

Título do capítulo	CHAPTER 7 THE RECENT BEHAVIOUR OF PUBLIC REVENUES IN BRAZIL
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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 RECENT BEHAVIOUR OF PUBLIC REVENUES IN BRAZIL

Public Finances Coordination (Dirur/Ipea)

The importance of discussing the theme of public revenues in Brazil becomes clear in the context of the recent history of Brazilian economy, marked by a transition to a situation of consolidated macroeconomic stability and the creation of conditions for sustained growth. One of these conditions is the structural fiscal adjustment of the public sector, a process that advanced considerably after the implementation of the Fiscal Stability Programme (1998), through which significant and increasing primary surpluses are being achieved in the scope of the Federal Union. This movement was consolidated after the passing of the Law of Fiscal Responsibility in 2000.

However, the process of Brazilian fiscal adjustment presents problems. One of them is related to the fact that this process has depended too much on the growth of public revenues – for example, the tax burden has just beaten a record in 2005, reaching about 37.37% of GDP, equivalent to a growth of 1.49 percentile point in relation to the previous year.¹ However, since it is not reasonable to assume that public revenues will grow indefinitely, since economic theory sets a limit on collection,² one may conclude that the public sector's capacity to maintain high primary surpluses will end sooner or later, as can also be surmised from the continuous growth of current expenditures and the increased budgetary rigidity.³

1. See Secretaria da Receita Federal (2006). In this document, the main reason indicated for the increase of the Union's tax burden in 2005 is the increased efficiency of tax administration, and the adoption of legal measures to improve collection, control and inspection was underscored.

2. This is related to the so-called "Laffer curve", that establishes a relation between the sum of the collection and the tax rate. Representing the sum in a vertical Cartesian axis and the tax rate in the horizontal axis, this relation is described by means of a concave downward parabola, in such a way that, as the tax rate increases, the collection initially rises, later reaching a maximum level and finally decreasing.

3. Budgetary rigidity (or fiscal rigidity) is understood as a feature of the public budget characterized by the existence of earmarked revenues and obligatory expenditures. A budget can be rigid to different degrees. In practice, there is no such thing as a totally rigid or totally flexible budget – that is, without any earmarked revenue or obligatory expenditure.

The data show that the period of effective fiscal adjustment (1999 onwards) presented average annual spending above that of the 1995-1998 period, which was characterized by a relatively slack fiscal policy. This is an indication that the Brazilian fiscal adjustment has focused on increasing revenues, because both the primary surplus and the primary spending have grown.⁴ However, this is not a good sign, in view of the fact that a large share of these revenues corresponds to accrued contributions, i.e. “cascading” on each phase of the productive process, which distorts the decisions of the agents and undermines the productivity and competitiveness of the economy as a whole.

TABLE 1
Brazil: Union revenues of the 2000-2005 GDP
 (In %)

Year	Taxes	Rates	Contributions	Patrimonial	Services	Other current revenues	Other revenues	Total
2000	7.02	0.12	12.69	0.92	1.30	0.84	0.03	22.93
2001	7.52	0.12	13.44	0.89	1.34	0.78	0.04	24.14
2002	7.89	0.13	14.38	0.73	1.27	1.05	0.04	25.49
2003	7.27	0.13	14.53	0.80	1.27	0.66	0.04	24.70
2004	6.82	0.14	14.82	0.80	1.14	0.62	0.03	24.37
2005	7.83	0.17	15.97	0.77	1.20	1.21	0.03	27.18

Source: Ministry of Finance/STN. Integrated Financial Administration System.
 Prepared by Ipea/Dirur/CFP.

Table 1 presents the collection performance for the main revenue categories of the Union, as proportion of GDP, in the 2000-2005 period. It shows the significant growth of total revenues, as well as the importance of the contributions for the performance of this total. Taxes, in turn, had a less regular evolution than that of contributions, although the latter have also grown in the period under analysis.

Graph 1 shows the behaviour of the total tax burden as proportion of GDP and the real growth of the product along the 1995-2003 period. Overall, there is a possibility that the rise of the tax burden has contributed to the low growth of the product in recent years. In the 1995-1997 period, when the total of taxes was around 28.6% of GDP, the average rate of growth of the product was 3.4% a year. As of 1999, with the beginning of the fiscal adjustment period, the total taxes exceeded 30% of GDP. For the 2001-2003 sub-period, the average burden was 34.1% and average growth was 1.3%. Thus, the only

4. In the 1995-1998 period, the annual average non-financial spending of the Union reached about 19.1% of GIP, while in the 1999-2005 period, it increased to approximately 21.6% of GIP. In the same periods, the average annual primary surplus went from 0.69% of GIP to 3.77% of GIP respectively.

exception regarding the negative effect of a high tax burden is in 2000 when, for a 31% burden, the product grew 4.4%.

1 INDIVIDUAL INCOME TAX (IRPF)

According to current legislation, IRPF tax payers are natural persons living or residing in the country, with economic or legal availability of income or earnings of any nature, including capital earnings or profits; as well as natural persons who receive incomes from goods that they own.

