

# The tax reform urgency

Osmar Roncolato Pinho  
Presidente

**WLY 2021**

The discussion on the reform of the tax system has been dragging on in Brazil for about two decades, but only now has the issue taken the top of the government and Congress' economic agenda. As it is a complex issue and involves the interests of several actors in our economy, there is a war between the rock and the sea to define the tax model that should prevail.

The negative impact caused by the pandemic on the tax collection of the public sector highlighted the need to promote structural reforms to modernize the Brazilian State.

A significant advance was the approval in the first half of 2020 of the new basic sanitation law, reinforcing a set of reforms initiated with the Labor and Social Security reform. Now, we are facing the opportunity to untie one of the knots of growth and sustainable development in Brazil. For that, it will be necessary to approve a broad and consistent tax reform aiming the following principles: neutrality, equity, progressivity and simplicity.



Osmar Roncolato Pinho  
Presidente

The political climate is most favorable to its approval. There is a national mobilization - governments, parliamentarians and the private sector - in favor of an urgent change in the national tax matrix.

The general perception is that, to accelerate the post-pandemic economic recovery, it is necessary to reduce the burden of bureaucracy, simplify and unify taxes. A complex tax system like the one in Brazil drives away investments.

We are one of the most bureaucratic countries in the world and have a system in which one tax is levied on the other. Instead of improving, the situation has worsened, as shown by the World Bank's Doing Business 2020 ranking, which measures the ease of doing business. After occupying 109th place on the 2019 list, Brazil went down to the unimaginable 124th position in the last report, out of a total of 190 countries evaluated.

A Brazilian company spends up to 34 thousand hours a year to calculate and pay taxes, fill and meet accessory obligations and monitor inspections. It is as if it took a person four years to handle all this work. The Tax of Tomorrow survey, carried out by Deloitte, takes into account information from large companies, with revenues of more than R\$ 7 billion.

In the case of the leasing sector, the weight of taxes and legal uncertainty are practically preventing an activity that contributes to the sustainable development of our economy. Year after year, the sector has been losing ground to other types of credit. In December 2019, the leasing market share in the Gross Domestic Product (GDP) was 0.16%. Ten years ago, this participation represented almost 3.5% of GDP.

The Present Value of the Portfolio (VPC) recorded a balance of R\$ 12.436 billion in December 2019. Among the most leased assets were machinery and equipment, responsible for 43.77% of the total portfolio; vehicles and similar, with 23.82%; aircraft, with 17.33%; and other types of goods, 15.08%.

Three tax reform proposals are currently under discussion: two presented by the Legislative Power (Chamber of Deputies and the Federal Senate) and one by the Executive Power (Ministry of Economy). The proposals of the Chamber and the Senate advance aiming for the establishment of a value-added tax (VAT) and converge with the extinction of several taxes that affect goods and services. These taxes would be unified in a single tax, called the Tax on Goods and Services (IBS). The main differences between the two proposals are related to tax competence in the distribution of the collection (federal or state), tax rate, and the granting of tax benefits for specific activities (health and education, complementary to the State).

The model created by the Chamber - based on the project of the Center for Tax Citizenship (CCiF), an independent think tank, idealized by economist Bernard Appy - is broad and aims to contribute to the economic growth of the country.

If this tax matrix is adopted, the Gross Domestic Product (GDP) has the potential to grow up to 20.2% in 15 years, taking into account its direct effects of the change in the tax regime in the business environment, investment costs and, in particular, improved productivity, according to a study by LCA Consultores.

The bill presented by the government, on the other hand, seeks to phase out national tax reform, and now contemplates only the unification of two federal taxes. The proposal foresees the unification of only PIS and Cofins, creating a tax on the added value of revenues, therefore, admitting the credit originated in the previous phases, called Social Contribution on Operations with Goods and Services (CBS), which would also affect transactions (marketplace operations), similar to the former CPMF (Provisional Contribution on Financial Transactions)

We need to move forward, build a simple, efficient and modern fiscal framework, based on existing models in developed countries. Only then will Brazil be able to turn the page and enter a new phase of sustainable development.



