

Commercial leasing awaits Tax Reform

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After experiencing the most severe recession in the history of the country in 2016, the Brazilian economy now shows some improvement. It is already possible to glimpse some promising signs, such as the expressive drop in the inflation rate and the decrease in the base interest rate, which tends to help retake the families' consumption and increase the demand. The commercial leasing market shall benefit from this improvement in the economic outlook.

With the change of government in mid-2016 – Dilma Rousseff was removed from her office and Michel Temer became the President of Brazil –, the new economic team has consistently worked to reduce the inflation and the interest rates. The Broad Consumer Price Index (IPCA), indicator that measures the official inflation, accrued for 12 months until July, was 2.71%, the lowest rate for the period since 1999. The base interest rate, in turn, decreased to 9.25% per annum in August, and new drops are foreseen. Therefore, the trend is that the economy will continue to recover, even though slowly.



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The negative aspect is the unemployment rate, which is still quite high. However, the indicators are expected to start showing some improvement over time.

With a more favorable political environment, the economic agents hope the government will manage to proceed with the wanted Tax Reform. While this Reform is not put into action, important productive sectors, such as the commercial leasing, will continue to deal with the legal insecurity and its negative effects on the economy.

The complexity of the tax system has been an obstacle to the socio-economic development. Thus, the Tax Reform shall try to simplify the collection process, in contrast with the complexity of the current system.

The new apparatus has to be economically efficient, show a fair distribution, be governed by clear rules and, most importantly, be simple, keeping the harmony between the several Federation entities (Union, States and Municipalities), around common principles, aiming to avoid the constant “tax war” regarding the levies, as well as the consequent legal disorganization and insecurity that prevails in the Brazilian tax system.

Brazil is one of the few countries in the world that does not adopt the Value-Added Tax (VAT), which is characterized by the tax discrimination. The VAT would also be an important step towards the reduction of the Brazilian bureaucracy. Studies show that the adoption of this new levy could increase by 10% the value of the Brazilian Gross Domestic Product (GDP) within the future years.

The Brazilian tax burden is among the highest in the world – 35% of the value generated by the country is consumed by the taxes. Even so, the maladjustment in the public accounts persist.

In a favorable environment, all segments, including the commercial leasing market (which has once transacted over BRL 100 billion), may foster the productive investments, contributing to the economic growth and development retake. The commercial leasing may contribute to the activity development, since it is a credit modality that enables the access to machines, equipment, trucks and buses, meant to the industrial production.

The commercial leasing market has closed 2016 with a 0.23% share in the GDP. Five years ago, in 2011, this share corresponded to 1.48%. At the end of 2016, the Present Value of the Portfolio (VPC) reached BRL 14,097 billion, a reduction of 21% in comparison with December 2015.

The number of lease-purchase agreements was 289,348. Among the goods most commonly leased, we can mention machines and equipment, which are responsible for 41.16% of the total portfolio; vehicles and similar items, with a 31.69% share; aircrafts, with an 11.55% share; IT equipment, with a 7.13% share; and other types of goods, with a 3.02% share of the total portfolio.

With a more promising scenario, as shown by some economic indicators, the update in the national tax model is urgent in order that the companies feel safe to make investments and to compete in the global market under fairer conditions. We are sure that Brazil will retake the sustainable growth path and establish the conditions required to enter in a new economic expansion cycle.

Present portfolio value - top 20 lessors in 2016

| POSITION | COMPANY | TOTAL US\$ | CONTRACTS | SHARE % |
|------------------------|--|----------------------|------------------|----------------|
| 1 | Bradesco Leasing S/A Arrendamento Mercantil | 809.730.961 | 18.630 | 19,25 |
| 2 | Santander Leasing S.A. Arrendamento Mercantil | 624.323.635 | 26.863 | 14,84 |
| 3 | Banco IBM S/A | 538.946.062 | 1.947 | 12,81 |
| 4 | Banco Itaucard S/A | 519.820.320 | 76.688 | 12,36 |
| 5 | Safra Leasing S/A Arrendamento Mercantil | 329.563.644 | 16.045 | 7,84 |
| 6 | HP Financial Services Arrendamento Mercantil S/A | 305.484.749 | 3.635 | 7,26 |
| 7 | SG Equipment Finance S.A. Arrendamento Mercantil | 285.408.172 | 704 | 6,79 |
| 8 | Cia. de Arrendamento Mercantil RCI Brasil | 235.430.000 | 50.408 | 5,60 |
| 9 | Daycoval Leasing - Banco Múltiplo S.A | 126.562.547 | 3.631 | 3,01 |
| 10 | BB Leasing S/A Arrendamento Mercantil | 89.910.918 | 3.317 | 2,14 |
| 11 | Alfa Arrendamento Mercantil S/A | 80.588.260 | 1.245 | 1,92 |
| 12 | Banco J. Safra | 40.507.287 | 3.725 | 0,96 |
| 13 | Banco de Lage Landen Brasil S/A | 40.048.314 | 394 | 0,95 |
| 14 | Banco Toyota do Brasil S/A | 39.387.989 | 1.968 | 0,94 |
| 15 | Banco Rodobens S/A | 31.980.779 | 570 | 0,76 |
| 16 | Citibank Leasing S/A Arrendamento Mercantil | 25.011.160 | 235 | 0,59 |
| 17 | Banco Volkswagen S/A | 20.956.694 | 5.757 | 0,50 |
| 18 | Banco Bradesco Financiamentos S/A | 20.437.596 | 46.953 | 0,49 |
| 19 | Banco Itauleasing S/A | 18.212.911 | 335 | 0,43 |
| 20 | CCB Brasil Arrendamento Mercantil S.A | 15.112.670 | 72 | 0,36 |
| Total | | 4.197.424.670 | 263.122 | 99,80 |
| Total of market | | 4.205.680.802 | 289.348 | 100,00 |

