WORLD BANK GROUP

Paying Taxes 2015: The global picture.
The changing face of tax compliance in 189 economies worldwide.

Paying Taxes 2015

pwc

www.pwc.com/payingtaxes

Contacts

PwC[1]
Stef van Weeghel
Leader, Global Tax Policy and
Administration Network
PwC Netherlands
+31 88 792 6763
stef.van.weeghel@nl.pwc.com

Andrew Packman
Tax Transparency and
Total Tax Contribution leader
PwC UK
+44 1895 522 104
andrew.packman@uk.pwc.com

Neville Howlett
Director External Relations, Tax
PwC UK
+44 20 7212 7964
neville.p.howlett@uk.pwc.com

World Bank Group
Augusto Lopez-Claros
Director
Global Indicators and Analysis
+1 202 458 8945
alopezclaros@ifc.org

Rita Ramalho
Manager, Doing Business Unit
+1 202 458 4139
rramalho@ifc.org

Joanna Nasr
Private Sector Development Specialist
+ 1 202 458 0893
jnasr@worldbank.org

[1] PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

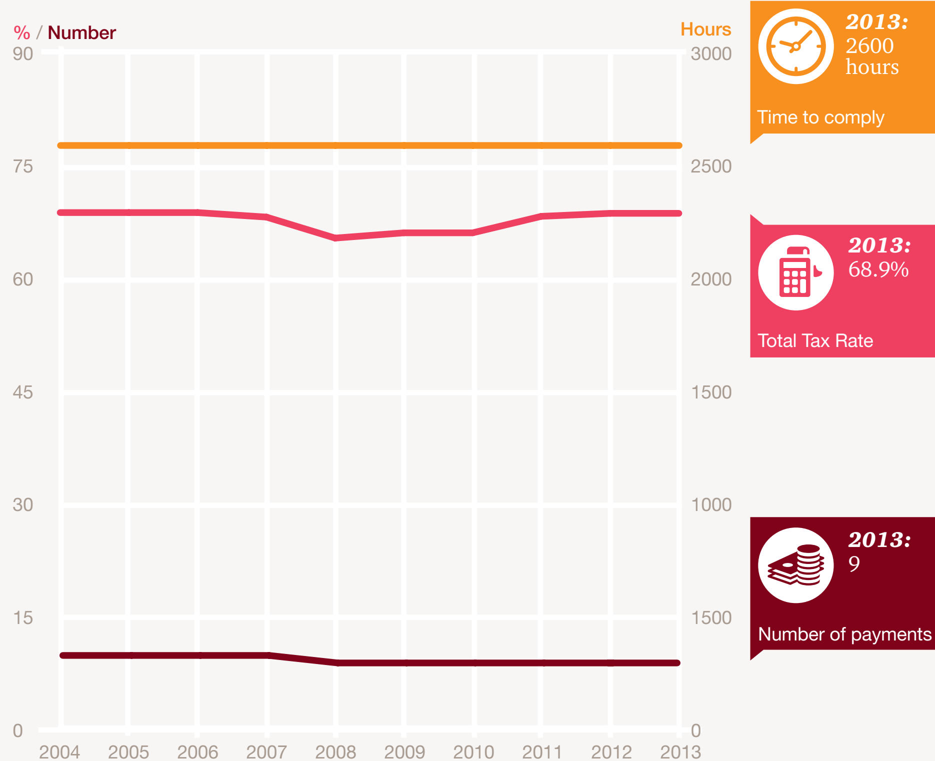
Brazil

Complex data provision requirements and frequent changes to tax laws result in a high compliance burden

Carlos Iacia, PwC Brazil

Figure 3.21

Trend in the *Paying Taxes* sub-indicators for Brazil



Source: PwC *Paying Taxes 2015* analysis

While the time to comply and the number of payments have been extremely stable over the last nine years, this does not reflect the considerable change that has been taking place within the Brazilian tax system.

Brazil has a complex tax system, mostly because the Federal Constitution allows many different government entities to levy taxes. These include the federal government, each of the 26 states and the Federal District, and over 5,000 municipalities. Taxpayers need to monitor each of these taxes as frequent changes in legislation may affect the calculation and payment of taxes, as well as the rules for preparing mandatory tax records.

