



TESOURO NACIONAL

2023

1º semestre

ICMS Brazilian States VAT Tax

Problems in state funding and possible reforms



Summary

- 1 What is the relevance of ICMS in Brazil's public finances?
- 2 What are the ICMS problems?
- 3 What are the possible reforms?
- 4 Conclusions

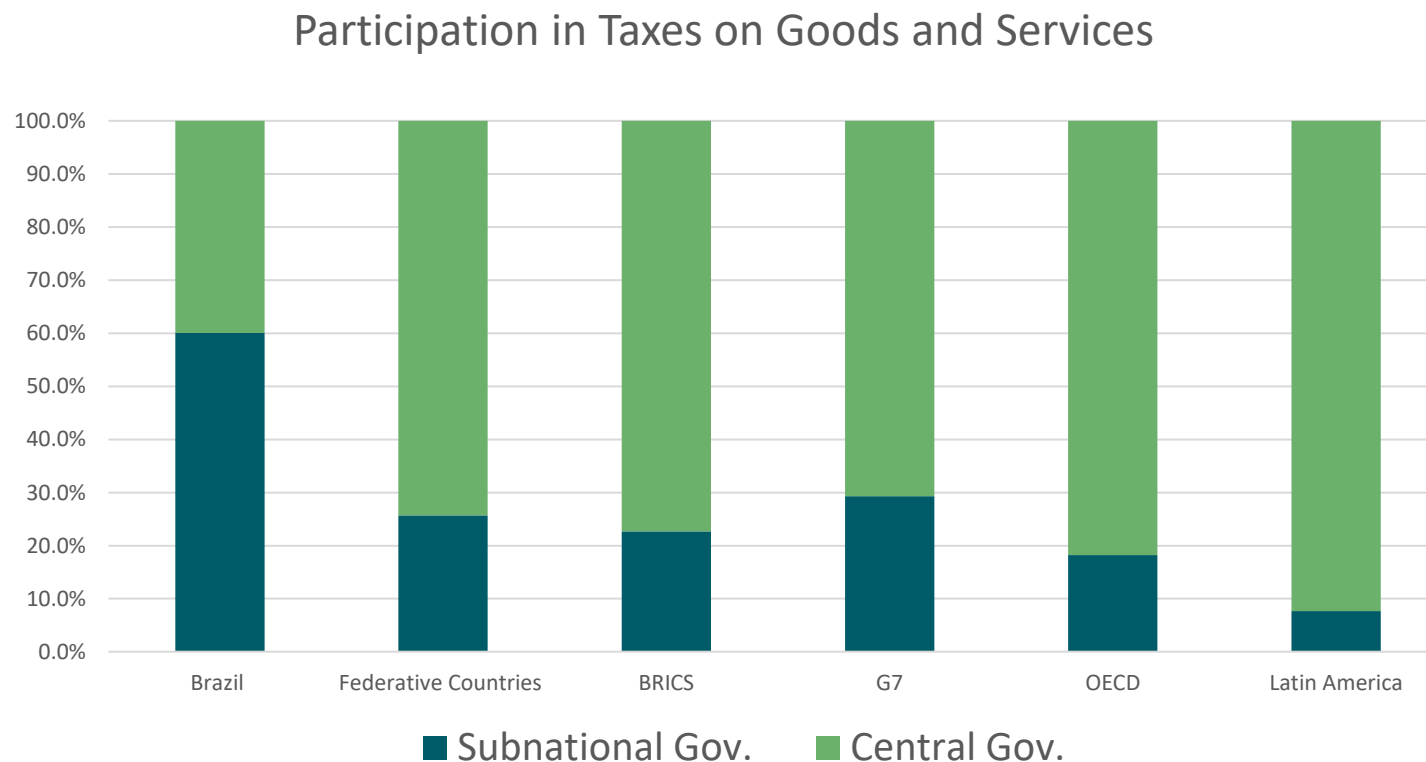
Summary

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What is the relevance of ICMS in Brazil's public finances?