According to Federal Revenue Secretariat, the number of individual income tax payers is relatively small when compared to that of other countries, so the participation of this tax in the total revenues collected by the Union is relatively low. High exemption limits and reduced maximum rate account for the low relative participation of the Brazilian income tax.

In 2000-2005 period, the total IRPF tax collection presented a real growth of 34.8%. Its participation in the total tax revenues of the Union went from 4.3% to 4.5%. However, the increase of collection did not occur in uniformly along the period, but was concentrated between 2003 and 2005 (growth of 26.6% in real terms – see table 2).

TABLE 2

Individual Income Tax (IRPF): collection revenue in the 2000-2005 period

Year	IRPF (R\$ million of 2005)*	Δ (%)
2000	5,037	
2001	5,158	2.4
2002	5,026	-2.6
2003	5,365	6.7
2004	6,076	13.3
2005	6,791	11.8

Source: National Treasury Secretariat/Government Accounts.

Obs.: * Values updated by the Expanded Consumer Price Index (IPCA).

The behaviour of the IRPF tax collection between 2000 and 2003 can partly be explained by the evolution of the number of taxpayers. Table 3 presents the number of declarants who submitted income tax statements and the number of income tax payers each year. An increase of approximately 30% can be observed in the number of statements submitted during the period, which can be attributed to the increased ease in filling out and submitting the information, electronically, to the Federal Revenue Secretariat. However, in every year of the series, the number of people who effectively paid this tax – the taxpayers – is equivalent to less than half of the total statements submitted (34,82%, on average, for the 2000-2003 period).

TABLE 3

**Evolution of the number of IRPF declarants and taxpayers
in the 2000-2003 period**

Reference year of the statement	Number of declarants	Number of taxpayers	Taxpayers/declarants (%)
2000	13,906,143	5,189,242	37.3
2001	15,180,447	5,506,075	36.3
2002	15,967,859	4,953,121	31.0
2003	18,047,676	6,261,601	34.7

Source: Federal Revenue Secretariat/General Coordination of Tax Policy.

The total number of taxpayers, which constitutes the taxable base of the IRPF, presented a growth of 21% between 2000 and 2003, in spite of a reduction of approximately 10% in this base in 2001-2002. The annual evolution of the number of taxpayers presents a similar path to that of the IRPF collection in the 2000-2003 period. In both cases, the figures resulted from alterations in the tax legislation and changes in the country's employment and income levels.

Table 4 presents the description of the IRPF annual progressive table for the period under analysis. The incomes that determine the limits for each one of the rates (exemption, 15 and 27.5%) correspond to twelve times the amounts of the monthly incomes.

The 27.5% rate was established in 1999, replacing the previous rate of 25%. As of 2002, Law n. 10.451 determined a 17.5% correction of the limit values of each income bracket, as well as in the deductions of expenditures with education and per dependent. Thus, the reduction of the number of taxpayers and, consequently, of the total IRPF collection in 2001-2002 period seems to have been caused mainly by the change in the current law. The rise in the limits of exemption and taxation of incomes, as well as the increase in the deduction of some personal expenditures, contributed to a real decrease in the collection of the tax.

TABLE 4

Description of the IRPF annual progressive table between 1999 and 2005

1999 to 2001		2002 to 2004 (Law n. 10.451, of 2002)		2005 (Law n. 11.119, of 2005)	
Calculation base for annual income in R\$	Rate (%)	Calculation base for annual income in R\$	Rate (%)	Calculation base for annual income in R\$	Rate (%)
Up to 10,800.00	0	Up to 12,696.00	0	Up to 13,968.00	0
From 10,800.00 to 21,600.00	15	From 12,696.00 to 25,380.00	15	From 13,968.00 to 27,912.00	15
Above 21,600.00	27.5	Above 25,380.00	27.5	Above 27,912.00	27.5

Source: Laws n. 9.250/1995, 10.451/2002 and 11.119/2005.

Prepared by Ipea/Dirur/CFP.

A new correction of the progressive table was determined for 2005. Law n. 11.119 corrected by 10% the limits of each income bracket and the deductions of expenditures with education and per dependent. However, this correction does not seem to have resulted in loss of collection, since the IRPF revenue increased in real terms in the 2003-2005 period (see table 2). This increase could therefore be explained by the increase of the taxpayers' average income in the last three years.

Table 5 presents the annual averages of the occupied population and the real income in some of the major metropolitan regions of the country, from 2002 to 2005. The figures in the table should be considered only as a reference, since they do not take into account the employment and income levels in Brazil as a whole, and they exclude the possible variations in the income of retirees and include information on informal workers.

TABLE 5
Occupied population and effective real average income between 2002 and 2005*

Year	Occupied population (%)	Δ (%)	Effective monthly average income (R\$) – occupied people	Δ (%)
2002	48.68		1,134.00	
2003	50.05	2.81	995.55	-12.21
2004	50.59	1.08	997.95	0.24
2005	50.97	0.75	1,020.58	2.27

Source: Brazilian Institute of Geography and Statistics/Monthly Employment Survey (includes only the metropolitan regions of Recife, Salvador, Belo Horizonte, Rio de Janeiro, São Paulo and Porto Alegre).

