progressive system for the taxation on capital gains, with rates ranging from 15 per cent to 22.5 per cent (this rate only applies to gains over BRL30 million). As the 15 per cent rate is applied to capital gains up to BRL 5 million, Table 5 established it as the standard rate. To reach the OECD average, Brazil could slightly increase taxes on capital gains, eliminate incentives to capital retention, such as applying interest rates to unrealized capital gains (but also discounting inflation from asset appreciation over time). In addition, Mark-to-Market Capital Gains could be discussed—although this has not yet been adopted in any country, it is currently being debated in the US.

4 SOCIAL CONTRIBUTIONS

The system of social contributions of OECD Member States is very diverse. In Latin American countries (Mexico, Colombia and Chile), the contributive system is very low, unlike European countries. Social contributions are tied to social security expenditures, especially retirement, and they can be used to establish retirement funds or finance a "Pay-As-You-Go" system (this latter adopted in Brazil). Regarding retirement funds, the system can end up being regressive if high wages have a high counterpart by the employer, even if the tax rate is proportional. This is why many OECD countries apply lower employer counterpart tax rates for high salaries and higher tax rates for low salaries. The tax rates applied to employees are usually proportional and subject to a ceiling (OECD 2021c).

Thus, this section is subdivided into four subsections. Subsection 4.1 analyses the social contribution system applied to the wages of formal workers; 4.2 analyses the employer contribution system and 4.3 analyses the social contribution system of self-employed workers. Finally, section 4.4 analyses the global tax burden on wages, based on OECD's own estimates (OECD 2021c).

3. See the US debate in Eastman, La Joie and Qian. (2019), Enda and Gale (2020) and Leiserson and McGrew (2019).

4.1 SOCIAL SECURITY CONTRIBUTIONS BY FORMAL EMPLOYERS

Similarly to Brazil, in most European countries the employers pay high tax rates on payroll (regressive tax rates in some cases), while employees are limited to a social security ceiling. Table 3 depicts the tax rates and other mechanisms of social security contributions by formal workers in 13 OECD advanced economies and 3 Latin American countries (Brazil, Chile and Mexico).

Table 3. Formal workers' social security contributions: characteristics in OECD advanced economies and in Latin America, selected countries, 2020

Country	Personal income tax deduction	Exempt share	Tax rates (as a percentage)					Ceiling value[a]
			Number	Regressive	1st bracket	Last bracket	Extra ceiling	
Belgium	x	-	1	-	13.7	13.7	-	No ceiling
Canada	-	-	3	-	1.6	5.0	-	4.14
France	x	-	2	x	11.3	10.1	0.4	14.00
Germany	x	-	2	x	19.9	10.5	-	9.33
Italy	x	-	2	-	9.5	10.5	-	13.01
Japan	x	-	3	x	14.5	5.3	0.3	13.52
Korea	x	-	3	x	9.0	4.5	0.8	9.61
Netherlands	x	-	1	-	27.7	27.7	-	3.65
Portugal	x	-	1	-	11.0	11.0	-	No ceiling
Spain	x	1.68	1	-	6.4	6.4	-	6.51
Sweden	x	0.19	1	-	7.0	7.0	-	5.13
UK	-	1.00	2	x	12.0	12.0	2.0	5.32
US	-	-	2	x	7.7	7.7	1.5	11.48
Chile	-	-	1	-	7.0	7.0	-	5.39
Mexico	-	-	2	-	1.3	1.7	-	7.00
Brazil	x	-	4	-	7.5	14.0	-	2.73
OCDE-13 average					**11.6**	**10.1**		**8.70**
LA-3 average					**5.3**	**7.6**		**5.04**

Note: a) In International dollars (thousands). Int$1=BRL2.36 (2020).

Source: Author's elaboration, based on OCDE (2021c).

According to Table 3:

- Almost all OECD countries (except for Canada, the UK and the US) allow to deduce social security contributions from personal income taxes, as is the case in Brazil.
- Only Spain, Sweden and the UK apply a threshold level for social security contributions. In other countries, social security contributions are levied across all wage levels.
- Belgium and Portugal have no ceiling for social security contributions, and the social security tax rate is applied to workers' full wages (although the pension value is not

necessarily tied to the value of these contributions). France, Japan, Korea, the UK, and the US tax incomes above the social security ceiling, at a lower rate.

- The system of social security rates in Brazil does not significantly differ from most OECD countries.
- The value of the Brazilian social security ceiling is equal to 30 per cent of the OECD average (in international dollars). To reach the OECD level, Brazil would have to raise the social security ceiling from BRL6,433.57 to around BRL20,000.

4.2 SOCIAL SECURITY CONTRIBUTIONS BY EMPLOYERS

Table 4. Employer social security contributions: characteristics in OECD advanced economies and in Latin America, selected countries, 2020

Country	Tax rates (as a percentage)				Ceiling value[a]
	Number	Regressive	1st bracket	Last bracket	
Belgium	1		27.1	27.1	-
Canada	3	x	2.2	7.2	4.1
France	3	x	35.9	17.1	-
Germany	2	x	19.9	10.5	9.3
Italy	1		31.6	31.6	13.0
Japan	3	x	15.1	1.0	-
Korea	3	x	10.8	2.6	-
Netherlands	1		12.7	12.7	6.26
Portugal			23.8	23.8	-
Spain	1		29.9	29.9	-
Sweden	1		31.4	31.4	-
UK	1		13.8	13.8	-
US	4	x	8.3	2.4	-
Chile	-		0.0	0.0	-
Mexico	2		6.5	7.6	0.58
Brazil	1		20.0	20.0	-
OCDE-13 average			**20.2**	**16.2**	
LA-3 average			**8.8**	**9.2**	

Note: a) In International dollars (thousands). Int$1=BRL2.36 (2020).

