


Reflections on proposals for reform of the Individual Income Tax (IIT) in Brazil

 <https://doi.org/10.56238/sevened2024.003-042>

André Nunes¹, Gustavo Barbosa Leite², Paulo Suero dos Santos Cavalcanti Moreira³ and Wilson Faria dos Santos⁴

ABSTRACT

This article assesses the state of the art in proposals for reforming the Individual Income Tax (IIT) in Brazil. Various discussions and proposals have been presented over the past years. The discussion regarding changes to the IIT regained momentum after the government introduced a proposal for consumption-based tax reform, leading to subsequent discussions in the House of Representatives and the Senate. Economic agents' expectation is that the next step will involve presenting a proposal for income tax reform. The purpose of this article is to discuss proposed changes in the design of the Individual Income Tax in Brazil by reviewing specialized literature and shedding light on these modifications. Thus, the article aims to evaluate three recurring questions in the IIT reform discussion: progressiveness and/or regressiveness; tax brackets, their corresponding rates, and legal deductions for medical expenses; and the taxation of profits, dividends, and investment funds.

Keywords: Individual Income Tax, IIT, Taxes, Tax Reform.

¹ Dr. in Economics, University of Brasília (UNB), Brasília, DF, CEP: 70910-900.

E-mail: andrenunes@unb.br

ORCID: <https://orcid.org/0000-0001-9928-6245>

² Master's student in Accounting, University of Brasília (UNB), Brasília, DF, CEP: 70910-900.

E-mail: gustavoleiteunb@gmail.com

ORCID: <https://orcid.org/0000-0002-5315-974X>

³ Master's student in Accounting, University of Brasília (UNB), Brasília, DF, CEP: 70910-900.

E-mail: paulosuero@gmail.com

ORCID: <https://orcid.org/0009-0003-7269-4048>

⁴ Master's student in Accounting, University of Brasília (UNB), Brasília, DF, CEP: 70910-900.

E-mail: willfaria08@gmail.com

ORCID: <https://orcid.org/0009-0003-2924-7082>



INTRODUCTION

The taxes are provided for in the Federal Constitution of 1988, and their collection is not linked to the provision of government services nor does it mean any direct link with something specific, point out Pinto, Mathias, Souza and Ferreira (2023). They are justified because there is a need to sustain the State so that it can, for example, execute its public policies, including reducing social inequalities.

The taxes levied in Brazil are a constant topic in economic discussions, since there are several indicators that show that the Brazilian burden is considered high. Castro (2014) reveals that the collection of taxes in contemporary governments is, in relation to the respective national income, between one third and half of it.

The importance of this study is due to the complexity of the Brazilian tax system, as well as the compliance with principles such as tax progressivity and regressivity, in addition to the citizen's ability to contribute to the taxes levied on their income and consumption. Another important issue is that according to Reis and Washington (2019); According to Fagnani, Vaz, Castro and Moreira (2018), Brazilian tax evasion is around R\$ 500 billion per year.

There is always the discussion of whether the high tax burden proportionally reflects the benefits that society thinks is fair for what is contributed. In 2023, the consumption tax reform, headed by the Constitutional Amendment Projects (PEC) No. 45/2019, 110/2019 and the Bill (PL) No. 3887/2020, is a central theme in the political and economic field, although PL No. 2,337/2021, which amends the Individual Income Tax (IRPF), is not in progress in the Federal Senate.

PECs 45/2019 and 110/2019, together with PL No. 3,887/2020, are the pillars of the current tax reform discussed in the National Congress, whose objective is to simplify the country's complex taxation process. The most preponderant aspect, so far, is to establish a duality in the taxes collection instruments, using the Value Added Tax (VAT), composed of the Contribution on Goods and Services (CBS) and the Tax on Goods and Services (IBS). The CBS would then be a federal tax, whose objective would be to replace PIS and Cofins, while the IBS would be a subnational tax, whose objective would be to replace the ISS and ICMS.

In the political scenario that presents itself, it is not possible to say if the current PL No. 2,337/2021 will be followed or if the government that took office in 2023 will make a new project, but it is a fact that the IRPF table in Brazil is outdated, and taxpayers clamor for an update of the table as one of its bases is the principle of ability to pay, (Machado and Silva, 2023).