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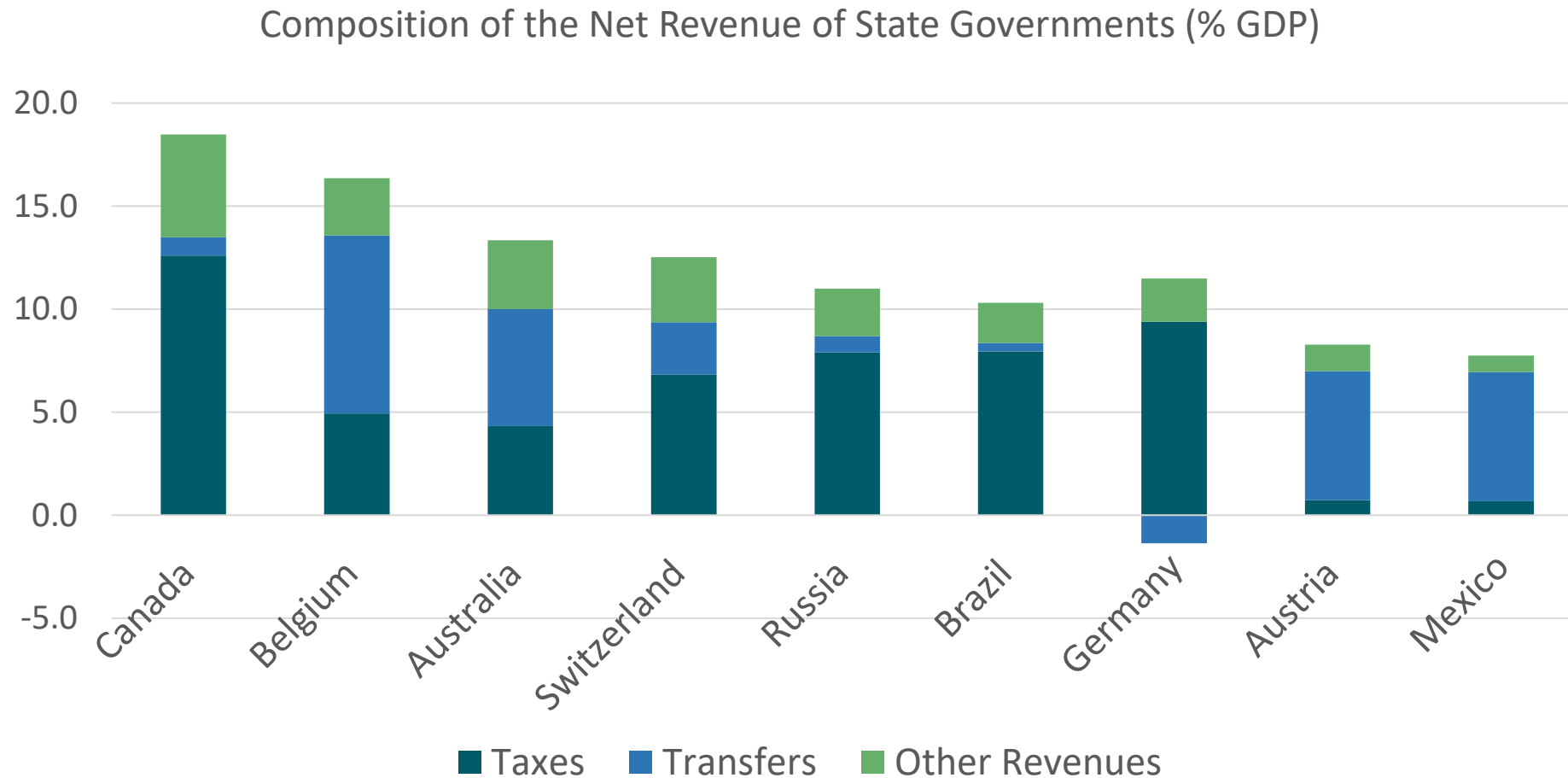
Brazil is among the few countries where taxes on goods and services are concentrated at the subnational level



