

Taxation and distribution of income in Brazil: new evidence from personal income tax data

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Brazil is one of the countries that, due to a lack of sufficient fiscal transparency, were excluded from the study by economists Anthony Atkinson and Thomas Piketty (2010) which provides a global perspective of the distribution of top incomes using tax data. Fortunately, in 2015 the Department of Federal Revenue of Brazil (RFB) made available to the public more detailed information regarding income tax declarations, making it possible, for example, to identify the Brazilians in the top 0.05 per cent of the income distribution—approximately 71,000 people who earned, on average, BRL4.1 million (EUR1.5 million) in 2013.

As a result, the country will soon be included in comparative international studies on the distribution of top incomes. Previously analysed data pertaining to 2007–2013 have made it possible to draw an initial—perhaps unparalleled—picture regarding tax benefits and income concentration:

- **The concentration of income in Brazil surpasses any other country with available data.** The income of the richest 10 per cent of adults equates to around half of the income of all Brazilian families (52 per cent), the top 1 per cent around a quarter (23.2 per cent), and the top 0.1 per cent around a tenth (10.6 per cent), rates which far surpass the acceptable limits for democratic societies, according to Piketty (2014). However, what is really striking is the fact that 8.5 per cent of all income is concentrated in the top 0.05 per cent—a higher rate than in Colombia (5.4 per cent), which is an extremely unequal country, almost three times higher than in Uruguay (3.3 per cent) and the United Kingdom (3.4 per cent), and five times higher than in Norway (1.7 per cent).
- **The ‘super-rich’ Brazilians pay less personal income tax, proportionately to their income, than average upper middle-class citizens, especially salaried workers, which violates the principle of tax progressivity, according to which tax rates should increase as income rises.** Around two thirds of the income of the super-rich (top 0.05 per cent) is exempt from any tax, a higher proportion than any other income level. The result is that the average tax rates paid by the super-rich reaches only 7 per cent, while the average for the groups at intermediate income levels reaches 12 per cent.
- **This distortion is mainly due to a peculiarity of Brazilian legislation: tax exemption for dividends paid by corporations to its shareholders.** Of the 71,000 super-rich Brazilians, around 50,000 earned dividends in 2013 for which they did not pay any taxes. In addition, they benefited from low capital gains tax, which in Brazil varies between 15 and 20 per cent, while wages are subject to progressive taxation, with a maximum rate of 27.5 per cent applying to very moderate income levels (above BRL4,700 or EUR1,300 of monthly income in 2015).
- **The redistributive effect of income taxation in Brazil, measured by the decrease in the Gini index, is lower than in other Latin American countries such as Mexico, Uruguay and Chile, and considerably inferior to European countries.**

In closing, data show that Brazil is an extremely unequal country and also a fiscal paradise for the super-rich, combining low taxation on capital gains, one of the highest interest rates in the world and the uncommon practice of tax-free dividends.

The justification for tax-free dividends is to prevent the profits—already taxed at the corporate level—from being taxed a second time after being converted into personal income. Among the 34 countries of the Organisation for Economic Co-operation and Development (OECD), which gathers developed economies as well as some developing economies that accept the principles of representative democracy and free market economy, only three did not tax dividends at all up until 2010. Mexico resumed taxation of dividends in 2014, and Slovakia instituted a social contribution to finance health care in 2011. Only Estonia remained, a small country that adopted one of the most radical pro-market reforms in history after the end of Soviet rule in the 1990s and which, like Brazil, grants full tax exemption on the main source of income of its richest citizens.

On average, total taxation on profits (personal and corporate) reaches 48 per cent in OECD countries (64 per cent in France, 48 per cent in Germany and 57 per cent in the USA). In Brazil, with the exemption of dividends and other tax benefits, this rate falls below 30 per cent.

However, Brazil’s fiscal eccentricity goes further still. The country has a high overall tax burden compared to other developing economies, around 34 per cent of its Gross Domestic Product (GDP), which corresponds to the average of the OECD countries. In contrast to these countries—where the consumption taxes are residual (around a third of the total) and where there is a higher proportion of income and property taxes—around half of the Brazilian tax burden comes from consumption taxes, which disproportionately affect the income of the poorest members of Brazilian society.

In other words, the privileges attributed to capital ownership that hinder the redistributive effect of income taxation in Brazil represent only one element of an extremely regressive overall tax structure. Historically, the configuration of such a structure is part of a global movement of tax reorientation that favours capital and the richest people, and which has been replicated on different levels in practically every developed country from 1980 to 2010. Yet, it is worth pointing out that not even the conservative administrations of Ronald Reagan and George W. Bush in the United States, and of Margaret Thatcher in the United Kingdom, were able to do what the Brazilian government did in 1995—completely exempt dividends from taxation.

Furthermore, while the conservative advance is being partially reversed in most OECD countries—where taxation of the richest people is increasing, including on dividends, as part of fiscal adjustment efforts which strive to ease the burden on the poor—in Brazil, no significant reform aimed at increasing the progressivity of the tax system has been undertaken over the last 30 years of democracy, 12 of which have been under the rule of the Workers’ Party (PT). Rethinking this issue and putting forward an agenda for progressive taxation, significantly delayed as it is, remains one of the great challenges currently facing Brazil.

References:

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