Delimiting the subject, the proposal is to discuss the IRPF in relation to the principle of progressivity, if the principle is being met or if in fact there is a tax regressivity as well as the discounts of medical expenses interfere in this equation. Discussing consumption taxation and commenting on examples of taxation around the world.

Since 1979 the income tax is the champion of collection in Brazil compared to other taxes at the federal level and it was by article 31 of Law No. 4,625, of December 31, 1922 that the income tax had its implementation in Brazil, there were previously punctual taxes on income, however, there was no department and employees with exclusive dedication to income tax, This administrative machine was even the target of criticism at the time because it was a new tax, explains Nóbrega (2014).

The article is made up of five sections, starting with this introduction. In the second part, the theoretical foundation and relevant research on the subject are presented, followed by reflections on taxation in Brazil and in the world, in the fourth part, the proposal for IRPF reform in Brazil is discussed, and finally the final considerations are presented.

THEORETICAL BACKGROUND AND RELEVANT RESEARCH ON THE TOPIC

The theories that have supported the article and the literature review of the main previous research on the subject can be verified as shown in the following table:

Chart 1: Selected Literature Review (Theme and Findings)

Authors (year)	Theme	Findings
Castro, F., A. (2014)	Personal Income Tax: International Comparisons, Progressivity and Redistribution Measures	The progressivity of a tax helps to equalize the distribution of income before it is levied, in order to help the State fulfill its redistributive role.
Silva, M., S., C. & Conceição, L., P., L. (2015).	The Matrix Rule for the incidence of Individual Income Tax and health deductions.	It refutes the idea that such health deductions might consist of revenue waivers.
Silva, L. D. C., Duarte, F. L., & Oliveira, B. B. (2021).	Effects of the incidence of ICMS and IRPF on income distribution in Paraíba: Analysis of the progressivity/regressivity of taxes.	The progressiveness of the IRPF compensates for the regressive effect of the ICMS, especially in the intermediate ranges.
Leonetti, C. A. (2015).	The Human Rights of Taxation – a Concrete Case: the right to the full deduction of expenses with medicines from the calculation basis of income tax.	The Brazilian taxpayer is entitled to the deduction from the IRPF calculation basis of the expenses with the purchase of medicines, in light of the provisions of the Constitution of the Republic.
Coelho, A. F. C., & BORBA, B. E. (2018).	Individual and Personal Income Tax: a precarious and deteriorating relationship.	Although the IRPF is enshrined by doctrine and jurisprudence as a tax ontologically related to the principles of economic capacity and ability to pay, it has a precarious degree of personality.
Machado & Silva (2023)	Discrepancy in the Personal Income Tax Table and the ability to pay	The discrepancy in the updating of the table by 295.1% since July 1994 affects the lower income classes of the population.
Ocké-Reis (2018)	Sustainability of the SUS and waiver of tax collection in health	The renunciation of tax collection induces the growth of the health insurance market – to the detriment of the strengthening of the SUS – and also generates a situation of distributive injustice, by favoring the upper income strata and certain profitable economic activities
Torres, C.; Mellbye, K.; Brys, B. (2012).	Trends in personal income tax and employee social security contribution schedules	They explored historical and cross-OECD trends in statutory personal income tax rates.
Paes, N. L. (2014).	Individual Income Tax – A comparative analysis of Brazil in relation to Latin America	The IRPF is progressive, however, it does not compensate for the high regressivity of consumption taxation.
Gobetti (2022)	New Trends for Good Income Tax Reform	It is possible to promote a reform in the taxation of capital income that reconciles the principles of equity



		and neutrality, with positive effects for economic growth.
Borges (2022)	Estimates of effective rates of direct taxation.	From a certain level of income, the tax progressivity on individuals is not perceived.
Reis, T., L., B., & Washington, A., D. (2019).	A New Model for Personal Income Tax in Brazil.	It identified a strong close relationship between inequality of taxation and unequal income.

Source: Prepared by the authors based on the articles analyzed.

The findings that make up the table are not exhaustive, they were extracted from the study according to the authors' understanding, so that they were aligned with the theme of this article. Silva, Duarte and Oliveira (2021) state that there are few studies in Brazil whose theme is optimal taxation with a focus on income distribution and highlighted the work of Eris et al (1983), Siqueira et al (1999), Viana et al (2000) and Benegas and Alves (2014) in this line, when developing their work, which is one of the bases of this article.