Fonte: Abel – Associação Brasileira das Empresas de Leasing

New investments - top 20 lessors in 2016

| POSITION | COMPANY | TOTAL(US\$m) | CONTRACTS | SHARE % |
|------------------------|--|----------------------|---------------|---------------|
| 1 | Banco IBM S/A | 362.397.032 | 406 | 20,67% |
| 2 | Santander Leasing S/A Arrendamento Mercantil | 324.961.535 | 2.928 | 18,53% |
| 3 | HP Financial Services Arrendamento Mercantil S/A | 180.892.362 | 690 | 10,32% |
| 4 | Bradesco Leasing S/A Arrendamento Mercantil | 142.747.904 | 1.517 | 8,14% |
| 5 | SG Equipment Finance S.A. Arrendamento Mercantil | 129.023.701 | 184 | 7,36% |
| 6 | Banco Itaucard S/A | 115.502.313 | 747 | 6,59% |
| 7 | Cia. de Arrendamento Mercantil RCI Brasil | 105.338.874 | 11.563 | 6,01% |
| 8 | Safra Leasing S/A Arrendamento Mercantil | 73.872.582 | 1.762 | 4,21% |
| 9 | HSBC Bank Brasil S/A | 53.565.547 | 561 | 3,06% |
| 10 | Banco J. Safra | 46.215.353 | 3.956 | 2,64% |
| 11 | Daycoval Leasing - Banco Múltiplo S.A | 44.180.060 | 780 | 2,52% |
| 12 | Alfa Arrendamento Mercantil S/A | 40.725.946 | 370 | 2,32% |
| 13 | Banco Toyota do Brasil S/A | 32.029.239 | 1.745 | 1,83% |
| 14 | Banco Volkswagen S/A | 24.761.121 | 417 | 1,41% |
| 15 | Banco de Lage Landen Brasil S/A | 19.965.970 | 101 | 1,14% |
| 16 | BB Leasing S/A - Arrendamento Mercantil | 18.738.997 | 444 | 1,07% |
| 17 | Citibank Leasing S/A Arrendamento Mercantil | 17.487.881 | 80 | 1,00% |
| 18 | Banco Rodobens S/A | 9.499.189 | 143 | 0,54% |
| 19 | Banco Bradesco Financiamentos S/A | 8.807.982 | 266 | 0,50% |
| 20 | Banco GMAC S/A | 1.924.426 | 204 | 0,11% |
| Total | | 1.752.638.016 | 28.864 | 99,96% |
| Total of market | | 1.753.351.539 | 28.866 | 100,00 |

Source: Abel – Associação Brasileira das Empresas de Leasing

Equipment leased 2008-2016 (US\$ M)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Vehicles and related | 44.525 | 57.596 | 37.617 | 17.283 | 10.862 | 4.810 | 3.067 | 1.572 | 1.365 |
| Machinery and equipment | 4.470 | 6.195 | 6.858 | 6.310 | 5.869 | 5.275 | 3.407 | 1.972 | 1.772 |
| Aircraft | 255 | 403 | 540 | 578 | 660 | 854 | 895 | 569 | 498 |
| Computer equipment | 475 | 1.284 | 1.239 | 1.036 | 1.175 | 686 | 405 | 276 | 307 |
| Installations | 68 | 88 | 110 | 89 | 72 | 51 | 69 | 40 | 37 |
| Furniture | 77 | 101 | 110 | 89 | 67 | 58 | 56 | 29 | 28 |
| Ships | 31 | 46 | 56 | 58 | 53 | 61 | 75 | 46 | 40 |
| Real estate | 47 | 69 | 270 | 59 | 84 | 40 | 28 | 21 | 20 |
| Others | 140 | 223 | 239 | 43 | 45 | 18 | 98 | 107 | 130 |
| Total | 50.088 | 66.005 | 47.039 | 25.545 | 18.887 | 11.853 | 8.100 | 4.632 | 4.197 |

Source: Abel – Associação Brasileira das Empresas de Leasing

Collectible leases per sector 2008-2016 (US\$ M)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Individuals | 37.847 | 46.321 | 36.408 | 20.007 | 9.779 | 4.855 | 1.949 | 684 | 625 |
| Services | 7.745 | 9.335 | 9.208 | 6.759 | 5.802 | 5.138 | 5.353 | 3.236 | 3.043 |
| Commerce | 4.069 | 4.094 | 3.398 | 2.043 | 1.740 | 1.237 | 1.065 | 593 | 607 |
| Industry | 4.553 | 5.191 | 4.865 | 3.354 | 2.610 | 2.060 | 1.751 | 921 | 810 |
| Government | 134 | 92 | 97 | 97 | 158 | 76 | 167 | 126 | 109 |
| Others | 611 | 945 | 2.042 | 1.237 | 978 | 490 | 468 | 157 | 108 |
| Total | 54.959 | 65.978 | 56.018 | 33.497 | 21.067 | 13.856 | 10.753 | 5.717 | 5.302 |

Source: Abel – Associação Brasileira das Empresas de Leasing