Source: Author’s elaboration based on OCDE (2021c).

In most European countries, as in Brazil, employers are charged payroll taxes at high rates, although regressive tax rates are used (lower tax rates for higher wages) (OECD 2021c). Regressive tax rates for employers in social security funds reduce inequality because high wages receive proportionally lower counterparts than low wages. In Brazil's "Pay-As-You-Go" social security scheme, there is no need for regressive rates, as all contributions are used to finance social security in a solidary and even redistributive way (due to the pension's limitation of the minimum wage). Table 4 shows the tax rates and other mechanisms of employers' social security contributions in 13 OECD advanced economies and 3 Latin American countries (Brazil, Chile and Mexico).

According to Table 4:

- Taxes on payroll paid by employers vary from 0 per cent in Chile to 36 per cent in France. Six advanced economies in the OECD (Canada, France, Germany, Japan, Korea, and the US) adopt regressive rates for employer contributions to workers' social security funds. This means that higher wages have proportionally lower counterparts by employers.
- In Canada, Germany, Italy, Netherlands, and Mexico, there is a ceiling for employer contributions, but this value ranges from only Int$ 500 in Mexico to Int$ 13,500 in Italy.
- The average rate of the 13 OECD advanced economies was between 20 per cent and 16 per cent (in regressive systems). As Brazil has a single 20 per cent rate on payroll, there is already some convergence relative to OECD advanced economies. However, it must be highlighted that in the particular tax scheme for small companies (known as the "SIMPLES System"), the employer contributions are significantly reduced.
- In Brazil, regressive rates could be used in the particular social security funds for the high wages of civil servants. For example, high salaries could have a counterpart contribution by the government entity of 8.5 per cent, while low wages could have a contribution of 15 per cent.

4.3 SELF-EMPLOYED WORKERS' SOCIAL SECURITY CONTRIBUTIONS

Based on a report by the OECD (2021c), Table 5 shows the system of social security contributions by self-employed workers in 12 advanced economies of the OECD and 4 Latin American countries. In the first group of countries, tax rates range between 9 per cent (UK and Korea) and 42 per cent (France). In addition, Belgium, France, Netherlands, the UK, and the US adopt regressive rates—lower rates for higher incomes of self-employed workers. In Latin America, rates are much lower: 0 per cent in Colombia and only 7 per cent in Chile. In Japan and Mexico, self-employed workers must contribute with a flat monthly value.

In Brazil, the system is progressive: self-employed workers can retire by time of contribution (30 years of contribution for women and 35 years for men) only if they contribute with 20 per cent of their wages. In the simplified plan, they can contribute with 10 per cent of the minimum wage for age-based retirement (62 years for women and 65 years for men), or 5 per cent of the minimum wage in the plan geared towards low-income taxpayers and individual microentrepreneurs (MEIs). This last rule, however, can significantly undermine social security resources if there is a significant increase in workers under the MEI model after the new labour reform.

Table 5. Self-employed workers' social security contributions: characteristics of OECD advanced economies and in Latin America, selected countries, 2020

País	Rates (as a percentage)				Top value[a]
	Number	Regressive	Minimum	Maximum	
Belgium	2	x	20.5	14.2	9.9
Canada	1		10.5	10.5	4.1
France	7	x	42.0	30.4	-
Italy	2		24.0	25.0	9.9
Japan			b		
Korea	1		9.0	9.0	5.6
Netherlands	2	x	27.7	5.7	6.0
Portugal	1		21.4	21.4	9.2
Spain	1		30.0	30.0	6.6
Sweden	2		10.2	29.0	1.0
UK	3	x	9.0	2.0	6.0
US		x	15.3	2.9	-
Chile	1		7.0	7.0	-
Colombia	5	x	0.0	12.0	11.7
Mexico			c		
Brazil	3		5.0	20.0	2.7
OECD-12 average			**20.0**	**16.4**	**6.5**
LA-4 average			**4.0**	**13.0**	**7.2**

Notes: a) In thousands of International dollars (monthly). Int$1=BRL2.36 (2020).
b) In Japan, self-employed workers must contribute with 161 Int$ per month.
c) In Mexico, self-employed workers must contribute with Int$ 66 or Int$ 184 per month.

Source: Author's elaboration based on OCDE (2021c).

4.4 TAX WEDGE

The OECD carries out a yearly survey of the effective tax burden on labour (tax wedge) in its Member States, including social contributions paid by employers and workers and income taxes paid by workers (OECD 2021c). It analyses the tax wedges on five different income strata, but this paper will show only the tax burden for the countries' average wage. Table 6 is different from Table 3 and 4 because it does not show the statutory tax rates, but rather the effective taxes on the average wages of selected countries. In the case of Brazil, due to the fact that the average wage level (BRL2,543) is income tax exempt and represents only around 20 per cent of the average wage of advanced OECD economies (in international dollars), the table established scenarios for representative levels at 100 per cent, 200 per cent and 500 per cent of Brazil's average wage for a better comparison (Int$ 1,080, Int$ 2,160 and Int$ 5,400, respectively).