Source: FMI (Government Finance Statistics Database), 2019

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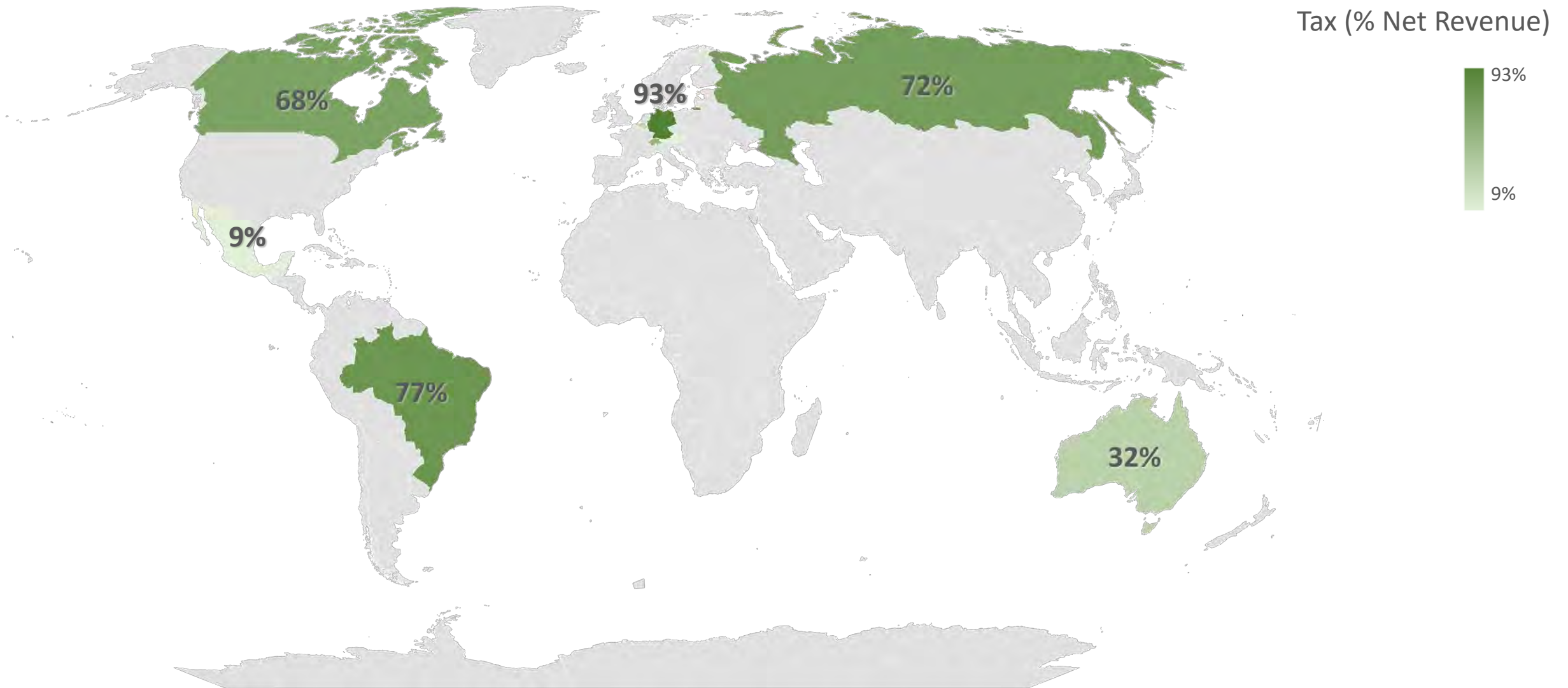
What is the relevance of ICMS in Brazil's public finances?