The scarcity of studies on the subject of taxation of personal income is also pointed out by Paes (2014), the author complements the information by identifying that the concentration of works is directed to social inequality. It can be noted that the discussions on consumption, services and income taxation are fierce debates that have been going on for a few decades in Brazil and that, in general, tend to clash.

Authors such as Castro, (2014); Chieza, Franchescini and Santos (2020); Machado and Silva (2023) understand that the best alternative to the progressive tax would be the income tax and not the consumption tax. According to these authors, income taxation is effective as an instrument of tax progressivity, since it relates in a directly proportional way the amount of capital taxed to the amount of capital earned. That is, the taxpayer who has a higher income therefore has a higher incidence of taxes at source than the taxpayer who has a lower income, while both have the same level of taxation on consumption.

There is also the issue of deductions for medical expenses, which some authors present different views regarding their necessity, such as Leonetti (2015) who justifies it by alleging the ability to pay, a different thought from Ocké-Reis (2018) who defends a standardization because he understands that the deduction goes in line with tax regressivity.

REFLECTIONS ON TAXATION IN BRAZIL AND IN THE WORLD

REFORM TRENDS

Through an analysis of IRPF declarations in Brazil, it was found that the concentration of income has increased, thus heating up discussions related to how to mitigate the growing inequalities generated by the current form of taxation, Gobetti (2022). Therefore, the question arises that, in fact, it may be that the IRPF is being regressive, that is, when the average tax rate decreases as income



increases, as described by Chieza, Franchescini and Santos (2020). This regressivity is seen as a space for reform given that it is verified at the top of the income distribution, because in 2020 Brazil was close to an effective rate of 24% of taxable income, however incomes above 160 national minimum wages had a rate of around 21%, according to Borges (2022).

The IRPF, as a progressive tax, should, by its model, charge more from those who earn more, however Gobetti (2022) states that the Brazilian model has a low degree of progressivity in labor income, in addition to exempting profits from individuals, a policy adopted in 1996. A fair tax system has to go through the reform of the Brazilian IRPF so that it can be a source of revenue and enable the reduction of inequalities, as explained by Paes (2014).

The return of dividend taxation is even one of the agendas in constant debate and, apparently, it will be taken up in the next income tax reform. In fact, such a return is provided for in Bill No. 2,337/2021, which is stalled in the Senate and it is not certain whether the current project will be reinforced by the current government or a new one.

Even if the current government proposes a new IRPF reform, the scenario points out that Brazil is mature enough for the return of taxation of profits and dividends, which does not mean that the fact of how to tax them is mature. Gobetti (2022) corroborates, with regard to the calibration of the rate, also pointing out other problems in the text approved by the Chamber of Deputies, such as the exemption for partners of micro and small companies, which he considered inefficient, having identified possible loopholes for the partial escape of the new taxation by the very rich.

BRIEF COMPARISON OF TAX RATES IN BRAZIL AND IN THE WORLD

In Brazil, the IRPF is defined based on five income brackets, where each bracket is assigned a rate and a portion to be deducted from the calculated tax. Analyzing each bracket and the respective rate, it is possible to perceive an evolution of the rate as the level of income evolves, which, in principle, suggests the application of progressive taxation.

It so happens that, according to Borges (2022), in Brazil the effective taxation on personal income tends to be lower than previously calculated using nominal rates. According to the author, this is due to the exemption range and the legal deductions of the IRPF, such as medical expenses, education, dependents, alimony, social security contributions, among others. Borges (2022) also considers that the maximum nominal tax rate in Brazil is relatively low - which is broadly contradictory to the general perception of the population - but makes this consideration based on the comparison with other countries.

Torres, Mellbye and Brys (2012) conducted a survey of effective taxation (TE) in relation to nominal taxation (TN) in OECD countries and found a similar trend. As a result of the study, they identified, for some countries, a pattern where effective taxation is relatively lower than nominal



taxation. For example, a TE of about 10% was observed in Chile and 20% in Mexico, compared to a TN of about 30% in both countries. In the United States of America and Norway, a similar fact was observed. In these countries, there was approximately a TE of 30% compared to a TN of 40%.