The table shows that employers' social security contributions in Brazil are higher than in advanced OECD economies, while formal workers are at a similar level. On the other hand, the tax wedge on the average Brazilian wage is much lower than in OECD advanced economies. For wage levels in Brazil that would be similar to the OECD average (500 per cent of the national average), the tax wedge is slightly higher (54.2 in Brazil and 45.9 according to the OECD average). The tax wedge in Brazil is lower than in OECD countries only for high wages, due to the low progressivity of income tax.

Table 6. Tax wedge on the average national wage, 2019

Country	Average wage[a]	Social security contribution		Income tax		Total
		Employer	Worker	Federal	Local	
Australia	5.28	6.0	0.0	24.1	0.0	30.1
Belgium	5.31	27.1	14.0	17.3	7.1	65.5
Canada	4.04	10.4	7.5	11.1	4.7	33.7
France	4.33	36.3	11.3	16.0	0.0	63.6
Germany	5.87	19.9	20.1	18.8	0.0	58.8
Italy	3.73	31.6	9.5	17.1	2.4	60.6
Japan	4.27	15.4	14.5	3.0	4.9	37.8
Korea	4.44	10.8	9.0	5.5	0.5	25.8
Netherlands	5.77	12.1	12.5	16.2	0.0	40.8
Portugal	2.79	23.8	11.0	16.4	0.0	51.2
Spain	3.59	29.9	6.4	7.6	7.2	51.1
Sweden	4.43	31.4	7.0	-13.7	31.3	56.0
UK	4.82	10.9	9.3	14.0	0.0	34.2
US	5.02	8.2	7.7	10.5	6.3	32.7
Colombia[b]	1.00	0.0	0.0	0.0	0.0	0.0
Chile	2.00	0.0	7.0	0.0	0.0	7.0
Mexico	1.16	11.8	1.4	9.4	0.0	22.6
Brazil 100%[c]	1.08	29.0	8.4	1.3	0.0	39.2
Brazil 200%[d]	2.16	29.0	11.2	7.3	0.0	48.0
Brazil 500%[e]	5.40	29.0	5.6	19.1	0.0	54.2
OCDE-14 average	**4.55**	**19.6**	**10.0**	**11.7**	**4.6**	**45.9**
LA-4 average	**1.31**	**8.0**	**4.2**	**2.7**	**0.0**	**17.2**

Notes: a) In thousands of International dollars. Int$1=BRL2.36 (2020).
b) In Colombia, the average wage bracket does not contribute to social security and there is no employer contribution.
c) Brazil: 100% average wage, equal to BRL2,543 in 2020, according to IBGE (2021).
d) Brazil: 200% average wage, equal to BRL5,086 in 2020, according to IBGE (2021).
e) Brazil: 500% average wage, equal to BRL12,715 in 2020, according to IBGE (2021).

Source: Author's elaboration based on OECD (2021c).

5 CORPORATE TAXES

The OECD is concerned with the mobility of the headquarters of multinational corporations, especially those in the digital sector. This is because these companies are not required to have physical branches in the country defined as their home base of operations—it is enough to have 'digital' headquarters for the company to be subjected to taxation of its global profits exclusively according to the laws pertaining to the jurisdiction where the company decided to remotely install itself. This, among other factors, has resulted in a tax competition among countries to attract investments, leading to a significant reduction of corporate income tax rates over the last few years (Hanappi 2018, Millot et al. 2020). In 2021, through an Inclusive Framework Committee of 151 countries promoted by the OECD/G20, a minimum global corporate income tax of 15 per cent was agreed upon, as well as a transfer of 25 per cent of the profits of the largest global corporations to consumer countries (OECD 2020a, 2021d). This agreement establishes two pillars:

- Pillar 1: The 100 largest global corporations with revenues over USD20 billion must redistribute 25 per cent of their extraordinary profits (which exceed routine profits, temporarily defined at 10 per cent) to consumer countries. This distributed profit will be taxed at a 15 per cent rate.
- Pillar 2: To avoid excessive tax competition, a minimum **effective** tax rate of 15 per cent was established for companies with a global revenue of over EUR750 million. Countries with a lower rate must transfer the surplus to consumer countries. This would be the case if Hungary and Ireland (which signed the agreement) kept their current rates of 9 per cent and 12.5 per cent, respectively.

As mentioned, tax competition has led to a race for the reduction of corporate taxes at the global level. Table 7 shows legal corporate rates in different country groups. We can observe that Brazil has the second highest level of profit taxation in the world (although dividends are exempt from personal income taxes, which in practice brings the country up to OECD levels). This level is of 34 per cent (corporate taxes + social contribution on net profits), only behind India.

