

TAXATION



National Confederation of Industry
Brazil
CNI. THE STRENGTH OF THE BRAZILIAN INDUSTRY

TAXATION ON FOREIGN TRADE: EQUAL CONDITIONS FOR COMPETITIVENESS

- *The existence of cumulative taxes prevents exports from being fully tax exempt. Brazilian exporting companies, unlike their competitors, export taxes, that is, they lose competitiveness in the international market.*
- *To compensate exporting companies for this situation, the government has created tax reimbursement mechanisms, but these are ineffective and marked by excessive red tape.*
- *Some measures need to be implemented with the aim of reducing and simplifying the tax burden on foreign trade in the short term.*

The Brazilian tax system is burdensome, complex and marked by excessive red tape. Besides bearing a high tax burden, Brazilian companies are forced to pay many different taxes and to comply with excessively bureaucratic procedures.

The existence of cumulative taxes prevents exports from being fully tax exempt. Unlike their competitors, Brazilian exporting companies export taxes, that is, they lose competitiveness in the international market.

To compensate exporting companies for this situation, the government has created tax reimbursement mechanisms, but these are ineffective and marked by excessive red tape. In addition to not being completely tax-exempt, companies find it very difficult to be reimbursed for taxes collected in excess. The result is a growing accumulation of tax credits by companies, which is an additional disincentive to exports.

The negative effects of taxes on exports can also be minimized by adopting special customs

regimes such as those of Drawback, Recof, Recof-Sped. Although they stimulate exports, these regimes need to be improved with the aim of reducing the constraints that limit companies' access to them.

Given these shortcomings of the tax system, export immunity, although provided for in the Federal Constitution, is of a limited scope and does not ensure full tax exemption for Brazilian exports. As an aggravating factor, in recent years the tax debate in Brazil has often considered undesirable solutions adopted in the past, such as that of taxing products exported by the country, mainly by levying the turnover tax (ICMS) on them, with the aim of reversing exemptions granted under the Kandir Law and Constitutional Amendment 42/2003.

In this scenario, **since no tax reform has been carried out in the country** to improve the tax system and eliminate existing distortions, measures need to be taken to reduce and simplify the tax burden on foreign trade in the short term..

Main recommendations

- 1 Exemption of the turnover tax (ICMS) on all Brazilian exports should be ensured.
- 2 The REINTEGRA rate should be updated to the maximum level allowed by law by means of a decree.
- 3 Mechanisms for using federal and state tax credits from exports should be improved.
- 4 The special customs regimes for stimulating exports should be improved.
- 5 The costs for unloading goods in the national territory should be eliminated from customs fees.

The full version of the document can be accessed through the QR code on the side or at: <http://www.cni.com.br/eleicoes2018/downloads/> This summary is part of the series Proposals of Industry for the 2018 Elections comprising 43 documents. The series, which is based on the *2018-2022 Strategy Map for Industry* is a CNI contribution to the new federal administration and presents analyses and proposals of priorities to increase Brazil's competitiveness. Any part of this publication may be copied, provided that the source is acknowledged. Brasília-DF, July 2018.