The fundamental structure of the Brazilian tax system is just one reason for its unusually high time to comply and we outline some of the other factors in this article. While the time to comply and the number of payments have been extremely stable over the last nine years, this does not reflect the considerable change that has been taking place within the Brazilian tax system. We are hopeful that as further changes are made and as existing changes become embedded in the system we will begin to see a reduction in the tax compliance burden in Brazil.

Tax rules are created and amended in Brazil on an almost daily basis, at the federal, state and municipal levels. Unfortunately, the wording of these rules is sometimes unclear, making it difficult to interpret their content, scope and effective dates.

In addition to the amounts owed as taxes (referred to as “primary obligations”), the taxpayer is also required to comply with “ancillary obligations”, which consist of detailed record-keeping and reporting of certain information to the tax authorities, mostly in electronic format. The data used to calculate the tax liabilities are reported in electronic declarations with various layouts that are required to be submitted by multiple dates throughout the year. The complexities of compliance and reporting sometimes result in inconsistencies that are questioned by the tax authorities. When this happens tax staff need to spend even more time and effort to answer the tax authorities’ questions.

Certain tax authorities, especially at the federal level, have started trying to decrease the number of declarations that have to be filed, but as yet these have not led to an effective reduction in the amount of effort spent in complying with the rules on data provision.

On top of the tangled rules, record-keeping and reporting obligations, certain companies have also become responsible for collecting transaction taxes in advance, under a procedure referred to as “tax substitution”. Under tax substitution, a theoretical retail price is attributed to the goods sold by a manufacturer or importer. This price is then used to calculate the taxes that would be owed on all transfers of those goods in the supply chain, from the producer to the distributor to the retailer down to the final consumer. The total taxes are paid by the manufacturer or importer as a “substitute taxpayer” at the time of the first sale, and the remaining parties in the subsequent stages of the supply chain do not pay these taxes when they resell the goods. Because tax substitution relies on a theoretical retail price instead of the actual price at the final sale, it may cause distorted results.

Tax substitution systems effectively increase tax collections because they allow the tax authorities to concentrate their enforcement at the level of the manufacturer or importer to prevent or detect tax evasion.

On the other hand, they have a negative impact on the cash flow of the substitute taxpayer, who must also maintain a tax compliance team and systems to control, estimate and pay these taxes in advance.

In 2007, Brazil implemented the Public Digital Bookkeeping System (SPED) for the electronic filing of various records, declarations and reports. The increased use of technology by the tax authorities created a hope that the cost and the time required for tax compliance would eventually be lower. Up to now, however, this hope has not been realised as evidenced by the *Paying Taxes* sub-indicators. Many companies have incurred additional costs to update, customise or reconfigure their systems, purchase new hardware, and train their personnel to meet these new requirements.

In 2007, the federal government enacted Law no. 11,638, which allowed for the convergence of Brazilian accounting standards with International Financial Reporting Standards (IFRS). Convergence with IFRS was intended to increase the comparability and transparency of financial statements and to improve the standing of Brazilian companies in the international financial and capital markets.

Since corporate income tax had been based on the pre-tax income calculated under the previous accounting standards, a transitional tax mechanism was created to neutralise the impact of the new accounting standards on taxable income.

As a result of this transition, the tax authorities started to require that corporate taxpayers prepare financial statements for tax purposes based exclusively on the previous accounting rules, in parallel with the IFRS financial statements required for financial reporting. The preparation of the additional statements for tax purposes demanded more time and more human and technological resources.

This then led to the enactment of Law 12,973 in 2014, which integrates the tax legislation with the new Brazilian accounting standards and terminates the transitional tax mechanism mentioned above. This change should reduce the effort required to maintain records of the differences between the accounting and tax bases.

The same law also changed the taxation of income earned by subsidiaries and unconsolidated affiliates outside Brazil. The law continues to tax subsidiaries' profits on an accruals basis. Profits earned by indirect subsidiaries are also taxable, but only after consolidating those profits with the profits and losses of other indirect subsidiaries. Only the net positive profit arising from this consolidation is subject to taxation.

For unconsolidated affiliates outside Brazil, the law permits taxation on a cash basis (as dividends are paid) when certain conditions are met.