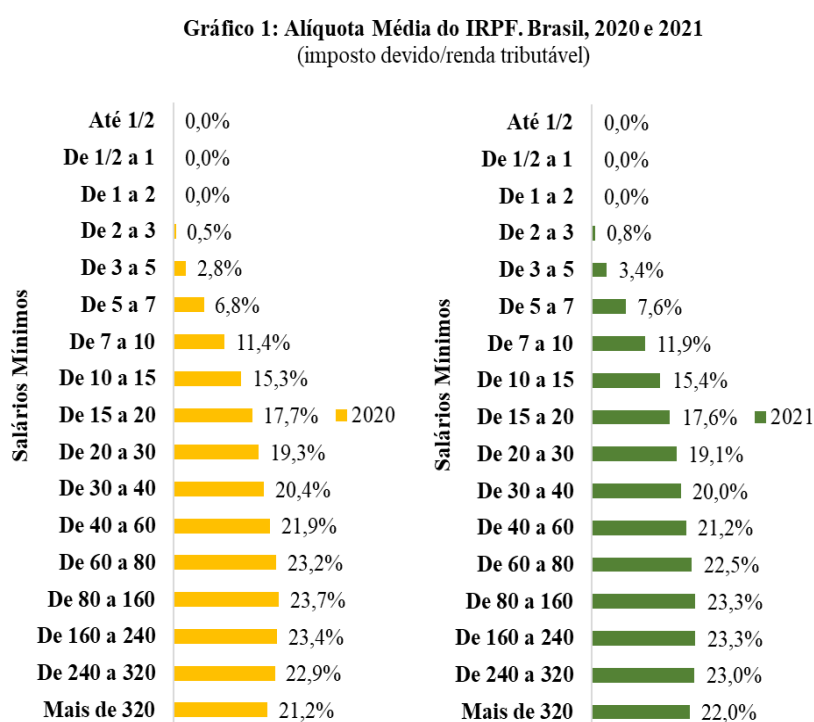
In addition to the similarity in effectively taxing less than nominally predicted, from the data above it is possible to verify another much discussed issue in terms of tax justice: taxation on income *versus* taxation on consumption.

Based on the countries mentioned, it is evident that there is a trend of higher effective taxation on income in developed countries compared to emerging countries. Discussions on the subject, in general, tend to conclude that a higher effective taxation, preferably progressive, on income and lower on consumption, leads to greater tax justice, when it tries to equalize the purchasing power of individuals of different income levels, given the impossibility of adjusting market prices to the consumer's income level.

DIAGNOSIS OF IRPJ TAX EFFECTIVENESS AND PROGRESSIVITY IN BRAZIL

In Brazil, data from the Federal Revenue Service identified that in 2020 the maximum effective tax rate was 23.7% against the maximum nominal rate of 27.5%, while in 2021 the maximum effective rate was 23.3% against the same maximum nominal rate of 27.5%, as shown in the chart below, which shows the average effective rates by income bracket, measured in monthly national minimum wages:

Chart 1: Average Corporate Income Tax Rate in Brazil in 2020 and 2021



Source: Prepared by the authors, with data from the Brazilian Federal Revenue Service.