Note: *The figures for each year correspond to the arithmetic averages of the months when the statisticians are available.

The figures presented in table 5 indicate an increase of the occupied population between 2002 and 2005 and an increase of real average income between 2003 and 2005. Such figures suggest that the growth of IRPF collection, as of 2003, may have been caused, among other factors, by the increase in the employment and income levels.

1.1 Corporate Income Tax (IRPJ)

The IRPJ's generating fact is the profit obtained by the legal entity. The tax rates, in force since 1996, are basically the following:

- 1) 15% (fifteen percent) on real profit, presumed or certain, obtained by legal entities in general.
- 2) The share of the annual real profit that exceeds the amount of R\$ 240.000,00 (two hundred and forty thousand Reals) is subject to the incidence of an additional rate of 10%, being the same for all legal entities, including financial institutions, insurance societies and similar entities.

The taxpayers, by choice or by legal determination, are taxed through one of the following forms:

- 1) Within the Simple System, for micro and small companies.
- 2) Presumed profit, being a percentile value on the invoicing of the company that varies according to activity branch, which is presumed to represent the average rate of profit of the activity.
- 3) Real profit, which basically represents the accounting profit of the company, with some additions and exclusions.

Table 6 shows the behaviour of the real variation rates of the IRPJ collection in the 1996-2005 period.

TABLE 6
Evolution of the growth rate of IRPJ collection in the 1996-2005 period

	(In R\$ billions of Mar. 2006, updated by the IGP-DI)									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Collection	32.9	30.1	28.3	28.1	31.7	27.6	49.3	39.4	41.7	51.2
Variation (%)		-8.4	-5.9	-0.97	12.95	-13.0	78.8	-20.1	5.8	22.9

Source: Brazil. Ministry of Finance. Result of the National Treasure. Brasília, several numbers.

Prepared by Ipea/Dirur/CFP.

In 2000, there was a real increase of about 13% in the IRPJ collection, on account of the extra collection from overdue payments through the Fiscal Recovery Programme (Refis) instituted in that year. In 2001, due to reduction of these atypical revenues and to economic stagnation, the IRPJ collection fell 13%. In 2002, there was a sharp increase (78.8%) in the collection of the tax, due to several factors, such as the collection of overdue debts and changes in the legislation, which resulted in a high increase of the IRPJ taxation on financial corporations. In 2002, there were also extra collections – especially because of legal measures to charge overdue debts – without counterpart in the previous year. Moreover, the profits of companies and banks with assets in foreign currency, due to currency exchange variation in 2002, increased hugely, consequently raising the tax calculation base.

The legal measures referred to are established in Provisional Measure (PM) n. 38, which also re-established deadlines for payment of overdue tax debts – including the Income Tax on inflationary profit that was very high in 2002 – and in PM n. 75, later rejected by the Congress, which established the programme for refinancing of debts for companies that agreed to stop legal actions. The most important change, however, came from PM n. 2.222/2001, later revoked by Law n. 11.053/2004, that established collection, as of January 1, 2002, of the Income

Tax on pension funds and private welfare entities. Just the taxing of pension funds alone generated an increase of R\$ 9.60 billion in collection, in nominal terms. In spite of the considerable increase in the collection of this tax, the structure of the tax's rates was not altered; the growth was only in the tax base. This is positive, considering aspects related to isonomy and income distribution.

In 2003 the collection of the IRPJ dropped 20.1%. This happened because of economic stagnation, particularly of industrial activity. Moreover, the increase of extraordinary revenues did not take place to the same extent as in the previous year, when the behaviour of the revenue from this tax results, to a large extent, from the effects of the above-mentioned MPs. It is estimated that these extraordinary revenues increased the Union's tax collection in R\$ 18.5 billion in 2002 and R\$ 7.9 billion in 2003. In 2004, there was a small real growth of 5.8% in the collection of the tax. In addition to the macroeconomic improvement, administrative measures collaborated towards this growth. In 2005, the real increase of 22.9% occurred due to the increased profit of the companies, mainly in the mining sectors (360%), telecommunications (111%), fuels (61%) and electricity (38%), thus increasing the tax base. Attention should also be drawn to the increased efficiency in recovery of public credits by the Office of the Attorney General of the Union, with a 50% increase in relation to the previous year.