The taxation of offshore profits, even after the enactment of this new law, will continue to trigger extensive discussions between the tax authorities and corporate taxpayers. The tax authorities are trying to prevent international structures that are created only for tax avoidance purposes. Corporations, on the other hand, continue to argue that the Brazilian legislation should not oblige them to accelerate the taxation of undistributed income, which could put Brazilian products at a competitive disadvantage.

From the above, we can conclude that the new technology implemented by the tax authorities has improved and optimised the process of tax inspection and collection, while resulting in higher tax compliance and management costs for businesses. In time, however, as the process matures and consolidates, and the government pursues simplification, an eventual reduction in the cost of tax compliance is expected. A majority of Brazilian businesses already have elected for simplified tax treatment under the presumed-profit method or the "SIMPLES"[64] uniform tax method. The federal government has made these methods available to small businesses across a wider range of activities, in an effort to reduce the number of businesses that operate informally (i.e., in noncompliance).

[64] SIMPLES is a simplified tax regime that is available to small and medium sized companies

The effort to reduce informality among small businesses is extremely important, but some attention should also be given to the tax requirements of large companies, which are a driving force for the Brazilian economy and GDP growth.

All Brazilian taxpayers, large and small, deserve a tax environment with greater simplicity, fairness and legal stability.

Movements to seek these objectives have been announced by the tax authorities, political parties and society as a whole. However, these efforts at tax reform have always come up short against the impossibility of accommodating the demands for tax revenue from the various government entities involved.

The leading candidates in the 2014 presidential elections indicated that tax reforms are part of their plans. We can only hope that Brazil will overcome the usual political deadlocks and finally achieve true tax reform, making the tax system simpler and more efficient and increasing the competitiveness of Brazilian companies in the international marketplace.

In time as the process matures and consolidates and the government pursues simplification an eventual reduction in the cost of tax compliance is expected.

The Total Tax Rate included in the survey by the World Bank has been calculated using the broad principles of the PwC methodology. The application of these principles by the World Bank Group has not been verified, validated or audited by PwC, and therefore, PwC cannot make any representations or warranties with regard to the accuracy of the information generated by the World Bank Group's models. In addition, the World Bank Group has not verified, validated or audited any information collected by PwC beyond the scope of *Doing Business* Paying Taxes data, and therefore, the World Bank Group cannot make any representations or warranties with regard to the accuracy of the information generated by PwC's own research.

The World Bank Group's *Doing Business* tax ranking indicator includes two components in addition to the Total Tax Rate. These estimate compliance costs by looking at hours spent on tax work and the number of tax payments made in a tax year. These calculations do not follow any PwC methodology but do attempt to provide data which is consistent with the tax compliance cost aspect of the PwC Total Tax Contribution framework.

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 195,000 people who are committed to delivering quality in assurance, tax and advisory services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

This publication has been prepared as general information on matters of interest only, and does not constitute professional advice. No one should act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, neither PwC nor the World Bank Group accept or assume any liability, responsibility or duty of care for any consequences of anyone acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. The World Bank Group does not guarantee the accuracy of the data included in this work. The boundaries, colours, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The findings, interpretations, and conclusions expressed herein are those of the author(s) and do not necessarily reflect the views of the World Bank Group and its Boards of Executive Directors or the governments they represent.

This publication may be copied and disseminated in its entirety, retaining all featured logos, names, copyright notice and disclaimers. Extracts from this publication may be copied and disseminated, including publication in other documentation, provided always that the said extracts are duly referenced, that the extract is clearly identified as such and that a source notice is used as follows: for extracts from any section of this publication except Chapter One, use the source notice: "© 2014 PwC. All rights reserved. Extract from "*Paying Taxes 2015*" publication, available on www.pwc.com/payingtaxes". For extracts from Chapter One only, use the source notice: "© 2014 The World Bank and International Finance Corporation. All rights reserved. Extract from "*Paying Taxes 2015*" publication, available on www.pwc.com/payingtaxes".

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Publishing and Knowledge Division, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: 202- 522-2625; e-mail: pubrights@worldbank.org.

© 2014 PwC, the World Bank and International Finance Corporation. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. The World Bank refers to the legally separate but affiliated international organizations: International Bank for Reconstruction and Development and International Development Association.

10/14. Design Services 28731.

www.pwc.com/payingtaxes
www.doingbusiness.org