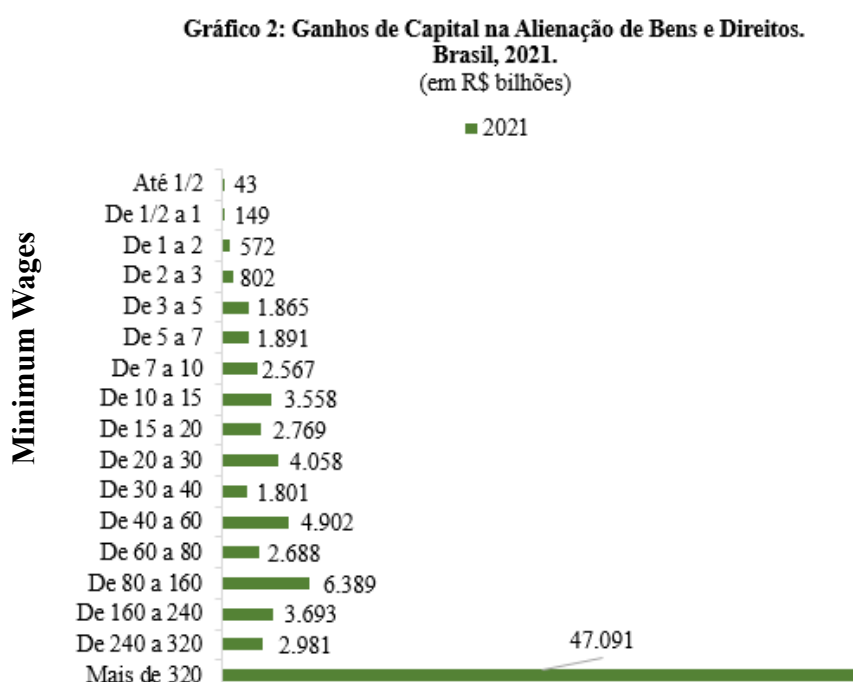


However, although the above distribution seems to demonstrate a certain progressivity in taxation as one advances in the income brackets, one fact that becomes evident is that the maximum effective tax rate is not in the highest bracket of taxable income in any of the periods analyzed. With this, we return to the frequent discussions about the effective tax progressivity of the IRPF and its effective use as an instrument of fiscal and economic balance and justice. In the study conducted by Torres, Mellbye and Brys (2012) from 34 countries analyzed, Brazil was the only one that showed a reduction in effective taxation from a certain income bracket.

Another evidence of the inconsistency in the IPRF tax progressivity thesis is obtained when we analyze the average effective tax rate, also considering exempt income and those subject to exclusive taxation. According to data from the Federal Revenue Service for 2021, the most relevant income subject to exclusive taxation (disregarding the 13th salary) refers to income from financial investments and gains on the sale of assets and rights. For exempt income, the most relevant items refer to profits and dividends received, income from a partner or owner of a micro or small business, and donations and inheritances.

This analysis is relevant, since, notably, these items, which substantially compose the categories mentioned above, are directly linked to taxpayers with higher purchasing power. For example, the category "gains on the sale of assets and rights" reached the amount of R\$87.819 billion in 2021. Of this total, R\$47.091 billion was earned only by the "More than 320" range, as shown below. That is, about 54% of the exempt capital gains in 2021 were earned only by taxpayers with very high purchasing power who are in the last monthly income bracket.

Chart 2: Capital Gains on the Sale of Assets and Rights in Brazil in 2021

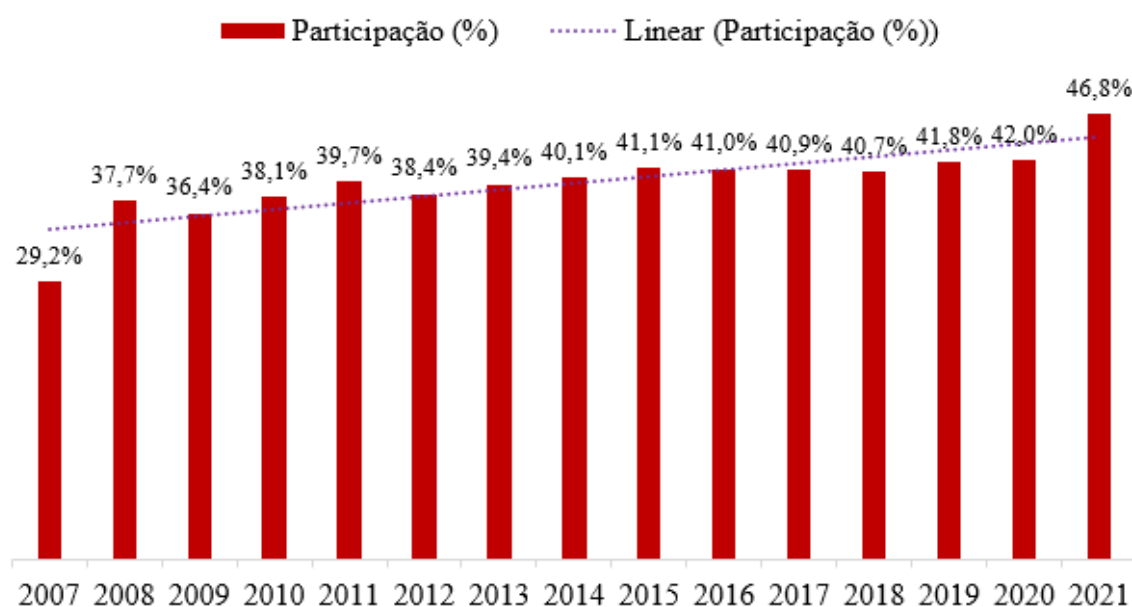


Source: Prepared by the authors, with data from the Brazilian Federal Revenue Service.

