

The tax system of OECD countries: Parameters for a tax reform in Brazil

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This One Pager presents the main outcomes of a study (Carvalho Junior 2022) describing the tax systems of member countries of the Organisation for Economic Co-operation and Development (OECD) and analysing the entity's updated tax policy recommendations, considering Brazil's ongoing tax reform debate. Income and wealth concentration at the global level led to increased gains by the richest individuals and large multinational corporations resulting from traditional tax systems geared towards high consumption taxes and tax incentives for investment.

This scenario has rekindled proposals that had previously been considered outdated and unsuccessful by most international organisations. For example, views have changed significantly on net wealth taxes since they were abolished in several European countries in the 1990s and 2000s. Particularly since the onset of the COVID-19 pandemic, the OECD has been considering a more substantial taxation of net wealth and capital income.

The recent international debate around inclusive tax reforms has not yet been reflected in Brazil's tax reform agenda, which is still mired in outdated proposals. Although the study is not meant as a guide for OECD tax reforms, it provides tools to foster a more informed debate around an inclusive tax reform in Brazil that also promotes economic growth. It shows current international indicators and trends and how much further tax reforms could go taking global benchmarks into account.

The average tax burden per GDP in OECD advanced economies (35 per cent) is higher than in most Latin American countries, but similar to Brazil (33 per cent). However, the study highlights a significant difference in the composition of the tax burden, with a high prevalence of indirect taxes in Brazil.

The top rate applied to personal income taxes in Brazil—27.5 per cent—is low compared to advanced economies. In addition, this rate starts being applied at a very low income level (only 2,000 international dollars), only one-tenth of the average income level in advanced economies. Therefore, the study suggests increasing the tax threshold level by around 50 per cent, from the current BRL1,903.98 to approximately BRL3,000; and increasing the top rate from 27.5 per cent to 40–45 per cent for income levels above BRL44,000 (almost ten times the current level).

To reach the average level of advanced economies, Brazil must end the tax exemption on dividends while reducing corporate income taxes.

Regarding taxation on capital gains, the study proposes a model debated by the OECD, the International Monetary Fund (IMF) and other entities, known as 'Mark-to-Market Capital Gains'. It consists of the annual taxation of unrealised capital gains of financial assets without the need for their sale.

Regarding workers' social security contributions, the study shows that the ceiling for social contributions in Brazil (under the general social security regime—RGPS) is equivalent to 30 per cent of the average in advanced economies. To reach this level, Brazil would have to increase the ceiling from BRL6,433.57 to around BRL20,000. However, the study found that the Brazilian model for employers' social contributions is similar to the average in advanced economies.

In addition, the study proposes merging four existing indirect taxes (ICMS, ISS, PIS and COFINS) levied by three tiers of government into a unified, nationwide value-added tax (VAT). The VAT would be based on the destination principle, covering all types of goods and services, at a rate of 20 per cent, with revenues shared across all levels of government. The current taxes on industrialised goods (IPI) and fuel (CIDE) could be merged into a single excise tax on alcohol, fuel, electricity, and tobacco.

There are six existing taxes on properties in Brazil. The country should improve its tax administration to double the revenues of the recurrent property taxes and achieve a level similar to advanced economies. The municipal urban property tax (IPTU) and the federal rural property tax (ITR) should be merged into a broad-based single local property tax.

The study also suggests doubling the revenues of the existing state inheritance tax by centralising legislation, increasing tax rates (capped at 8 per cent) and taxing overseas estates or donors. On the other hand, taxes on property transfers (ITBI and IOF) should have reduced importance due to their potential to cause economic distortions. Finally, the study proposes abolishing the vehicle tax (IPVA) due to its highly regressive nature.

Reference:

Carvalho Junior, P. H. B. 2022. "The tax system of OECD countries and main recommendations from the Organisation: Parameters for a tax reform in Brazil". *Working Paper*, No. 195. Brasília: International Policy Centre for Inclusive Growth.