



Monthly Report
January

Tax collection sets record in 2008

IN ITS FIRST ISSUE, FONTE ANDIMA ANALYSES, WITH A FOCUS ON THE FINANCIAL SECTOR, THE EXCELLENT RESULT OF THE TAX COLLECTION OBTAINED BY THE FEDERAL REVENUE OF BRAZIL IN 2008, IN SPITE OF THE END OF CPMF TAX COLLECTION, AS OF JANUARY 1, 2008, AND THE EFFECTS FROM THE WORLD FINANCIAL CRISIS ON THE ECONOMY PERFORMANCE, CAUSING A DECREASE IN REVENUE OVER THE PAST MONTHS OF THE YEAR COMPARED TO THE SAME PERIOD IN 2007. IN VIEW OF THE REVERSAL OF THE LEVEL OF ACTIVITY, THE SET OF MEASURES FOR TAX DISCHARGE ADOPTED BY THE GOVERNMENT AT THE END OF 2008 STANDS OUT, FOCUSING ON STIMULATING THE CONSUMPTION OF GOODS AND SERVICES AND THE PRODUCTION, IN ADDITION TO GRANTING CREDIT, SO AS TO TRY TO GUARANTEE THE CONTINUITY OF ECONOMIC GROWTH. IN AN INTERVIEW TO FONTE ANDIMA, THE SECRETARY OF THE FEDERAL REVENUE, LINA VIEIRA, COMMENTS ON THE RECORD PERFORMANCE OF TAX COLLECTION AND ANALYZES THE OUTLOOK FOR 2009, IN A WORLD CRISIS SCENARIO: "MILLIONS OF WORKERS' JOBS AND THE MACRO-ECONOMICAL BALANCE MAY DEPEND ON THE EFFICACY OF OUR ANSWER".

Economic activity contributes to record tax collection

A new record was broken: the collection of taxes and contributions managed by the Secretariat of the Federal Revenue of Brazil and other revenues (fees and contributions controlled by other bodies) in 2008 reached R\$ 701 billion. The revenues managed by the Federal Revenue, specifically, reached R\$ 675 billion, or, R\$43 billion more than the figure posted the previous year. Such a 6.81% expansion was possible, even without the CPMF tax, which has no longer been charged since January 1, 2008, the collection estimate of which was R\$40 billion.



It is worth pointing out that, in the beginning of 2008, the government adopted measures to offset such a loss, such as the increase in the IOF (Tax on Financial Operations) levied on credit, foreign exchanges and insurance operations, and in Social Contribution on Net Income levied on the financial sector (from 9% to 15%); and the decrease of public expenses in cost and investment, especially up to October last year, the increment in expenses resulting from the economic growth, which enabled an increase in industrial production, sales and companies' income also contributed to the good results obtained with the tax collection.

Concerning the taxes related to the financial sector which presented positive result, both in the variation and share in total, the following stand out: IRRF (Withholding Income Tax) on capital yields, due to the increase in redemption of fixed-income investments and swap transactions, CSLL (Social Contribution on Net Income) and IOF. The IOF collection recorded expressive increase of 145.68% compared to the previous year, higher than the Revenue's initial estimative of R\$ 16 billion. The result was influenced by the continuity of the strong increase in credit operations, which grew by 30.97% for individuals and 42.35% for legal entities, between January and November 2008, over the same period in the previous year – which enabled an excellent collection of IOF-Credit.

It is also worth pointing out that the IOF legislation was amended specifically in the credit and foreign exchange modalities. In the first case, the main change was the increase in rates from 0.0041% to 0.0082% in credit operations destined to individuals, with the additional inclusion of 0.38% on all transactions. Regarding IOF-Foreign Exchange, the most important one was the increase in the rate, from zero to 1.5%, in the settlement of foreign exchange operations for the inflow of resources in the country, made by foreign investor, as of March 17, 2008, for investment in fixed-income, including in National Treasury bonds.