A fact that further raises the degree of concern regarding the tax progressivity of the IRPF in Brazil is that, although taxpayers from lower income brackets do not have a relevant share of exempt income and those subject to exclusive taxation in their total income, these types of income have increasingly had a share in the total income of taxpayers in the country. which, as a logical consequence, denotes even greater concentration of income at the top of the distribution.

Chart 3: Percentage Share of Exclusive and Exempt Income in Total Income in Brazil from 2007 to 2021

Gráfico 3: Participação Percentual dos Rendimentos Exclusivos e Isentos na Renda Total. Brasil, 2007 a 2021.



Source: Prepared by the authors, with data from the Brazilian Federal Revenue Service.

Another important point to be considered is that the increase in the share of exempt income in the total income of the most favored classes is worrisome from the point of view of tax collection and, consequently, from the tax point of view. And the justification is relatively simple. As it is exempt income, some taxpayers have chosen to carry out transactions that can be categorized in this typology, in order to avoid tax collection.

Some categories considered exempt are: (i) donations and inheritances, (ii) net gains of up to R\$ 20 thousand per month in the stock market, (iii) net gains in operations with gold, financial assets of up to R\$ 20 thousand per month, (iv) capital gains on the sale of foreign currency in cash up to US\$ 5,000.00 per year.

Based on the fact that the activities mentioned above, in general, tend to be carried out by taxpayers in the highest income brackets, and that this type of income has increased, the tax authorities have increasingly stopped generating revenue for the activities described above and for the highest income brackets.



INCOME TAXATION IN BRAZIL

Taxation will occur progressively, proportionally or regressively depending on the way the tax is levied on the object, as explained by Duarte (2019) *apud* Silva, Duarte and Oliveira (2021). The importance of the IRPF can be seen from its high collection power in relation to other taxes, another characteristic of the IRPF is that it is the tax that best portrays the principle of progressivity, its form of taxation contains progressive marginal rates for the ranges stipulated in the rule, explains Castro (2014).

Coelho and Borba (2018) explain that between 2001 and 2014, there was a huge increase in taxpayers in the IRPF taxation, the authors point out that there were wage increases, however, part of the population lost some of their disposable income. This loss of income may be related to the federal government's preference to tax consumption more, considering that the IRPF collection remained practically stable in Brazil in the period from 1990 to 2010, but lost 0.5% in the collection space, as explained by Paes (2014).

Pires (2022) says that progressivity is a principle that, employed in the tax system in line with the appeal of the social, the rich should contribute more to the development of society and finance the State and in a scenario of increased tax burden, the rich should pay more, as well as the possible implementation of the Tax on Large Fortunes. "Progressivity is achieved when the average or effective rate of a tax increases with the increase in the taxpayer's income. (Chieza, Franchescini and Santos, 2020).

Income is the variable that the government uses as a payment capacity indicator for the implementation of a progressive tax framework, so that individuals with lower incomes will have reduced rates and consequently higher rates for those with high incomes, that is, the so-called direct taxation, point out Silva, Duarte and Oliveira (2021).

According to Chieza, Franchescini and Santos, (2020) Brazil's progressive tax policy aimed at reducing income inequalities was not achieved through tax reforms. Our most recent case is MP 1,171/23, which updates the IRPF table in a different way compared to the last editions, did not change anything in relation to the deduction of medical expenses and brings aspects of the taxation of profits and dividends as of January 1, 2024 of income earned abroad.

The following table shows a comparison of the last update of the IRPF table.

Table 2: IRPF Brackets and Rates Table, Brazil, 2023.