Source: FMI (Government Finance Statistics Database), 2019

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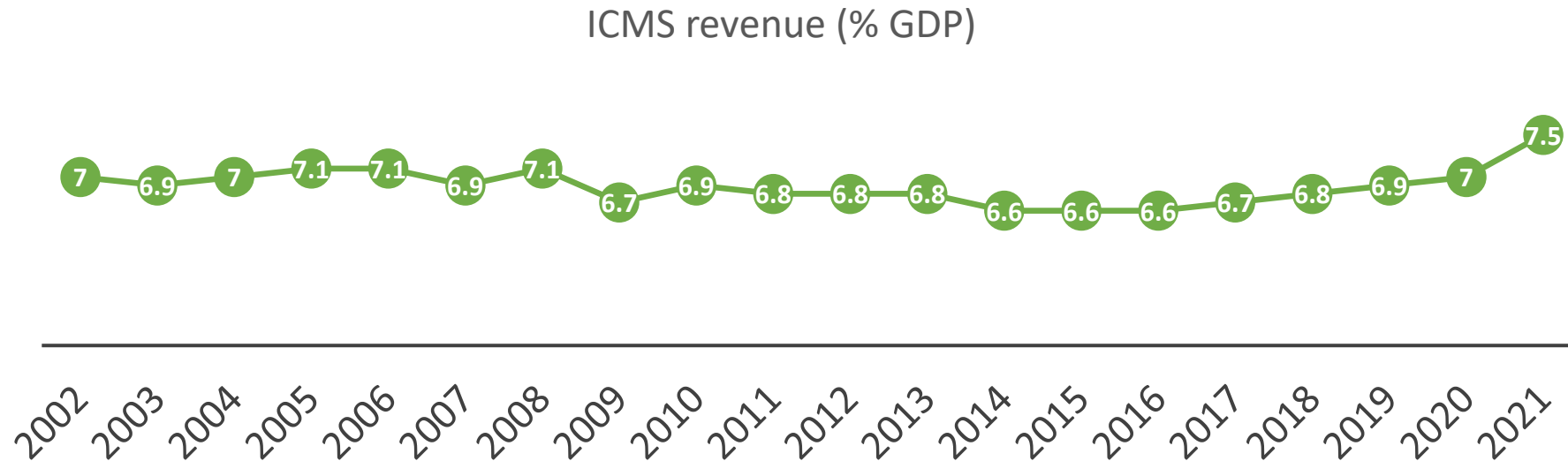