Table 7. Legal income tax rates on profits, selected country groups, 2020

Country groups	Rate
Virgin Islands, Cayman Islands, Guernsey, Isle of Man, Jersey, Turks and Caicos Islands	0%
Hungary, Bulgaria, Ireland	9-13%
Lithuania, Mauritius, Romania, Hong Kong, Singapore, Croatia, Poland, Slovenia, UK, Czech Republic	15-19%
Estonia, Iceland, Russia, Finland, Thailand, Slovakia, Switzerland, Sweden, Denmark, Turkey, Norway	20-22%
Israel, Greece, Luxembourg, Indonesia, Netherlands, Belgium, China, Austria, Spain, Chile	23-25%
US, Canada, Korea, Italy, New Zealand, South Africa	26-28%
Peru, Japan, Germany, Mexico, Argentina, Australia, Costa Rica	30%
Portugal, France	32%
Brazil	34%
India	48%

Source: Author's elaboration based on Millot et al. (2020).

6 CONSUMPTION TAXES

This section discusses the two main categories of consumption taxes: value-added taxes (VAT) and excise taxes (specific taxes on the consumption of certain goods, for fiscal and extra-fiscal purposes). Consumption taxes are the main sources of revenue in most advanced OECD economies and in Latin American countries.

6.1 VALUE-ADDED TAXES (VAT)

The OECD has always defended the extinction of systems with multiple consumption taxes (which are many times cumulative and feature different rates) towards the adoption of a single-rate, nationally unified VAT, to increase the tax base and revenue, reduce administrative costs and not distort economic decisions (OECD 2020b; Simon and Harding 2020). As all OECD countries (except for the US) have already reformulated their VATs, the entity is currently concerned with the distributive impact of reduced and super-reduced rates destined towards food and energy consumption. Studies such as OECD and KIPF (2014) and Thomas (2020) showed that VAT tends to be regressive relative to household income, but proportional relative to household expenditures (given that better-off households tend to save more than worse-off households). They also conclude that reduced VAT systems slightly benefit the poorest people and disproportionately benefit the richest people, being therefore an inefficient distributive policy. Other policies such as consumption vouchers are more focused on the poorest and should be more emphasised, although they are not used very widely in OECD countries.

Table 8. Standard and reduced VAT rates, 2020

	Standard	Reduced	Super-reduced A	Super-reduced B
Australia	10.0	0.0	-	-
Belgium	21.0	12.0	6.0	0.0
Canada[a]	13.0 - 15.0	5.0	0.0	-
France	20.0	10.0	5.5	2.1
Germany	19.0	7.0	-	-
Italy	22.0	10.0	5.0	4.0
Japan	10.0	8.0	-	-
Korea	10.0	0.0	-	-
Netherlands	21.0	9.0	-	-
Portugal	23.0	13.0	6.0	-
Spain	21.0	10.0	4.0	-
Sweden	25.0	12.0	6.0	0.0
UK	20.0	5.0	0.0	-
US	-	-	-	-
Chile	19.0	-	-	-
Colombia	19.0	5.0	0.0	-
Mexico[b]	16.0	0.0	-	-
Brazil	8.7 - 22.0	-	-	-
OCDE-14 average	**18.1**			
LA-4 average	**19.0**			

Notes: a) According to province.
b) 8 per cent rate for states in the Northern border.

Source: Author's elaboration based on OECD (2020b).

Table 8 shows the standard and reduced VAT rates in 14 advanced OECD economies and in 4 Latin American countries. The US does not have a VAT, only a sales tax at the state level. Rates vary between 10 per cent (Australia, Japan and Korea) and 25 per cent (Sweden).

In Brazil, this study considered a consumption tax between 8.7 per cent and 22 per cent. This is the aggregation from two federal social security contributions on gross receipts (PIS/COFINS) at 3.65 per cent, the average standard state level VAT on goods (*Imposto sobre Circulação de Mercadorias e Serviços*—ICMS) at 18 per cent, or a municipal gross receipts tax on services (*Imposto Sobre Serviços*—ISS) at 5 per cent. This study did not consider the impact of the federal VAT on industrialised goods (*Imposto Sobre Produtos Industrializados*—IPI), which is similar to an excise tax (with a top rate for fuels, cigarettes, liquor, etc.), despite covering other industrialised goods.

Table 8 shows that the standard average VAT rate in 14 OECD advanced economies was similar to the 4 countries in Latin America. Therefore, we suggest that Brazil should:

- Combine the ICMS, ISS, PIS/COFINS taxes into a nationwide, unified VAT at a 20 per cent rate, with unified legislation and tax administration and shared revenue between the federal government, states and municipalities.
- Transforming the IPI into an excise tax for certain goods such as liquor, fuel, electricity and cigarettes.

Given the (proportionally) higher consumption of services by the richest share of the population (currently subjected to the ISS, with a top rate of 5 per cent) and the higher consumption of industrialised products by the poorest share of the population (currently subjected to the ICMS and IPI, with higher rates), their unification into a single VAT would be progressive, in addition to reducing the administrative and compliance costs for governments and companies.

6.2 EXCISE TAXES

Excise taxes are levied on certain goods that generate externalities that are negative to society, such as healthcare costs (cigarettes and liquor) and pollution (fossil fuels), in addition to serving as an incentive towards the investment in other sectors (such as, for example, alternative energy sources). The OECD carries out a periodic survey (OECD 2020b) of the proportion of taxes (VAT + excise tax) on the final price of petrol, diesel and cigarettes, according to Table 9.