Maintained	Until April 2023		From May 2023		Variations in the instalments to be deducted	
	Aliquot	Basis of Calculation	Portion to be deducted (A)	Basis of Calculation	Portion to be deducted (B)	Variation A and B (R\$)
Zero	Up to 1,903.98	Zero	Up to 2,112.00	Zero	Zero	Zero
7,5	1,903.99 to 2,826.65	142,80	2,112.01 to 2,826.65	158,40	15,60	10,92
15	2,826.66 to 3,751.05	354,80	2,826.66 to 3,751.05	370,40	15,60	4,40
22	3,751.06 to 4,664.68	636,13	3,751.06 to 4,664.68	651,73	15,60	2,45
27,5	Above 4,664.68	869,36	Above 4,664.68	884,96	15,60	1,79

Source: Prepared by the authors based on the articles analyzed.

The trigger of R\$528.00 was an innovation of MP 1,171/23, as it increased the IRPF exemption range, reducing the possible taxpayers of the rate of 7.5% to the amount of R\$2,264.00. The tax brackets remained at the rates of 7.5%, 15%, 22% and 27.5% and the portion to be deducted had a very reduced adjustment in the amount of R\$15.60.

By the variation in reais, it can be seen that there was an equality in the portion to be deducted from each tax bracket, however, in the proportional variation there is a decrease in the rate from 7.5% to 27%, a fact that meets the principle of progressivity. Thus, by MP 1,171/23, there was no change in the calculation basis at the upper limit of each rate.

Regarding deductions for medical expenses, the IRPF in Brazil allows the taxpayer to deduct some expenses from the calculation basis for taxation purposes, such as education expenses (with a spending limit) and medical expenses (with no limit). The deductions of expenses with doctors and dentists in the IRPF were legalized in 1948 by virtue of Law No. 154, of November 25, 1947, both the expenses of the taxpayer and their dependents were allowed to some taxpayers and there was an exemption limit, according to Nóbrega (2014). It is interesting to note that the rebates were only in relation to the expenses with the professionals.

The deduction of certain expenses in the tax is not an exclusive Brazilian case, there are other examples in the world and Leonetti (2015) believes that the reason may be to "ensure compliance with the principle of ability to pay (in force in Brazil and in other countries) and to encourage certain behaviors, by the taxpayer, that the State considers relevant, in light of the public policies adopted".



Leonetti (2015) understands that when the deduction of tax expenses such as health is ensured, the State recognizes that these expenses are affecting the citizen's ability to pay. Silva and Conceição (2015) argue that medical expenses could never be taxed, as they are related to the search for human dignity and are a fundamental right provided for in the constitution. Along these lines, Ocké-Reis (2018) understands that the reduction of medical expenses contributes to the regressivity of public finances as they tend to favor the upper classes, the author also points out the health insurance market as a major beneficiary of this waiver, reaching 12.5 billion in 2015 adding IRPJ waiver and subsidies to the health insurance market. Ocké-Reis (2018) argues for a standardization of this waiver of tax collection, understanding that it can harm the funding of the Unified Health System (SUS), because in relation to the IRPF, there is no limit to the reduction of expenses.

INCOME TAX REFORM PROPOSAL IN BRAZIL

The proposal for Income Tax (IR) Reform materialized through Bill 2,337/21, forwarded in 2021, has as its main scope in this new phase the fight against regressivity through the revision of the IR table. The exemption bracket may grow, while those who earn more may start to pay more tax. Indeed, there is no way to analyze a proposal of this sphere of importance without taking into account political aspects inherent in decision-making. Understanding the problems of the current system and the construction of a basic agenda in order to increase tax progressivity and income tax efficiency in Brazil are relevant challenges for the successful approval of the Bill.

An important aspect of income tax in Brazil is its low progressivity, that is, those who have a lower ability to pay end up sustaining a higher tax burden, in order to make the system inefficient and unfair. Currently, the system has an exemption range, which has not been updated for eight years, and four rates: 7.5%, 15%, 22.5% and 27.5%.

In this line of intellection, the current systemic conjuncture begins with Law 9,250/95, which increased the marginal rate from 10% to 15%, while Law 9,887/99 increased the rate from 25% to 27.5%. The other intermediate ranges of 7.5% and 22.5% were created in 2009 as a response to the international financial crisis (Law 11.945/09). The final changes, although minimal, acted in the scope of ratifying the progressive aspect of the tax without, however, advancing in a relevant way at the top of distribution and collection.