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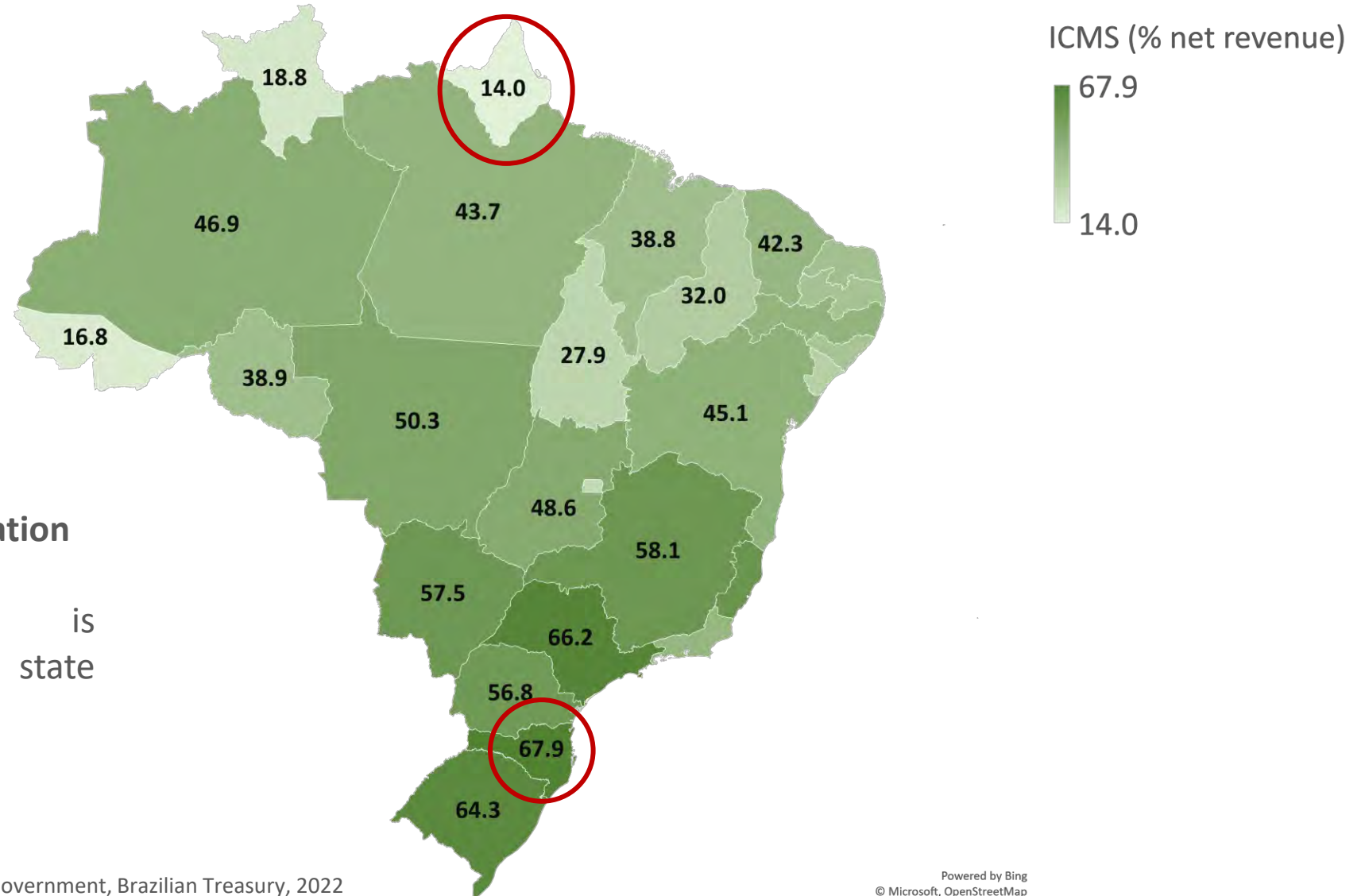
ICMS is the value-added tax (VAT) collected by the Brazilian states.



Source: Tax Burden of the General Government, Brazilian Treasury, 2022

1

What is the relevance of ICMS in Brazil's public finances?



Heterogeneous federation

Potential revenue is associated with the state productive structure.

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2

What are the ICMS problems?

2

What are the ICMS problems?