According to Table 9, the share of taxes on the final price of gasoline and diesel was much higher in the 14 advanced economies of the OECD than in the 4 selected Latin American countries, including Brazil (approximately twice as high). In the case of cigarettes, the share of taxes was similar. Given these results, we recommend that:

- To reach OECD levels, Brazil should not reduce the tax burden on fuels to reduce total consumer prices, given that the tax burden is at a lower level than in OECD countries and would impact public finances, especially state governments.
- Taxation of fuels (VAT and excise tax) should be carried out at a fixed rate per litre (*ad rem* tax rate), so that any potential increase/decrease in the price of oil does not amplify the impact on prices and on revenue. The advantage of this system is that it is immune to price fluctuations, stabilising revenue and smoothing price variations to consumers.

Table 9. Excise taxes + VAT as a percentage of the final price to consumers, 2019

	Gasoline	Diesel	Cigarettes
Australia	35,9	37,5	58,9
Belgium	58,1	56,8	77,5
Canada[a]	32,0	27,0	66,2
France	62,5	58,9	80,3
Germany	61,3	52,3	70,4
Italy	64,3	59,8	75,9
Japan	47,0	34,0	63,1
Korea	50,8	48,5	73,9
Netherlands	64,9	53,8	72,2
Portugal	61,8	54,3	73,6
Spain	53,8	48,5	78,3
Sweden	61,8	49,7	68,5
UK	63,1	60,7	80,5
US	18,6	20,1	43,0
Chile	48,9	28,1	89,1
Colombia	22,0	14,4	n.d.
Mexico[b]	13,8	13,8	67,6
Brazil	36,8[a]	21,0[a]	71,0[b]
OCDE-14 average	**52,6**	**47,3**	**70,2**
LA-4 average	**30,4**	**19,3**	**75,9**

Notes: a) Source: <bit.ly/3JbE3c6>.

b) Source: <bit.ly/3ySNEQt>.

Source: Author's elaboration, based on OECD (2020b).

7 TAXES ON PROPERTIES

Taxes on properties are composed of different categories, and generally its application is fragmented across various taxes and different government levels. Some have regressive tendencies (taxes on property transfers or financial operations), while others have a highly progressive tendencies (taxes on inheritances and net wealth). They are subdivided into four categories:

- Property taxes: Annual taxes on urban or rural property, operationalised by local governments in most countries, analogous to Brazil's municipal urban property tax (*Imposto Predial e Territorial Urbano*—IPTU) and federal rural property tax (named ITR).

- Taxes on capital transfer: *Ad valorem* taxes that are levied on the transfer of real estate or financial assets. In Brazil, they are analogous to the municipal property transfer tax on real estate (*Imposto de Transmissão de Bens Imóveis*—ITBI), the federal tax on credit operations and loans (*Imposto sobre Operações Financeiras* IOF) and the old (1998-2006) social security contribution on financial operations (*Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*—CPMF).

- Inheritance tax: levied on estates, inheritances and gifts, analogous to Brazil's state tax on inheritance and donations (*Imposto de Transmissão Causa Mortis e Doação*—ITCMD). Its tax base can be the total estate value—such as in the United States and the United Kingdom—or the share received by each heir—prevailing in most countries, including Brazil. It is also applied to donations to avoid tax planning by tax-free donations in life.
- Net wealth tax: generally levied on the total wealth net of liabilities of the individual taxpayer, according to a progressive schedule after a certain threshold level. It was used in most European countries, but now exists only in three: Spain, Norway and Switzerland. Outside of Europe, this tax still exists in Argentina, Colombia and Uruguay. It would be analogous to Brazil's tax on large fortunes (IGF), foreseen in the 1988 Constitution but not yet regulated.

Table 10 shows the use of five different taxes on properties in 16 OECD advanced economies and five Latin American countries. At least regarding the institution of taxes, Brazil follows the position of OECD countries, given that it implements property taxes (IPTU and ITR), taxes on inheritance (ITCMD) and taxes on real estate transfer. Brazil also has no specific taxation regarding financial transfers (after the CPMF was terminated) or on large fortunes (the IGF has not been implemented yet), as in most OECD countries.

Entities such as the IMF (Norregaard 2013) and the OECD (2016) recommend that property taxes should be administered by local governments, but that there should be no disparities in the taxation of different taxpayers and cities due to different criteria for real estate assessment and the tax rates adopted by each local government. They also defend that local governments should have legislative and financial autonomy to levy their rural and urban property taxes.

Regarding inheritance taxes, the OECD posits that small inheritances have a redistributive role, but large inheritances lead to income concentration (OECD 2021b). therefore, it recommends the adoption of progressive rates for inheritance taxes, with a significant threshold level so that small inheritances can be exempted. The OECD does not encourage taxes on real estate transfers and financial assets, as they incentivise the non-declaration or underdeclaration of financial and real estate transactions. Finally, regarding taxes on net wealth, the OECD recommends that it only be levied if other forms of taxing high capital incomes are not possible, or that such taxes have a complementary role to income taxes (given that wealth is more concentrated than income). In this case, a wealth tax should only be levied on truly rich taxpayers and should not benefit any specific class of assets (pension funds, real estate, etc.) so as not to cause arbitrage (OECD 2018b).