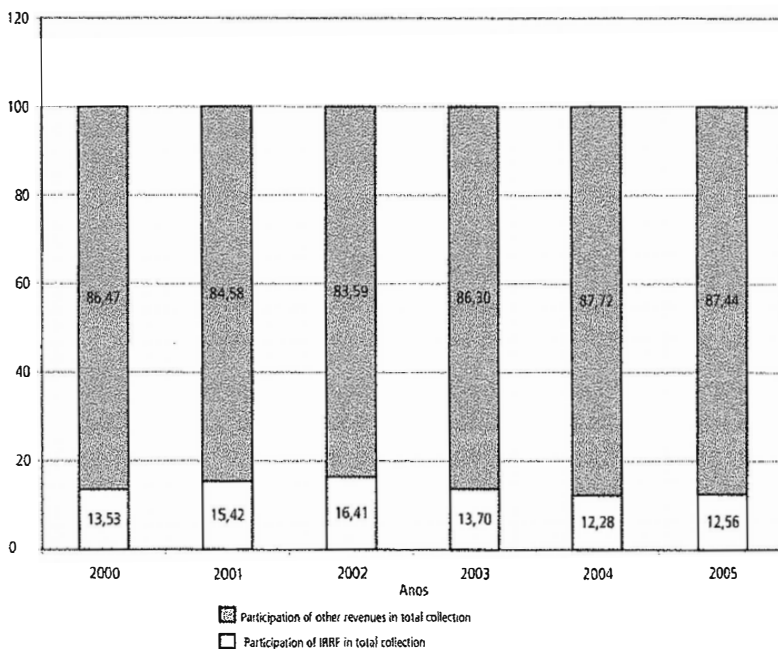
An important legal measure occurred on December 30, 2004, when the federal government, by editing Provisional Measure n. 232 (the same one that readjusted the IRPF Table), increased the IRPJ calculation base and the Social Contribution on Net Profit (CSLL) from 32% to 40%, for service providers (except transporters and hospitals) that chose the presumed profit system. This corresponded to an average increase of 25% in the said taxes, because while previously it was considered that the average profit of the service provider corresponded to 32% of its invoicing, now the average profit is considered as 40%.

1.2 Withholding Income Tax (IRRF)

The IRRF is divided into four major categories, according to the nature of the generating fact, in compliance with the classification of the data disclosed by the National Treasury: IRRF-Labour (on labour earnings), IRRF-Capital (on capital earnings), IRRF-Remittances Abroad and IRRF-Other Earnings. Decree n. 3.000, of 26/03/1999, regulates the IRRF. Known as RIR/99, this decree establishes all the possibilities of taxation at the source, as well as the applicable rates, the tax responsibilities, the penalties and general provisions.

Graph 1 shows that the IRRF participation in the total federal collection increased from 2000 to 2002 and, in the two following years, dropped in relation to 2002. In 2004, the said participation reached the lowest level of the series, with a slight improvement in 2005. Despite the atypical year of 2002, it can be claimed that the IRRF is one of the federal taxes that has been contributing to the fall of the relative participation of tax revenues in the federal collection in recent years.

GRAPH 1

Participation of the IRRF in the total of federal collection

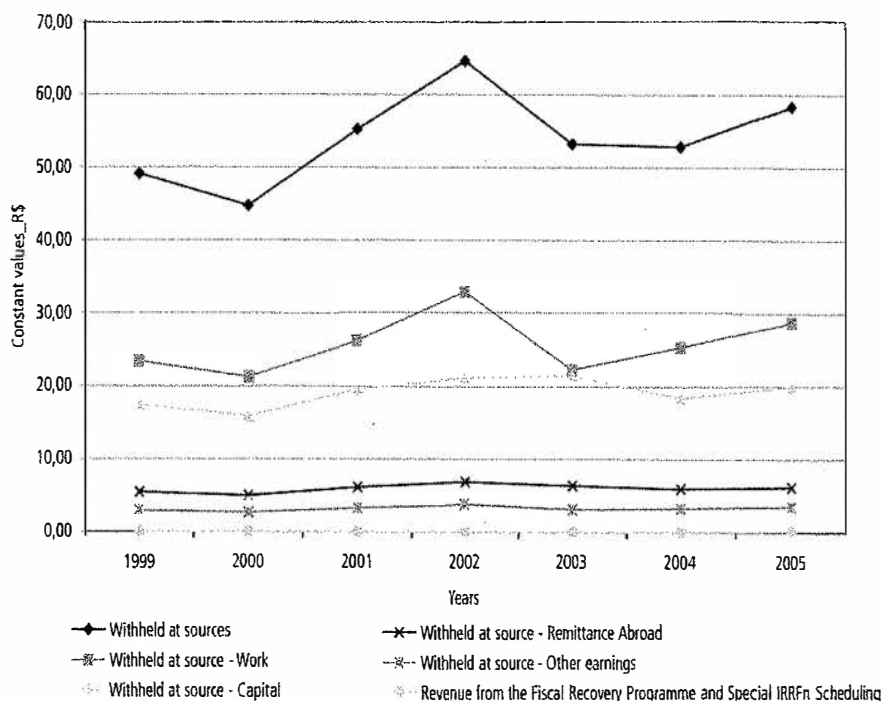
Source: National Treasury Secretariat.
Prepared by Ipea/Dirur/CFP.