## Present portfolio value - top 20 lessors in 2019

POSITION	COMPANY	TOTAL US\$	CONTRACTS	SHARE%
1	Bradesco Leasing S/A Arrendamento Mercantil	657.948.771	6.473	21,74
2	Santander Leasing S/A Arrendamento Mercantil	513.916.619	24.086	16,98
3	Banco IBM S/A	405.297.771	872	13,39
4	HP Financial Services Arrendamento Mercantil S/A	257.518.320	3.921	8,51
5	Daycoval Leasing - Banco Múltiplo S/A	255.654.505	4.264	8,45
6	Safra Leasing S/A Arrendamento Mercantil	248.685.738	1.929	8,22
7	Banco RCI Brasil S/A	167.706.427	31.954	5,54
8	Banco de Lage Landen Brasil S/A	113.989.772	1.132	3,77
9	SG Equipment Finance S.A. Arrendamento Mercantil	94.793.688	476	3,13
10	Alfa Arrendamento Mercantil S/A	84.748.313	849	2,80
11	Banco Rodobens S/A	58.379.393	573	1,93
12	BB Leasing S/A Arrendamento Mercantil	37.735.328	636	1,25
13	Banco Bradesco Financiamentos S/A	37.415.663	42.954	1,24
14	Banco Itaucard S/A	26.881.793	9.417	0,89
15	CCB Brasil Arrendamento Mercantil S/A	21.596.822	35	0,71
16	Banco Citibank S/A	14.148.024	278	0,47
17	Banco Itauleasing S/A	10.086.779	67	0,33
18	Banco GMAC S/A	9.744.421	1.931	0,32
19	Banco Toyota do Brasil S/A	9.306.563	409	0,31
20	Banco J. Safra	768.681	670	0,03
Total		3.026.323.391	132.926	100,00
<b>Total of the market</b>		<b>3.026.344.126</b>	<b>146.601</b>	<b>100,00</b>

Source : Abel - Brazilian Association of Leasing Companies.

## New investments - top 20 lessors in 2019

POSITION	COMPANY	TOTAL(US\$)	CONTRACTS	SHARE%
1	Bradesco Leasing S/A Arrendamento Mercantil	444.372.567	1.776	22,54%
2	Banco IBM S/A	424.784.295	150	21,55%
3	Santander Leasing S/A Arrendamento Mercantil	359.106.028	1.990	18,21%
4	Daycoval Leasing - Banco Múltiplo S.A	145.937.691	1.210	7,40%
5	HP Financial Services Arrendamento Mercantil S/A	134.436.899	983	6,82%
6	Safra Leasing S/A Arrendamento Mercantil	127.350.295	618	6,46%
7	Banco RCI Brasil S/A	90.292.276	8.980	4,58%
8	Banco de Lage Landen Brasil S/A	65.520.392	423	3,32%
9	Alfa Arrendamento Mercantil S/A	42.022.649	255	2,13%
10	Banco Bradesco Financiamentos S/A	33.008.815	451	1,67%
11	Banco Rodobens S/A	29.969.221	220	1,52%
12	BB Leasing S/A - Arrendamento Mercantil	25.091.827	215	1,27%
13	SG Equipment Finance S.A. Arrendamento Mercantil	19.581.164	87	0,99%
14	CCB Brasil Arrendamento Mercantil S.A	15.798.252	24	0,80%
15	Banco Citibank S/A	6.539.995	115	0,33%
16	Banco Toyota do Brasil S/A	5.501.860	194	0,28%
17	Banco GMAC S/A	2.196.065	133	0,11%
18	Banco Bradesco S/A	0	0	0,00%
19	Banco Itaucard S/A	0	0	0,00%
20	Banco Itauleasing S/A	0	0	
<b>Total of the market</b>		<b>1.971.510.291</b>	<b>17.824</b>	<b>100,00</b>
<b>Source: Abel - Brazilian Association of Leasing Companies</b>				

## Equipment leased 2011-2019 (US\$ M)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Vehicles and related</b>	17.283	10.862	4.810	3.067	1.572	1.365	1.088	757	749
<b>Machinery and equipment</b>	6.310	5.869	5.275	3.407	1.972	1.772	1.496	1.170	1.376
<b>Aircraft</b>	578	660	854	895	569	498	506	400	545
<b>Computer equipment</b>	1.036	1.175	686	405	276	307	384	287	259
<b>Installations</b>	89	72	51	69	40	37	15	31	32
<b>Furniture</b>	89	67	58	56	29	28	27	18	17
<b>Ships</b>	58	53	61	75	46	40	45	25	15
<b>Real estate</b>	59	84	40	28	21	20	17	6	5
<b>Others</b>	43	45	18	98	107	130	103	44	21
<b>Total</b>	25.545	18.887	11.853	8.100	4.632	4.197	3.681	2.738	3.019

Source: Abel - Brazilian Association of Leasing Companies



### Collectible leases per sector 2011-2019(US\$ M)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Individuals	20.007	9.779	4.855	1.949	684	625	452	337	297
Services	6.759	5.802	5.138	5.353	3.236	3.043	2.568	2.029	2.006
Commerce	2.043	1.740	1.237	1.065	593	607	618	597	568
Industry	3.354	2.610	2.060	1.751	921	810	673	632	525
Government	97	158	76	167	126	109	79	50	31
Others	1.237	978	490	468	157	108	70	70	83
Total	33.497	21.067	13.856	10.753	5.717	5.302	4.460	3.715	3.510

Source: Abel - Brazilian Association of Leasing Companies