Table 11 shows the top rate of taxes on inheritances (between parents and their children), real estate transfers, financial transfers, and net wealth. It is important to emphasise that taxes on financial transfers are limited to the capital market in OECD advanced economies that adopt them (Belgium, France, Italy, Korea, Switzerland and the UK). At the same time, they cover all transfers and withdrawals of the banking system in Argentina and Colombia

According to the table, the maximum tax rate for the inheritance tax of 16 OECD advanced economies between direct descendants was 21.4 per cent, on average, as opposed to only 6.6 per cent in the five Latin American countries (Brazil's top tax rate of 8 per cent was defined by the Federal Senate and is applied by many of the states under progressive systems). In most OECD advanced economies, the tax on real estate transfers has very high rates (an average of 7.4 per cent). This is due to the tax's long tradition and its extrafiscal goals (curbing real estate speculation, housing policy, reducing the acquisition of property by foreigners, etc.). In Latin American countries (including Brazil), the rates are between 2 and 3 per cent and do not cause significant distortions in the real estate market. In the case of taxes on financial transfers, they are restricted to the capital market in OECD advanced economies, with rates varying from 0.2 per cent to 0.5 per cent. However, in Argentina and Colombia, the tax has potential to cause distortions in the banking system. Finally, in the five countries that have adopted net wealth tax, the top tax rate fluctuated between 0.75 per cent (Argentina) and 3.25 per cent (in Cataluña, Spain).

Table 10. Property taxes by country, 2019

	Buildings and territories	**Inheritances and donations**	**Real estate transfers**	**Financial transfers**	**Net wealth**
Australia	X	-	X	-	-
Belgium	X	X	X	X	-
Canada	X	-	X	-	-
France	X	X	X	X	-
Germany	X	X	X	-	-
Italy	X	X	X	X	-
Japan	X	X	X	-	-
Korea	X	X	X	X	-
Netherlands	X	X	X	-	-
Norway	X	-	-	-	X
Portugal	X	-	X	-	-
Spain	X	X	X	X	X
Sweden	X	-	X	-	-
Switzerland	-	-	-	X	X
UK	X	X	X	X	-
US	X	X	-	-	-
Argentina	X	-	-	X	X
Chile	X	X	-	-	-
Colombia	X	-	X	X	X
Mexico	X	-	X	-	-
Brazil	X	X	X	-	-
OCDE-16 frequency	**93%**	**63%**	**81%**	**44%**	**7%**
LA-5 frequency	**100%**	**40%**	**60%**	**40%**	**25%**

Source: Author's elaboration based on OECD (2016).

Based on the data featured in Table 11, we can make the following recommendations for Brazil to achieve a property tax structure similar to OECD advanced economies:

- Raise the rates on inheritance taxes and nationalise legislation to avoid arbitrage and tax planning through different subnational rules. In addition, use as tax base the sum of inheritances and donations given over the life cycle to discourage partitioning of transfers to pay fewer taxes. Further, regulate the taxation of inheritances received through foreign trusts and triggering events that happened abroad.

- Keep the current municipal real estate transfer tax (ITBI) as it is because it is consistent with international practice, as well as not levying any taxes on financial transfers; however, reducing the importance of the tax on credit and loans (IOF).
- Regulate the IGF if the current difficulty in progressively taxing capital incomes through the income tax is maintained.

Table 11. Top tax rates of taxes on properties, 2019

	Inheritances (for children)	Real estate transfers	Financial transfers	Net wealth
Australia	-	7%	-	-
Belgium	30%	13%	0.35%	-
Canada	-	5%	-	-
France	45%	6%	0.3%	-
Germany	30%	9%	-	-
Italy	4%	18%	0.2%	-
Japan	55%	6%	-	-
Korea	50%	13%	0.45%	-
Netherlands	20%	6%	-	-
Norway	-	-	-	0.85%
Portugal	-	8%	-	-
Spain	32%	11%	0.2%	3.25%
Sweden	-	4%	-	-
Switzerland	-	-	0.3%	1%
UK	36%	12%	0.5%	-
US	40%[a]	-	-	-
Argentina	-	-	1.2%[b]	0.75%
Chile	25%	-	-	-
Colombia	-	2%	0.4%[c]	1%
Mexico	-	4.5%	-	-
Brazil	8%	3%	-	-
OCDE-16 frequency	**21.4%**	**7.4%**	**0.14%**	**0.3%**
LA-5 frequency	**6.6%**	**1.9%**	**0.32%**	**0.4%**

Notes: a) In the US, only inheritances are taxed (above USD11.4 million).
b) In Argentina, the rate is of 0.6 per cent for deposits and withdrawals.
c) In Colombia, the tax is levied on both withdrawals and deposits.

Source: Author's elaboration based on OECD (2018b; 2021b) and Morgan and Carvalho Junior (2021).

Table 12 shows revenue as a share of gross domestic product (GDP) of the four categories of taxes on properties (immovable properties, inheritances, capital transfers and net wealth) in selected countries.