Graph 2 presents the evolution of the IRRF, in real terms, broken down to its basic categories. In the 2000-2005 period, this tax had a 30% increase in collection in real terms, while the per capita GDP, at 2005 prices, varied only 3.62% in the same period. The 2000-2002 period was of growth derived, among other things, from the currency depreciation of the period, that positively affected the collection of IRRF-Capital and IRRF-Remittances Abroad. Moreover, 2002 was marked by the effect of several changes in the tax legislation, described below, that affected in particular the collection of overdue debts.

GRAPH 2

Collection of the IRRF

(In R\$ billions updated by the average IPCA of 2005)



Source: National Treasury Secretariat.

Prepared by Ipea/Dirur/CFP.

- 1) PM n. 2.222, of 04/09/2001: established new rules for the taxation of earnings and profits from investments of resources by complementary welfare funds; allowed entities that chose the special regime to pay overdue taxes in up to six installments, in compliance with Law n. 9.779/1999, as of January 2002. This year, these measures provided a collection of the order of R\$ 7.7 billion.
- 2) PM n. 38: exempted from payment of fines and moratoriums the debtors with lawsuits that paid, by the last working day of July, the total overdue tax and welfare debts, in compliance with conditions established in Law n. 9.779/1999 and in PM n. 2,158-35/2001. The collection gain with this measure was of R\$ 2.2 billion.

- 3) PM. 66, of 29/08/2002: extended until September the deadline for payment of overdue tax and welfare debts, with or without filed lawsuit, and of the complementary welfare entities that opted for the special regime. The revenues derived from this provision totalled R\$ 3.5 billion.
- 4) PM n. 75: reopened until the last working day of November the deadlines established in PM n. 66, providing extra revenues of the order of R\$ 1.3 billion.

The fall of the real collection of the IRRF in 2003 is explained mainly by the extraordinary character of the collection in the previous year (mainly as a result of the changes in the legislation and the impact of currency depreciation) and by the low economic growth, high rates of unemployment and fall of average real incomes. These adverse macroeconomic factors caused a significant drop of the revenue from IRRF-Labour.

In 2004-2005, there was a very slow recovery of the collection of this tax. This reflects, on the one hand, the increase of labour earnings – mainly in the sectors of insurance and private welfare, manufacture of chemicals and manufacture and assembly of automotive vehicles. On the other hand, this increase in the IRRF-Labour revenue was compensated by the decrease of IRRF-Capital collection (in 2004), resulting from the fall of interest rate and currency stability, which reduced the earnings from financial applications.

1.3 Tax on Industrialized Products (IPI)

The IPI is a modality of tax on the physical production or sale of goods produced by industrial or similar establishments. Regulated by Law n. 10.934, of August 11, 2004, this tax is traditionally divided into five categories: IPI-Automobiles (rate incident on sale of automotive vehicles), IPI-Beverages (based on the physical production of beverages, mainly beer, soft-drinks and mineral water), IPI-Tobacco (collection base in cigarette sales in the domestic market), IPI-Importation (generating fact in the customs clearance of foreign products) and IPI-Others. Except in the case of IPI-Importation, the generating fact of this tax occurs when the product leaves the industrial establishment (or similar establishment).

The calculation base of the IPI is identified in two ways: in the internal operation (the total amount of the operation in which the product leaves the industrial establishment); and in the importation (the amount that serves or would serve as calculation base for the customs taxes, upon importation

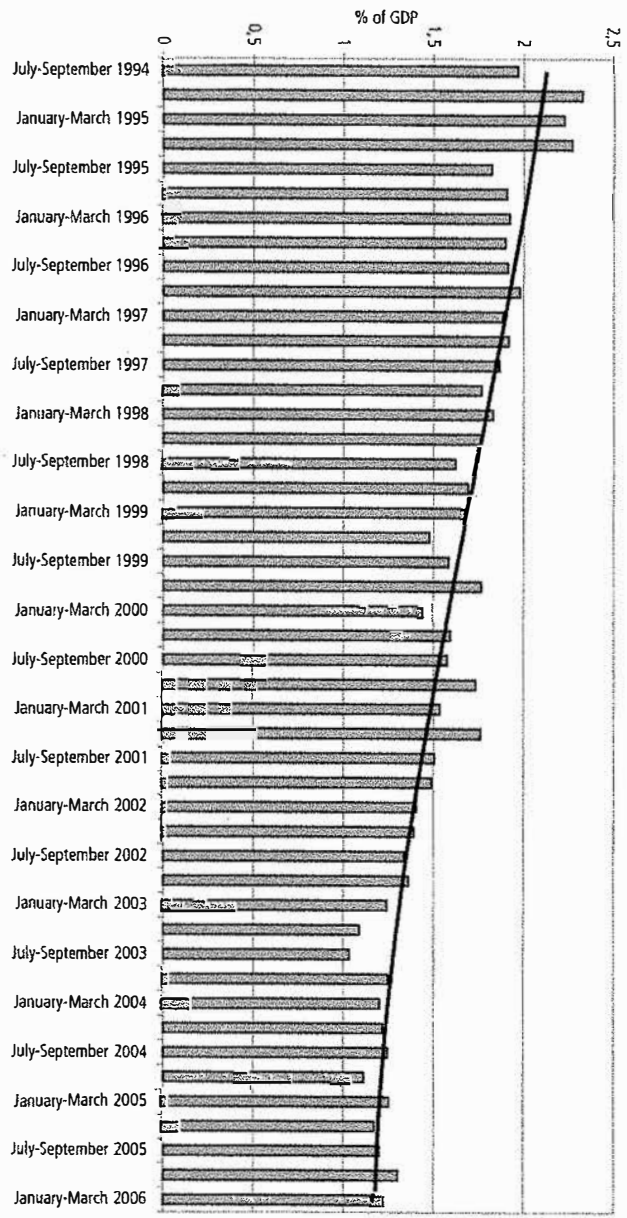
clearance, added to the total of taxes and currency charges paid or owed by the importer). The IPI incidence is very complex. The table of incidence of tax on industrialized products contains ninety-seven chapters, each one related to a category of products.

