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CORPORATE TAX: BRAZIL NEEDS TO ADAPT TO THE NEW GLOBAL STANDARDS

- *Brazil needs to improve its rules on corporate tax in order to enhance its ability to attract investment, increase its presence in Global Value Chains and speed up its economic growth pace.*
- *Brazil can no longer have standards that are inconsistent and not in line with international standards.*
- *Convergence, in addition to being recommended and necessary for the Brazilian economy, has become an imperative as a result of Brazil's application for accession to the OECD.*

Brazil needs to improve its rules on corporate tax in order to enhance its ability to attract investment, increase its presence in Global Value Chains (GVCs) and speed up its economic growth pace. The new international tax order that arose from the BEPS (Base Erosion and Profit Shifting) Project and Brazil's application for accession to the OECD provide an environment conducive to the changes the country needs to make. However, this new order also presents risks to Brazil's economic growth and tax base in case of non-adaptation of tax standards.

Countries are seeking to redefine their positions in GVCs through the multilateral negotiation of a new system of international tax standards. From then on, reforms in each country should be designed in a coherent way for the country to move up in these chains and capture more value. This will affect the competitiveness of multinational companies and influence the localization of technological advances.

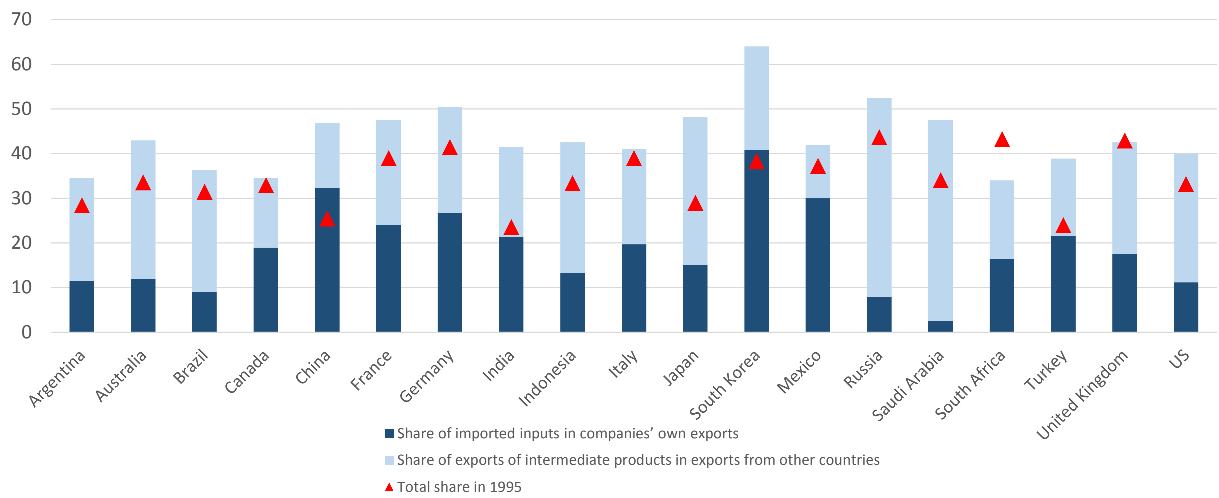
Adopting new standards that are more stringent than those that preceded the BEPS Project, consistently and in harmony with the rest of the world will allow each country to curb abuses to the same extent as its competitors, while contributing to a level playing field. This measure of neutrality of anti-abuse standards between countries is essential to ensure the competitiveness of these countries, which need to protect their tax bases without sacrificing their economic efficiency and social welfare.

The improvement of corporate tax in Brazil can be neither selective (choosing only the rules of interest to the tax authority without attention to economic effects) nor more stringent than the international standard, as this would not solve the BEPS problem and would reduce its inclusion in GVCs, in addition to increasing the tax burden on foreign investment.

Brazil no longer has the option of maintaining inconsistency and non-harmonization with international standards and OECD Guidelines. Convergence, in addition to being recommended and necessary for the Brazilian economy, has become an imperative in view of the country's application for accession to the OECD. Moreover, the new international tax order emerges as a viable alternative for Brazil.

Expanding the network of double taxation treaties and converging with international best practices, in cooperation with the OECD and in line with the tax policies of other large emerging economies (such as China and India), is the path for Brazil to avoid losses (and generate gains). This option not only will protect the National Treasury and Brazilian investment abroad but will ensure a new way for Brazil's inclusion in GVCs, which in turn will increase foreign investment in Brazil.

SHARE IN GLOBAL VALUE CHAINS, PERCENTAGE (%) – 2009



Source: OECD.

Main recommendations

1 The network of double taxation treaties should be expanded and improved to avoid double taxation, reaching a number of treaties compatible with the size of the Brazilian economy and comparable to the networks maintained by the other BRICS countries, Mexico and the G20.

2 Transfer Prices in Brazil should converge with international standards while maintaining positive aspects of current Brazilian standards. All Brazilian methods and fixed margins would remain in force with specific improvements but would be optional (safe harbors).

3 The nominal taxation rate for corporate tax [Corporate Income Tax (IRPJ) and Social Contribution on Net Profit (CSLL)] should be reduced to below the OECD average; he 30% threshold for offsetting tax losses should be eliminated; and Interest on Equity (JCP) should be improved in order to become fiscal exclusion (hypothetical or assumed expense of interest on capital stock and retained earnings that remain reinvested).

4 The world's best anti-deferral practices (CFC) identified by Action 3 of the BEPS Project should be adopted. Brazil should adopt an effective standard to combat the abuse, artificiality and accumulation of unproductive capital abroad. It is important, however, that the standard does not discourage investment and reinvestment in foreign operations.

5 Incentive to technological innovation should be expanded by allowing the consolidation of expenses and incentive calculation within a period of up to five years (and not only those of each year separately); deductibility in cases of outsourcing of innovation activities within the national territory should be ensured; and the tax incentive deduction should not be limited to the taxable profit (tax loss may be recorded).

6 A new Cooperative Compliance with Tax Obligations (CCT) program for major taxpayers and transnational corporations should be created.

7 A system of mutually binding consultations (including transfer pricing - Advance Pricing Agreement or APA) and Tax Arbitration in the Mutual Agreement Procedure (MAP) of treaties (TDAs) should be established, and access to these mechanisms for taxpayers who join the CCT/PRORELIT should be increased.

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. Brasília-DF, July 2018.

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