

Fiscal justice in Brazil: taxation as an instrument for equality

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The debate around taxation in Brazil has long revolved around issues related to tax burden, efficiency, competitiveness and simplicity. Despite recent fiscal problems and a better understanding of the concentration of income and national wealth, the relevance of a progressive tax system as a tool to fight inequality still enjoys little space in mainstream media discussions. The traditional focus of the Brazilian debate on tax burden is due to the fact that the State absorbs a considerable proportion of gross domestic product (GDP)—approximately 32 per cent in 2016—as taxes. This sets Brazil apart from other countries with similar income levels: its tax burden is one of the highest in Latin America, even greater than in some developed countries, such as Spain and Canada.

Another issue related to the country's disproportionate tax burden compared to its income and development level is fiscal inequality. While the Brazilian tax system is regressive regarding revenue composition, it is neutral from a distributive viewpoint, considering other methodological aspects in the specialised literature. These factors reinforce the unambiguous conclusion that the tax system has limited potential to combat inequality, which is one of the country's biggest socio-economic problems.

The dynamics of the concentration of capital in the 20th century, as analysed by Piketty (2014), have rekindled the global debate surrounding the taxation of the richest people and the pressing need for the State to act to limit the concentration of income and wealth. In Brazil the themes of tax inequality and possible ways to reduce the concentration of wealth and income have gained even more traction. As a possible way to achieve social equity, a tax reform to lighten the burden on the poorest population and increase revenue by further taxing the richest seems necessary to achieve what we understand as 'fiscal justice'. Furthermore, the current deepening of the country's fiscal and economic crisis reinforces this demand, in light of its potential results.

Therefore, the objective of our paper (Passos, Guedes, and Silveira 2018) is to clarify the debate regarding the relevance of fiscal justice in promoting equity and the ways to achieve it. The study has undertaken extensive analysis of the Brazilian tax system and the existing literature about its efficiency and distributive capacity.

The questions raised in the paper point to many inequities in the Brazilian tax system, ranging from the greater weight of indirect taxation to the flaws in direct taxation—such as the tenuous attention paid to individuals' contributive capacity demonstrated by the low incidence on higher incomes, capital gains and accumulated wealth.

To increase efficiency and favour economic growth, we recommend changes in payroll taxes and the taxation of goods and services through the creation of a value-added tax (VAT). Five ways to promote fiscal justice and equity are: a reduction in indirect taxation; changes to the rates and thresholds for personal income tax; the reintroduction of taxes on profits and dividends; regulation of the tax on large fortunes; and increased social spending.

Services and benefits provided by social spending comprise a significant distributive initiative, both directly and indirectly. More immediately, social spending enables an increase in final household income, improving quality of life and overall welfare. By promoting the strengthening of capacities, it indirectly facilitates access to the labour market in a less fragile manner and with higher incomes.

In this light, social spending is understood as an instrument that can be used to address the myriad social asymmetries that characterise Brazil. By investing in social policies, the State can promote better income distribution and provide more opportunities, as well as access to a broad range of essential services to society.

Given the pressing scenario of Brazil's current economic and fiscal crisis, we must continue to shed light on the shortcomings and unjustified privileges embedded in fiscal policy and spur society towards demanding tax reform that promotes efficiency without losing sight of the equity of the system, if the overall objective is to improve the living standards of the vast majority of workers in the country.

References:

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