At least along the last ten years, the IPI has been presenting a trend of reduction of collection, both in real terms and in terms of participation of GDP (see graph 3, with a clearly decreasing trend line). This reflects, obviously, in the fall of the relative participation of this tax in the total revenue of the Union.

In general, the drop in IPI collection occurred in all its categories. However, this reduction had specific causes in each one of the categories. In the case of IPI-Automobiles and IPI-Others, the effect of Law n. 10.276, of September 10, 2001, was important. This law increased IPI presumed credits on raw materials used in products intended for exportation. Moreover, as of 2003, there was a reduction of the rates of this tax for some products, including automobiles, chemical products and products related to basic metallurgy. In addition, that was a year of zero growth in the industrial sector. In turn, in the last six years, the relative stagnation of IPI-Importation seems to be associated with the relative stagnation of the added value of the importations, particularly in the most important segment of importation – intermediate goods.

Finally, IPI-Beverages and IPI-Tobacco also experienced significant drops in the period under analysis, but for a different reason than in the reduction in the other categories, namely, smuggling and the tax evasion. According to the Federal Revenue Secretariat (<http://www.receita.fazenda.gov.br>), in 2005 alone, there was a loss of collection of approximately R\$1.6 billion, of which R\$1.35 billion from cigarettes and R\$ 255 million from tax evasion in the manufacture of soft-drinks. In face of these problems, the federal government has been making huge efforts to fight smuggling and tax evasion on several fronts. The efforts include the use of a mechanism to track cigarette production by means of a special stamp that will be placed on the packs and will allow the inspectors to know where, when and for whom the goods have been produced. There is also a project being implemented to use electronic bills of sale, which should speed up the services of inspection of production and sale of beverages and cigarettes. In the case of beverages, outflow gauges – devices used since 2004 that monitor the production of beverages and transmit the data to the Federal Revenue Secretariat in real time – have already proved to be efficient in reducing tax evasion in the beer sector.

GRAPH 3
Quarterly collection of IPI (1994-2006) % of GDP



Source: Federal Revenue Secretariat.
 Prepared by Ipea/Dur/CFP.

2 THE SOCIAL CONTRIBUTIONS

2.1 Contribution for the Financing of Social Security (Cofins)

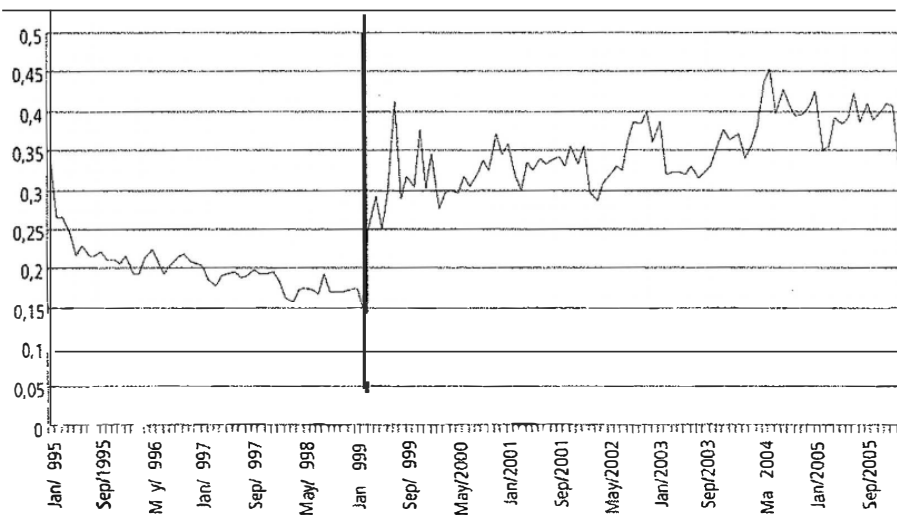
The Cofins was instituted by Complementary Law n. 70, of December 30, 1991, with the purpose of meeting exclusively “the expenditures with the end activities of the areas of health, welfare and social assistance”. This contribution is levied on legal entities, except micro and small companies ruled by the Integrated System of Payment of Taxes and Contributions of the Micro and Small Companies (Simple). As a general rule, its rate is of two percent on monthly invoicing, considering the gross revenue from the sale of goods and services of any nature. Nevertheless, there are different rules for the various sectors, as well as special provisions that regulate exclusion from the calculation base and exemption from this contribution. Since it has a fixed rate regardless of the company’s invoicing, the Cofins can be considered a regressive contribution.

