What's not working in the tax system

If anyone should know how to get round the bottlenecks in the tax system, it's a former Secretary of the Federal Internal Revenue Service. Yet Everardo Maciel, now a tax consultant, says it took him a whole day, not to mention US$200, simply to get digital certification authorization for transmitting tax statements over the Internet. You can imagine what a challenge dealing with the tax system is for anyone without Maciel's expertise — even if you haven't already tried to do it yourself. And we all have, at least all who want to pay our share even though the government assumes we're guilty until proven innocent.

The burden of taxes and social contributions in cash terms adds up to 35% of gross domestic product. The tax burden is high in relation to other developing nations, as Maciel points out, because Brazil has made a political choice to have a generous social security system and universal public health — certainly a choice many of us agree with. And if 35% were all the tax laws cost, it might not be so bad. But the cost of tax compliance adds a significant additional burden, as well as taking huge amounts of time that could be put to more productive uses. For instance, because there's no coordination between federal, state, and municipal tax authorities, it's possible to have a number of different tax identities. And there's also the sheer number of taxes Brazilians have to deal with: as tax accountant Mauricio Tadeu de Luc Gonçalves laments, there are 66 different types of taxes, over a million laws — and every three minutes one of them is updated.

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For years proposals have been put forward to harmonize the 27 different state laws for the VAT on Goods and Services, the main state tax. Nothing has happened — because that tax accounts for 83% of state revenues. No matter that if states made the VAT easier to handle, more entrepreneurs might be willing to open up businesses and some of it would be replaced. Bahia state offers a model: it simply resolved a conflict between two public career paths by redefining the responsibilities of one group, tax analysts, and VAT collections shot up 36%.

Ironically, Brazil has one of the most technologically advanced tax administration systems in the world. But as Maciel's experience shows, you have to fight through many layers of bureaucracy to access it. And the pitfalls are numerous . . . so numerous that many companies have to hire special tax experts to monitor the work of their accountants because incorrect information generates fines. That's another cost beyond the actual tax rates that undermines the competitiveness of Brazilian companies.

The situation is worsened by the copious number of tax instruments available, such as tax substitution and tax withholding. Even options like the National Simple system for small companies, which combines reporting for six federal taxes, plus state VAT, plus the municipal services tax, belies its name. Not only has the government introduced a number of restrictions, it also failed to index earnings limits, so small companies fall out of the category before they really get on their feet.

Can anything be done? Maciel says it can: "Most of our tax blockages do not need constitutional amendments. His solution: "Just drop what is not working and keep what is."