Features of a good VAT

Broad base of incidence

Goods, services and intangibles, including the new economy

Homogeneous rules

Smallest possible space for exceptions

Destination principle

Exempting exports and taxing imports

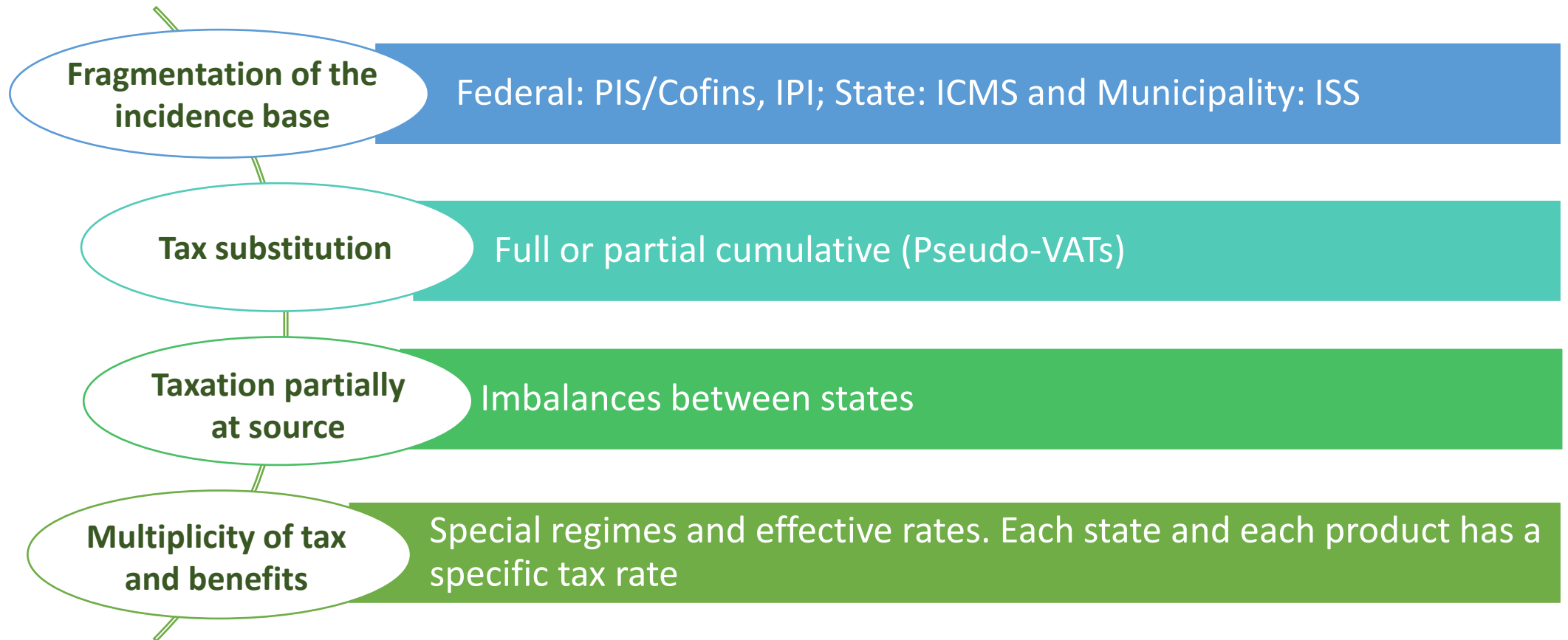
Full non-cumulative

Offsetting what is due in each operation with the amount charged in the previous ones

2

What are the ICMS problems?

Features of ICMS



2

What are the ICMS problems?

ICMS Deviated from original VAT concept
accumulating inefficiencies

high litigation:
>300 thousand
lawsuits

allocative/
competitive
distortions

tax war
between
states

**Widespread loss
of revenue**

2

What are the ICMS problems?

Complementary Laws 194 established a maximum rate for fuels, electricity, transport and communication services