Currently, the Cofins is ruled by Law n. 9.178/1998, which raised the percentage of contribution to three percent of the invoicing. It can be compensated with the Social Contribution on Net Profit (CSLL) by up to one third of the paid Cofins, in compliance with the requirements of this law. Since February 1, 2004, the Cofins has two rates. The first one is three percent and the second is 7.6% for the non-cumulative modality, specified in Law n. 10.833/2003. In some operations, the rates can be different.

The evolution of the Cofins in the period from January 1995 to February 2006 (graph 4) shows a substantial alteration of the series as of 1999, as a result of the rate increase from 2% to 3% in the that year. Moreover, more volatility of the series is observed after 1999, a period that was also marked by a rising trend of the collection of this contribution.

GRAPH 4

Evolution of the Cofins-GDP ratio



Source: National Treasury Secretariat.
Prepared by Ipea/Dirur/CFP.

2.2 Temporary Contribution on Financial Activities (CPMF) or transmission of values and credits and rights of a financial nature

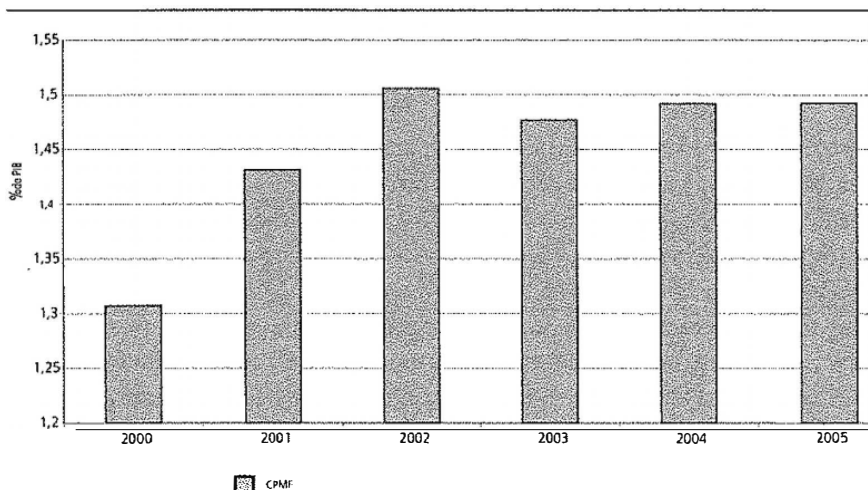
The CPMF was instituted by Law n. 9.311, of October 24, 1996, and entered into force on January 23, 1997. Its incidence base refers to any operation or movement carried out by financial institutions, that entails contractual or physical circulation of currency, whether it results or not in the transfer of ownership of the same values, credits and rights. Currently, the CPMF is charged at the rate of 0.38%. It is planned to last until 2007. However, it will likely be renewed or even made permanent.

The evolution of CPMF collection between 2000 and 2005 can be divided into two sub-periods. In the first, between 2000-2002, there was a significant expansion of collection in real terms and in terms of share of GDP. In 2001, the real growth of the CPMF reached 11.5% and in 2002, 8.9%. This expansion is explained by three factors: increased rate, real growth of the economy and recovery of resources through legal sentences. In 2000, for about six months, the CPMF was in force with a rate of 0.30%. In 2001, the 0.30% rate was in force for only two and a half months, with an increase to 0.38% through the rest of 2001. However, in 2002, in addition to the twelve complete months with a rate of 0.38%, there was an acceleration of economic growth in relation to 2001 and an addition of R\$ 300 million from judicial deposits and conversion

of deposits, in compliance with PM n. 66/2002 (except article 24) and PM n. 75/2002 (article 14). This behaviour is reflected in terms of increase of CPMF collection as share of GDP: in 2000, the CPMF reached 1,31% of GDP, increasing to 1.43% and 1.51% of GDP, in 2001 and 2002, respectively.

The second analysis sub-period goes from 2003 to 2005. This period is characterised by the stability of the CPMF rate at 0.38% and reduction of the effects of atypical collection of the judicial deposits in 2002. As a consequence, the CPMF collection was basically influenced by the behaviour of the real growth of GDP. With this, the CPMF collection stabilised at around 1.49% of GDP between 2003-2005 (graph 5). In terms of real growth, the CPMF followed the evolution of the real growth of GDP

GRAPH 5
Evolution of CPMF collection



Source: Treasury National Secretariat MF.
Prepared by Ipea/Dirur/CFP.