Measures aim at minimizing crisis effects

In view of the worsening in the international financial crisis (September/October), which caused strong retraction in international credit lines and decrease in the offer of foreign currency in the Brazilian market, the government issued Decree no. 6,613/08, which reduces IOF-Foreign Exchange, with the purpose of reestablishing this offer and, thus, containing the dollar appreciation: the tax rates decreased from 1.5% to zero, in the settlement of foreign exchange transactions for the inflow of resources from foreign investors in



the fixed-income operations, as of October 23; and from 0.38% to zero, in the event of inflow and outflow of resources referring to loans and financings.

In addition, as a means to relieve the cash flow of companies and increase the liquidity of the financial system, on November 14 the Provisional Measure no. 447 was issued, which extended from 5 to 10 days the maximum term for the payment of main federal taxes. The payment of PIS/Cofins, for instance, was postponed from the 20th to the 25th of each month. Later, on December 4, the government issued the Provisional Measure no. 449, amending the federal tax collection related to the ordinary division into installments of tax debts, discharging debts deemed little and established tax benefits to renegotiate federal debts.

Still in December, on the 11th, with the intention to grant the continuity in the economy growth – which had already been giving signs of slowdown – a tax discharging measure package was announced, with tax renouncement estimated into R\$11 billion. Among them, the creation of two rates in the Income Tax of individuals' table stand out, the IPI (Excise Tax) on vehicles decrease and the cut in the rate of IOF-Direct credit for individuals, from 0.0081% to 0.0041% per day, aiming at stimulating consumption, especially capital goods.

Other amendments to tax legislation

Provisional Measure no. 449 has also brought important news as to tax rules referring to the financial sector, among which the amendments to Law no. 6,404/76, which provides for Stock Companies, in order to adjust them to the new methods and accounting criteria introduced by Law no. 11,638/07, in the ascertainment of calculation bases of federal taxes (convergence project of Brazilian accounting rules to international standards). The RTT – Transition Tax System – was instituted, aimed at preserving the principle of tax neutrality of the changes included in the Brazilian accounting standard. The adoption of this System is optional for calendar years 2008 and 2009, and compulsory from then on.

The rule also establishes that the debts related to the monthly payment due to estimate of IRPJ (Income Tax of Legal Entities) and CSLL cannot be purpose of compensation. Thus, the financial institution which has tax credits previously ascertained will no longer be able to use them during the year to be discounted monthly in the collection of prepayments of said taxes, as it used to occur up to 2008. Such an impediment, in practice, limits the availability of cash flow for companies, especially in a moment of scarce liquidity.



In article 40, the Provisional Measure introduces another innovation when taking into consideration the credit operation and the leasing operations whose installments, added up, account for more than 75% of the cost of the good. These operations, therefore, would be subject to the levy of

IOF-Credit, although the rules instituting the IOF on financial leasing operations would only produce an effect as of the issue of regulatory rule by the Executive Branch, which shall only occur when the macro-economical conditions require so.

2009 Outlook

Although resulting from a high comparative basis, the decrease in the tax collection in November and December 2008, year on year, was also influenced by the decrease in some economic indicators, which leads to the supposition that the 2009 revenue will be lower than the 2008 revenue. Thus, the government announced a temporary block up to March of R\$37.2 billion in allocations of the Union's General Budget for this year.



Interview – Lina Vieira

Tax collection requires cooperation with states and cities

IN AN INTERVIEW TO FONTE ANDIMA, FEDERAL REVENUE SECRETARY, LINA VIEIRA, COMMENTS ON THE POSITIVE PERFORMANCE OF TAX COLLECTION OVER THE PAST YEAR AND ANALYSIS PERSPECTIVES FOR 2009, IN A WORLD ECONOMIC CRISIS SCENARIO. “MILLIONS OF WORKERS’ JOBS AND THE MACROECONOMICAL BALANCE MAY DEPEND ON THE EFFICACY OF OUR ANSWER. IN ORDER TO FACE THIS CHALLENGE AND IMPROVE THE FUNCTIONING OF THE TAX MACHINE, IT IS FUNDAMENTAL TO ADVANCE IN THE COOPERATION WITH STATES AND CITIES”.

