From Analysis to Impact
Partnership Initiative Case Study Series

Brazil: Fighting for Social Justice through Tax Policies

Brazil is one of the most unequal countries in the world and the country's tax system has exacerbated the inequality. Between 1995 and 2009 tax increased from 27% to 35% of gross domestic product (GDP). The main reason for this was an increase in consumption taxes, a form of taxation that burdens the poor more than the rich. In 2003, those with incomes double the minimum wage or less spent 45.8% of their income on consumption taxes while those with income more than 30 times the minimum wage spent only 16.4%.

The 1988 federal constitution of Brazil says that the tax system should be based on solidarity, equality, universality and ability to pay. It also says that everyone must be fully informed about all taxes. This is difficult for indirect taxes which are hidden in the prices of goods and services.

In Brazil, there are three budgets – for tax, social security and investment. Some types of revenue are reserved for the social security budget, which finances welfare and social services. This approach was adopted to ensure that social rights are prioritized in budgeting.

In 2008, the government sent a new tax reform proposal to Congress. The reform aimed to change the way funding for social security and services worked. The reform also aimed to end the "tax war" between Brazilian states which is caused by competition to attract investment. Government had many discussions with business and political leaders about the reform but discussed it very little with civil society and trade unions.

The Institute for Socioeconomic Studies (INESC) therefore came together with other leading civil society organizations to form the Movement to Defend Social Rights under Threat by Tax Reform (MSDR). The MSDR built a broad coalition of more than 100 organizations, including grassroots organizations, social movements, labor unions, religious organizations and research groups. INESC was in a good position to lead the coalition because the organization is not aligned with specific religious, corporate or partisan interests. It also had an office that could support MSDR administratively.

There were different agendas among the MSDR members but two principles united them. Firstly, they agreed that the tax system should be made fairer by more taxing of income and assets. Secondly, they wanted to protect the 1988 Constitution's provision for specified sources for financing social policies. These two principles were explained in a manifesto that was signed by more than 100 organizations.

INESC opened dialogue with the government and parliament by publishing several technical papers. These papers were used by all coalition members and also laid the basis for discussions with the Chamber of Deputies.

INESC also wrote a letter to the President of the parliament asking him to create a forum with representatives of employees, employers and civil society organizations to discuss the reform. The letter was signed by 71 civil society organizations, but the President did not respond.

The reforms were, however, discussed in a day-long public hearing organised by the social security and family committee of the Chamber of Deputies. There was good attendance at the hearing by deputies and the main supporter of the reform in the Ministry of Finance also attended.

There were many further meetings with members of the executive and party leaders in the Chamber of Deputies. In April 2009 the MSDR met with the President of the Chamber to present the manifesto. He promised to encourage party leaders to allow more time for debate of the reform proposals. He also advised MSDR to prepare amendments to the proposed reform.

Brazil's Federal Revenue Service changed its leader in July 2008 and the new team did not support the reform proposal. In 2009 the global economic crisis reached Brazil, GDP contracted by 0.2% and tax revenue dropped by R$7 billion. These

developments, combined with resistance from some state governors and the MSDR campaign led to the proposed tax reform being abandoned.