Table 12. Property tax revenue as a share of GDP (as a percentage, by category), 2019

	Immovable properties	Inheritances	Capital transfers	Net wealth	Total
Australia	1.7	-	1.0	-	2.7
Belgium	1.3	0.62	1.1	-	3.4
Canada	3.0	-	0.3	-	3.9
France	2.4	0.62	0.8	-	3.9
Germany	0.4	0.20	0.5	-	1.1
Italy	1.2	0.04	1.0	-	2.4
Japan	1.9	0.41	0.3	-	2.6
Korea	0.9	0.43	0.8	-	3.1
Netherlands	0.9	0.22	0.4	-	1.5
Norway	0.4	-	0.3	0.6	1.3
Portugal	0.8	-	0.7	-	1.4
Spain	1.1	0.20	0.8	0.2	2.5
Sweden	0.7	-	0.3	-	0.9
Switzerland	-	-	0.2	1.4	2.1
UK	3.1	0.23	0.7	-	4.1
US	2.6	0.10	-	-	2.9
Argentina	0.4	-		0.2	2.6
Chile	0.8	0.03	0.3	-	1.1
Colombia	0.8	-	0.8	0.1	1.8
Mexico	0.2	-	0.1	-	0.3
Brazil	0.7	0.12	0.7[a]	-	1.5
OCDE-16 average	**1.4**	**0.19**	**0.6**	**0.14**	**2.5**
LA-5 average	**0.6**	**0.03**	**0.4**	**0.06**	**1.5**

Note: a) In Brazil,76% of the category's revenue corresponded to the IOF, and 24% to the ITBI.

Source: Author's elaboration, based on OECD.

Regarding revenue indicators of the tax on properties, to reach a level similar to the OECD, it would be necessary to:

- Double urban and rural property tax revenues, by improving the tax administration (updated registries and property valuations). In addition, modify the rural property tax legislation (which does not have a revenue bias), or transfer the competence to legislate the taxation of rural properties to municipalities.
- Increase by at least 50 per cent the revenue of inheritance taxes through the unification of legislation, increased tax rates and taxing inheritances overseas

- Maintain or reduce the tax burden on capital transfers, especially the IOF, due to possible economic distortion effects. Brazilian revenue is already above the average of OECD advanced economies and Latin America.
- Abolish the vehicle tax (IPVA), albeit granting some form of revenue compensation for states and municipalities. The IPVA is a highly regressive tax, as it is also levied on popular vehicles that are used as a work tool by the poorest population (Carvalho Junior 2021). The price of automobiles does not correctly reflect the taxpayer's income or wealth (according to the 'ability to pay' principle of taxation). OECD countries use the taxation of vehicles with an extrafiscal purpose, charging higher values for more polluting vehicles (Van Dender 2019).

8 TAX REVENUE, PROPOSALS AND FINAL CONSIDERATIONS

This section shows the tax revenues of OECD advanced economies and compares it against Latin American countries, in addition to providing proposals for general tax policy and final considerations.

Taxes were subdivided into four categories, according to the OECD nomenclature: income tax (on individuals and companies); social contributions (of workers and employers); taxes on properties (immovable properties, inheritances, capital transfers and net wealth); and taxes on goods and services (VAT, excise taxes, customs duties, and others). Table 13 displays revenue by category in 17 advanced economies of the OECD and in 5 Latin American countries.

Based on the data displayed in Table 13, it is possible to state that:

- The average tax burden of the 17 OECD advanced economies (35 per cent) was higher than the average in the 5 Latin American countries (24 per cent), but similar to the Brazilian tax burden (33 per cent), which denotes a concern with the composition of Brazil's tax burden rather than with its value per se.
- Personal income taxes, which comprise the taxation of wages, dividends, rents, and capital gains of individuals, was the most significant difference between OECD advanced economies (9 per cent) and Latin American countries (2-3 per cent, including Brazil). This demonstrates that personal income taxes must be bolstered, making it more progressive to increase their revenues among those with high capital incomes.
- Corporate income tax levels were similar between advanced economies and Latin American countries (around 3.5 per cent). This shows a tendency towards the equalisation (and reduction) of the taxation on the profits of multinational corporations, due to competition between countries. As discussed, an Inclusive Framework Committee featuring 134 countries, organised by the OECD/G20 has approved a proposal for a minimum income tax on multinational profits to minimise this issue.
- The average of all social contributions (from formal workers, self-employed workers and employers) in OECD advanced economies was far higher than the Latin

American average. Although Brazil's revenue is higher than its neighbours', it is still below OECD levels. To follow the OECD trend, in the case of specific pension funds for civil servants, a regressive employer contribution scheme can be proposed (the higher the salary, the lower the employer's mandatory contribution). Legislation should also be aware of fiscal evasion mechanisms, such as hiring individual microentrepreneurs (MEIs) as the workforce. In addition, the special tax regime for small companies (SIMPLES) should be reconsidered, whose percentages relative to employer contributions are significantly smaller than the standard payroll tax rate of 20 per cent.

