

Título do capítulo	PART 2 THE MANAGEMENT OF THE FEDERAL GOVERNMENT'S REVENUES
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DOI	
Título do livro	ASPECTS OF THE FISCAL DEVELOPMENT
Editor (es)	Rogério Boueri Maurício Saboya
Volume	
Série	
Cidade	
Editora	Instituto de Pesquisa Econômica Aplicada (Ipea)
Ano	2007
Edição	1ª
ISBN	
DOI	

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THE MANAGEMENT OF THE FEDERAL GOVERNMENT'S REVENUES

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The second part of this volume focuses on the links between the Brazilian fiscal policy and development from a special viewpoint, namely that of the role of the Federal Union's public revenues in the process of fiscal adjustment in Brazil. In particular, attention is drawn to the importance of the revenue forecast systems as elements of responsible fiscal management. They are important because, under a fiscal responsibility regime, public spending cannot be appropriately planned, executed and evaluated unless the forecast of collected revenues is precise and accurate. The reason for this is that only budgetary expenditures covered by budgetary revenues in the corresponding fiscal year will be programmed.

In Brazil, the agency legally in charge of preparing forecasts of the Federal Union's budgetary revenues is the Federal Revenue Secretariat (SRF), of the Ministry of Finance. However, in the last years, the SRF's forecasts (estimated collection in budgetary programming) have not infrequently been lower than actual collection; this difference would be growing year after year and serving to increase the Federal Union's primary surplus, without the possibility of the surplus resources being used in important programmes, such as in infrastructure. In turn, the SRF argues that the over-collection is due, on the one hand, to unexpected factors, such as the effects of atypical and extraordinary revenues – resulting from changes in the tax legislation and/or improved efficiency in the collection and inspection activities – and, on the other hand, to the growth of public spending. As claimed by the Deputy Secretary of the Federal Revenue Secretariat, in a recent interview to G1 (Globo News Portal), “one has to take expenditures into account when talking about tax burden. The collection needs are defined by the expenditure needs. It is like a government rule: collect what you need to spend”.

However, in this discussion, there is one aspect that has not been fully explored: the revenue forecast methods. Traditionally based on accounting models, almost without the use of econometric techniques, these methods have undergone significant improvements in the past years. The contributions

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in this area come from several sources, including universities and public applied research agencies, such as Ipea. We need to take stock of these recent advances in Brazil, and compare the revenue forecast methods used in the country with those used in other countries. In the international benchmarking aspect, the support of the Embassy of the United Kingdom in Brasilia has, one again, been essential, since it enabled the British Treasury technicians to contribute with their critical and comprehensive view concerning the way this matter is addressed in the United Kingdom.

In the general terms described in the previous paragraph, Graham Parker and Jon Riley, both from the Public Sector Finances Team of HM Treasury (British Treasury), outline the system used to forecast the main taxes in the United Kingdom. They highlight the role of the legal-institutional framework – the Fiscal Stability Code, the fiscal rules, the Treasury and Her Majesty's Revenues and Customs (HMRC) – in the design and operation of this system. The authors show that the revenue forecasts in the United Kingdom follow various models, ranging from the ones that forecast macroeconomic and fiscal aggregates, to those intended to predict collection in particular segments, such as collection per type of tax or company. Parker and Riley's article shows the complexity of the British system to forecast revenues, as regards institutions, norms and methods. However, it is based on a few normative principles, which should also steer the improvement of the Brazilian system, namely the principles of fiscal responsibility, transparency and accountability towards society.

The next article, "Recent Behaviour of Public Revenues in Brazil", based on the work of the technical staff of the Public Finances Coordination of Ipea, describes the evolution of the Federal Union's public revenues. After a brief background of some of the problems faced in the fiscal adjustment process in Brazil – notably the significant increase of the tax burden based on contributions that generally distort the decisions of the economic agents – the text analyses separately the recent behaviour of the main taxes and contributions. Special attention is given to the Income Tax (IRPF, IRPJ and IRRF), the Tax on Industrialized Products (IPI) – which has been going through historical drops in collection, partly due to tax evasion and smuggling of goods – and to the main social contributions (Cofins, CPMF and CSLL). It should be noted that, in the 2000-2005 period, the irregular evolution of the taxes contrasts markedly with the vigorous and consistent growth of the contributions. In this context, two major challenges are underscored. Firstly, to promote a tax reform that, among other things, can reduce the economically perverse effects of the increase

of contributions on the agents, mainly the companies. Secondly, the expected change in the Brazilian tax structure will require the improvement of the current revenues forecast system.

The text “How to Forecast or Explain the Behaviour of Public Revenues in Brazil: Old and New Alternatives”, written by Cláudio Hamilton Matos dos Santos and Márcio Bruno Ribeiro, takes a step towards tackling the second challenge mentioned above. The text presents a mapping of literature on the specification of models intended to explain or forecast the behaviour of public revenues in Brazil. Initially, the approaches currently used are presented: the so-called “calibrated” models that focus on the description of the inter-relations between the public sector variables (debt, nominal and primary deficits, revenues and expenditures); and the econometric models, that seek to adjust specifications for the collection of revenues at the aggregate level or by specific tax. In order to facilitate understanding, the description of each approach contains a proposed subdivision for the various existing works. At the end of the text, some preliminary results of the current revenue modelling effort being developed by Ipea’s Public Finances Coordination are presented.

Finally, the text “Fiscal Progressivity in Brazil” throws light on a characteristic of the Brazilian tax system that needs to be addressed in the reform agenda: regressivity. The authors, Rodrigo Mendes Pereira and José Oswaldo Cândido Júnior maintain that Brazil has a tax structure that focuses on collection of consumption taxes and other indirect taxes. The high dependence on consumption taxes as compared to income tax is not an exclusive characteristic of this country, but can be observed in several developing countries, as a result of their socio-economic structure. Consumption taxation is notably regressive, since the tendency to consume decreases with the income. The aim of the article is to measure the degree of progressivity of the Brazilian tax structure and compare it with the indicators of thirteen other economies, using the method of relative volatilities. This method consists of calculating the proportional standard deviation of the aggregated tax collection and income. Among the fourteen economies, Brazil is the third country with the lowest degree of progressivity. These results suggest that the progressivity of the federal taxes is not used in Brazil as mechanism to address the country’s huge social and economic inequalities. Possibly this absence of a stronger progressivity is a reflection of the Brazilian collection structure, which is overburdened by indirect taxes of a regressive nature.