Consequences

Decline in tax revenue of states

Discussion in the Supreme Court requesting for compensatory actions

Intensification of the debate on ICMS reform, seeking structural changes

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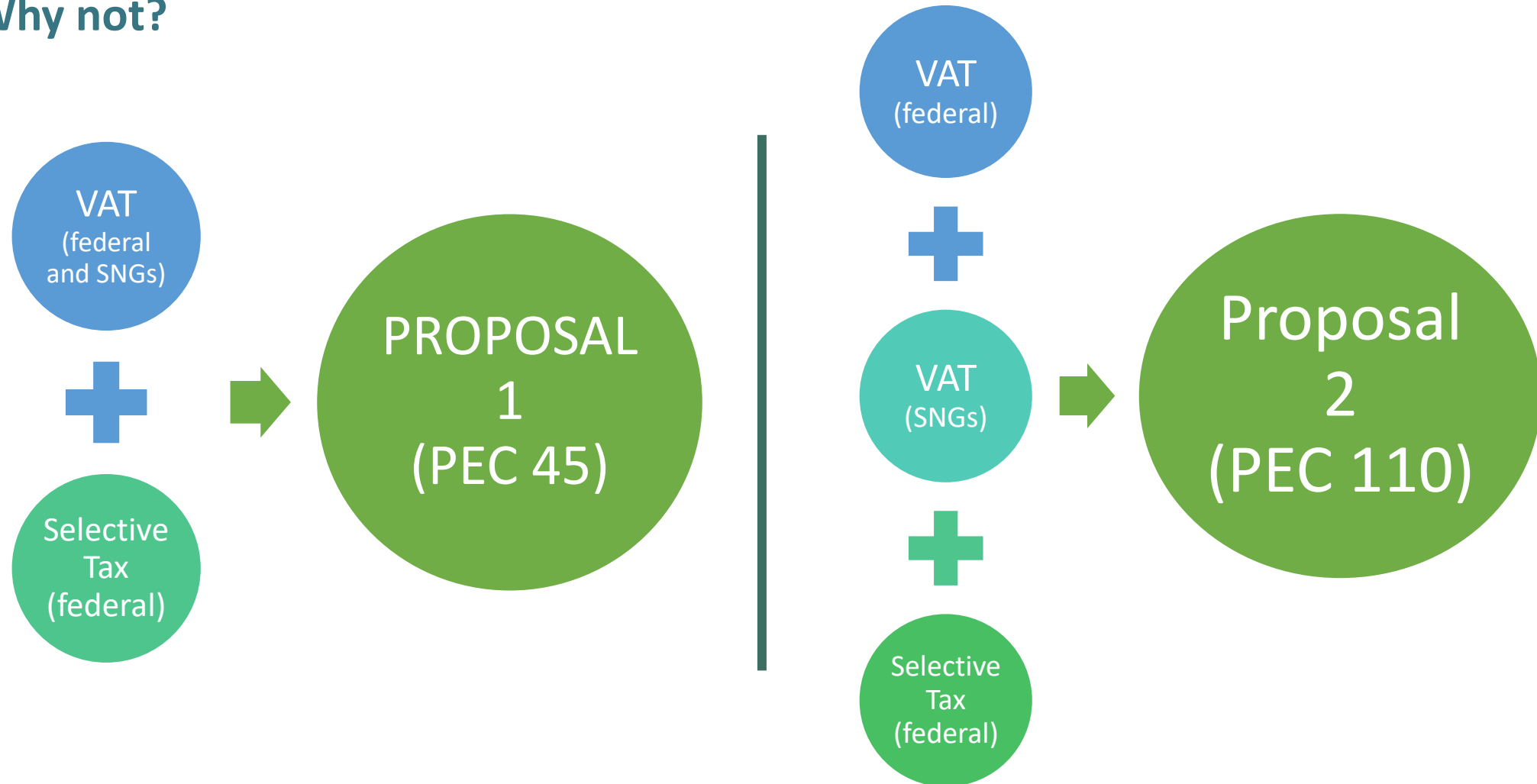
3

What are the possible reforms?

3 What are the possible reforms?

Most of the problems would be mitigated if Brazil moved towards the best international practices.

Why not?



3

What are the possible reforms?

Expected impacts of the reform

Economic growth: Potential GDP ranging from 4% (partial effects) to 20%

Improve social income distribution: uniform rate + personalized return (cashback)

Tax equalization between federal entities: improvement in the horizontal distribution of revenues

Increase the transparency of information related to the tax

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4 Conclusions

4

Conclusions

1

ICMS corresponds to an important source of financing for the states

2

ICMS currently does not have the expected benefits of a VAT

3

There has been a tendency over time to increase inefficiencies

4

Reform needs to be approved to bring the tax closer to a good VAT



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Thank you
Obrigado
Merci
Gracias

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This presentation does not reflect institutional positions or opinions.