- Tax on property revenues in OECD advanced economies (2.4 per cent of GDP) is 60 per cent higher than in Brazil (1.5 per cent). However, the latter includes IOF and IPVA revenues, which are highly regressive. Brazil must reformulate its taxes on properties, merging the ITR and IPTU into a single urban/rural property tax, locally legislated and administered. In addition, nationalise inheritance tax legislation and raise its tax rates, as well as debate the implementation of the net wealth tax.
- It is necessary to reorganise Brazil's tax burden, emphasising taxes on income and properties and reducing taxes on goods and services. Consumption tax revenues were approximately 50 per cent higher in Brazil (14.8 per cent of GDP) than the average of OECD advanced economies (9.7 per cent of GDP). The five main Brazilian taxes levied on production—the federal VAT on industrialised goods (IPI), the social security contributions on gross receipts (PIS/COFINS), the state VAT on goods and services (ICMS), and the municipal gross receipts tax on services (ISS)—should be unified into a single national VAT with revenues shared between the federal government, and the subnational governments (the states and municipalities where consumption occurs). The national VAT should have a standard rate (around 18-20 per cent) and only two reduced rates for certain goods, such as essential food items.
- In Brazil, CIDE is the only *ad rem* excise tax (levied on fuels). However, the two regular VATs on goods (ICMS and IPI) have higher tax rates for specific goods (tobacco, liquor, fuels, automobiles, etc.), functioning, in practice, as excise taxes. In the case of the ICMS on fuels, the current rate is *ad valorem*, or in other words, in case of an increase/decrease in the price of oil, the tax itself goes up or down in the same proportion, exacerbating the final price to consumers. Ideally, to keep revenue stable and avoid significant impacts on consumer prices, there should be an *ad rem* rate per litre of fuel, similar to CIDE. In addition, the complex IPI legislation should be completely extinguished and replaced by a national excise tax.

This study has shown tax policy indicators and instruments adopted by OECD countries and the entity's proposals which might serve as a basis for an inclusive tax reform in Brazil that keeps the tax burden at the current level but changes its composition. Such an inclusive tax reform should prioritise the taxation of high-income individuals, especially capital incomes, bolster property taxes, inheritance taxes and taxes on great fortunes and, at the same time, reduce income tax deductions (which benefit the richest population), the excessive taxes on consumption, and the tax on vehicles.

Table 13. Tax revenue by GDP, by tax category, 2019

	Tax burden	Income tax		Social contribution		Property	Goods and services			
		Individuals	Corporations	Worker	Employer		General	Specific	Use of vehicles	Customs duties
Australia	27.7	11.6	4.8	n.d.	n.d.	2.7	3.3	2.9	0.5	1.0
Belgium	42.7	11.3	3.7	5.3	7.9	3.4	6.7	3.6	0.4	0.4
Canada	33.8	12.2	4.2	2.1	3.4	3.9	4.8	2.5	0.2	0.2
France	44.9	9.3	2.2	4.8	8.6	3.9	7.9	3.9	0.0	0.1
Germany	38.6	10.6	2.0	7.8	5.6	1.1	7.0	2.7	0.3	0.2
Italy	42.4	11.0	2.0	4.4	6.0	2.4	6.2	4.3	0.4	0.1
Japan	31.4	5.9	3.8	6.9	3.3	2.6	4.2	1.6	0.0	0.2
Korea	27.3	4.8	4.3	4.0	6.8	3.1	4.3	2.4	0.0	0.4
Netherlands	39.3	8.5	3.7	8.1	6.2	1.5	7.2	3.7	0.7	0.3
Norway	39.9	10.4	5.9	4.4	5.8	1.3	8.6	2.5	0.2	0.1
Poland	35.1	5.3	2.2	8.1	9.4	1.3	7.9	4.4	0.0	0.2
Portugal	34.5	6.4	3.1	3.8	5.8	1.4	8.8	4.3	0.3	0.1
Spain	34.7	7.9	2.1	3.2	3.0	2.5	6.5	2.7	0.2	0.2
Sweden	42.8	12.3	3.0	2.6	9.5	0.9	9.1	2.6	0.4	0.1
Switzerland	27.4	8.4	3.1	3.4	3.8	2.1	3.1	1.6	0.0	0.2
UK	32.7	9.0	2.3	2.7	5.2	4.1	7.0	3.4	0.3	0.2
US	25.0	10.3	1.3	3.1	3.3	2.9	2.0	1.8	0.2	0.4
Argentina	28.7	2.0	2.8	2.4	5.4	2.6	10.8	4.0	0.3	0.8
Chile	20.9	1.5	4.9	1.5	0.0	1.1	8.3	1.9	0.0	0.2
Colombia	19.7	1.3	4.7	0.5	1.4	1.8	6.7	1.6	0.2	0.4
Mexico	16.4	3.4	3.3	0.5	1.8	0.3	3.8	2.3	0.1	0.3
Brazil	33.1	3.0	2.9	2.1	6.4	1.5	12.1	1.4	0.7[a]	0.6
OCDE-17 average	35.3	9.1	3.2	4.7	5.9	2.4	6.2	3.0	0.2	0.3
LA-5 average	**23.8**	**2.2**	**3.7**	**1.4**	**3.0**	**1.5**	**8.3**	**2.2**	**0.3**	**0.5**
OCDE code		**1100**	**1200**	**2100 + 2300**	**2200 + 3000**	**4000**	**5110**	**5120**	**5211 + 5212**	**5123**

Note: a) In Brazil, the IPVA—an ad valorem tax on vehicle market value—is classified as 'other tax on properties'. However, this study uses the OECD classification and places IPVA as a Tax on Goods and Services.

Source: Author's elaboration, based on OECD.

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