The CPMF has been an important source of collection for the federal government, especially because, as a contribution – and differently from taxes – it does not need to be shared with the states and municipalities. In 2005, the collection reached R\$29 billion, representing 6.28% in the total collection of taxes and contributions by the National Treasury. In the 2000-2005 period, this participation presented a slight decrease as of 2001, with the average of the period reaching 6.6% of the total. In the total of contributions, this decline was more important, given that the CPMF in 2001 represented 10.6% of the total and in 2005 this percentage fell

to 9.4%, with the average for the 2000-2005 period at 10.1%. This drop can be explained by the collection gains obtained with the other contributions (Cofins, PIS/Pasep, CSLL), which in the last years have become more important in relation to taxes. The CPMF itself has continuously increased its participation in relation to taxes between 2000-2004, decreasing only in 2005. In the average of the 2000-2005 period, the CPMF's share in the total of taxes was 19.5%.

The CPMF has been successively extended for two reasons: allocation of the resources in areas considered a priority and due to the policy of generation of primary surpluses, implemented as of 1999. Initially, the CPMF resources were only intended to finance health expenditures, particularly through the National Health Fund. Currently, part of the collection is also applied in the Fund to Fight Poverty. In the case of Health, Constitutional Amendment n. 29/2001 determines that the resources cannot drop as a ratio of GDP from one year to the next. On the other hand, the Fund to Fight Poverty, created by article 79 of the Act of Transitory Constitutional Provisions, in force until 2010, encompasses, to a large extent, the resources of the cash transfer programmes aimed at poor families, such as the *Bolsa Família*. Moreover, the CPMF is an important source of resources that helps generate primary surpluses. In the 2000-2005 period, if all the CPMF resources had been used to finance the primary surpluses of this period, the average financing would be of the order of 62.3% of the total. On the other hand, even if all the CPMF resources are not used to compose the primary surplus, they are allocated to the social funds mentioned above, which represent rigid expenditures. In the absence of the CPMF, they would have to be financed with other revenue sources.

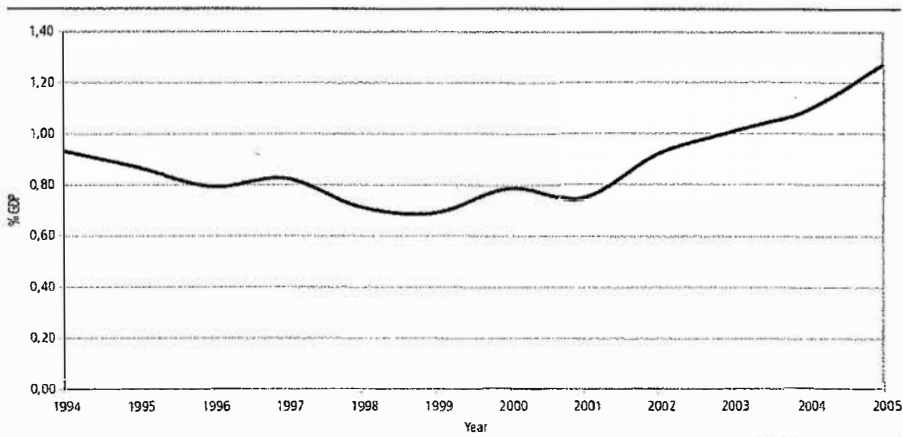
2.3 Social Contribution on Net Profits (CSLL)

The CSLL was instituted by Law n. 7.689, of 1988, with a view to assisting the financing of Brazilian social welfare. Its calculation base is the value of the companies' yearly profit, before the Income Tax provision. Currently, the rate of this contribution is 9%, but this rate has undergone several changes. For example, when the Law was promulgated the rate was 8%, and it reached 12% in 1999.

The analysis of the behaviour of the series shows a change of trend in the evolution of the CSLL collection as of 2002. The series shows a stationary behaviour, in spite of some oscillation, in the years before 2002. From then on, an uninterrupted growth in collection took place. Numerically speaking, the average growth rate between 1994 and 2001 was 2.7% in real value, while from 2002 onwards, the average rate rose to 13.9%. Moreover, there have

been no decreases in collection in any year since 2002. It should also be noted that, as of 2002, the CSLL as a ratio of GDP never stopped growing, rising from 0.75% in 2001 to 1.27% in 2005 (graph 6).

GRAPH 6
CSLL as ratio of GDP between 1994 and 2005



Source: National Revenue Secretariat.
Prepared by Ipea/Dirur/CFP.

Therefore, as of 2002, there has been an unmistakable growth of CSLL participation in GDP, in the current revenue of the federal government and in the total of federal contributions. This is the result of alteration of the tax rules that regulate the CSLL.

This article analysed the factors responsible for the behaviour of the main taxes and contributions of the Union in the recent period. Along the last years, there has been an increase of the relative participation of social contributions in the total revenues collected by the Union. The three contributions analysed here (Cofins, CPMF and CSLL) underwent significant increases in collection in the period, which can be attributed mainly to the alterations of their rates or in taxation rules. Taxes, in turn, had a less regular evolution in the period. The IRPF grew 20% more than in real terms between 2003 and 2005, while the IPI has presented a downward trend in the ten last years. The IRPJ and the IRRF collections resumed growth in 2004 and 2005, after a drop in 2003.