In your opinion, which are the factors which mostly influenced the record results achieved by the tax collection over the past years? And which contributed for the Revenue to achieve the total collection target for 2008?

The positive performance of collection managed by the Federal Revenue of Brazil over the past years, especially in 2007 and 2008, with actual growths of 12,2% and 6.81%, updated by IPCA, mainly results from factors related to the performance of economic and administrative actions developed by the Revenue itself and the General Attorney of the National Treasury, with a view to recovering the debts overdue and maintenance of the collection regular flow. Specifically to 2008, the main factors which contributed to achieve the collection target were higher profitability of salaries and the good performance of industrial production in this period. As a result, the IRPJ and CSLL collection, as a whole, had an actual increase of 20%, in 2007, and 16.7%, in 2008. It was the set of taxes which mostly contributed to the total increase in collection.

In addition to the reflexes from the world financial crisis on the level of activity in the country, what is the reason for the decrease in collection over the last two-month period of 2008 compared to the same period in 2007? What taxes mostly contributed to such a performance?

Up to October, the increase in collection compared to the same period in 2007 was characterized by the concentration in taxes whose main basis is the profit, such as IRPJ, CSLL and IRPF referring to the sale of assets with profit. In November and December, these taxes accounted the actual decreases of 2.13% and 4.58%, respectively, in the collection of revenues managed by the Federal Reserve. With effect, IRPJ, CSLL and IRPF – Capital Gains had actual decrease of 22.73%, while the others showed actual increase of 0.30%.



This fact, although based on the slowdown of some indicators in November 2008, in view of the financial crisis which starts to affect the real economy, also resulted largely from the high elevation verified in November and December 2007, as a result from the going public of Bovespa and BM&F, which impacted IRPJ and CSLL referring to the financial institutions and brokerage firms, and also IRPF (Income Tax on Individuals) on Capital Gains.

In addition, the historical series in the post-Real period, that is, between 1995 and 2008, shows that monthly decreases in the collection have been frequent, except for 2005 and 2006, when the country experienced significant economic growth and an expressive increase in actual income. The fact that November and December 2008 accused actual decreases, already expected due to atypical collections in the same period in 2007, did not compromise the actual increase of collection in the year.

In view of the economic slowdown started in 2008, with perspective to continue in 2009, which factors may positively contribute for the collection this year? In this regard, what structural measures could be adopted in order to improve the efficiency in the Brazilian tax system, guaranteeing good collection and, consequently, tax balance?

The capital systemic crisis which broke out in the center of the most powerful economy in the planet started with the US real estate chaos, affected the global financial system and already advances on real economy. Such a situation will require efficient, precise, proper answers from the state government. The country will depend on their regulation. And so will our people. Millions of workers' jobs and the macro-economical balance may depend on the efficacy of our answer. It is worth observing that the current management of the Federal Revenue does not count on CPMF, nor does it count on the "ammunition" used in the post-Real period: the frequent rate increases. On the contrary, the systemic crisis requires discharges and term extensions, which reduce the institution's collection potential. In order to face this challenge, to pursue the support of a collection level which allows maintaining tax balance, the Revenue will strongly invest in perfecting the instruments for following and controlling the inspection of compliance with tax obligations. We will appreciate the cooperation and integration of work articulated with states and cities, for we understand that the movements of federal tax collection shall not and cannot ignore the interface with the other scopes. The perspective that we will singly, without counting on the "sleeping" resources from such federative solidarity, gain efficacy, efficiency and effectiveness does not elude us. Advancing in cooperation is fundamental to perfect the functioning of our tax machine.