It is worth highlighting a relevant discussion about the level at which Brazil's marginal income tax rate is inserted compared to other countries. For example, when compared to the OECD, the highest average marginal income tax rate is 39.7%, and in several countries it exceeds 50%. This fact can be explained by the high burden of social security taxes on wages in Brazil, so that by including social security taxation at the highest income tax rate to account for taxation on labor,



Brazil moves from the group of countries with low taxation to the group of countries with the highest taxation with 55.5%, while the OECD average is 44.5%.

Finally, it turns out that this system has serious problems, namely: those who are close to the middle of the income distribution pay almost the same, proportionally, as those at the highest top. Thus, in addition to the rates resulting in low effective rates, the system is regressive at the top of the distribution, and; People with the same income are taxed differently.

Reis and Washington (2019) rightly criticize the current IRPF ranges, as they understand that they are "few and wide", apart from the few corrections that leave the table outdated and thus burdening individuals. In addition, it is necessary to identify some blocks, such as (i) changes in taxation on labor income; (ii) taxation of profits and dividends; and (iii) taxation of investment funds.

With regard to the change in taxation on labor income, the main proposal to change the income tax for individuals focuses on the expansion of the income exemption range and rescheduling of the following brackets. The proposed adjustment is asymmetrical: the increase in the exemption range was 31%, while the adjustment for the other ranges is 13%.

It is worth mentioning that the measures related to the updating of the progressive table of individuals and the updating of the value of real estate for the years 2023 and 2024 would lead to a decrease in tax revenues estimated at R\$54.71 billion in 2023 and R\$57.61 billion in 2024 (Source: Agência Câmara de Notícias, 2021).

The return of dividend taxation will be resumed in the next income tax reform. It is even provided for in Bill No. 2,337/2021, which is stalled in the Senate. Even if the current government proposes a new IRPF reform, replacing Bill No. 2,337, the most likely scenario is that the taxation of profits and dividends will be present.

Initially, it is possible to verify, according to the Brazilian Federal Revenue Service, that the exemption on profits and dividends produces regressive consequences. The distribution of profits and dividends to individuals in 2019 by income bracket, according to the data, shows that they account for 58.1% of the declared income of the richest 0.1% in the country. In other words, 58.1% of the income of the richest people is exempt from taxation.

The bill provided that the individual who receives, in the month, profits from more than one micro or small company that exceeds the limit of R\$20,000 must pay the tax based on the rate of 20% on the excess amount, not yet taxed. A relevant question is whether it is possible to indicate simulations that point to the collection capacity of the new model. According to Gobetti and Orair (2016), such taxation could generate a potential collection ranging from R\$ 50 billion to R\$ 80 billion at 2015 prices, depending on the format.



In view of the proposed changes and changes in the tax chain, namely: tax rate on profits and dividends to be withheld at source; MSEs and their deductibility and the alleged exemption demonstrate the main points to be analyzed. The fact is that the discussion about profits and dividends is also related to IRPJ and its developments.

A very relevant criticism of the proposal would be its potentially negative impact on investments by raising the cost of raising funds from shareholders, although some empirical research (Yagan, 2015) indicates that there are no relevant impacts.

The taxation of income tax on transactions on the Stock Exchange, whose calculation is now quarterly instead of monthly, uniformity governs the State's trend with regard to standardized securities at 15%. The proposal also closes the difference in rates according to the negotiated security. The fact that these funds accumulate several tax benefits may generate liquidity problems for the payment of taxes, in addition to judicial ones, given the change in the retroactivity rule.

The current staggering, in which the tax rate varies over time, would fall flat. The rationale is that taxation cannot induce the investor's investment time, the determining factor must be the nature of the security. Finally, the bill seeks to reduce the reduction of the tax rate depending on the term of application. Previously, this incentive was used in order to encourage funding with a longer-term profile in order to stimulate long-term financing.

FINAL THOUGHTS

It can be seen that tax reform is significantly important, both in terms of better compliance with the principles of progressivity, regressivity and ability to pay, as well as in the complexity of its incidence, whether on income or consumption.

On the international scene, the understanding is no different. As discussed, in OECD countries it has been observed that effective taxation is relatively lower than nominal taxation. This makes evident a trend towards higher effective taxation on income in developed countries relative to emerging countries. Therefore, the discussion of a tax reform is not restricted only to our country and/or peer/emerging countries, but also to developed countries with solid and mature economies.

The deduction of medical expenses proved to be a bottleneck to be regulated so that it is not considered a problem that increases social inequality, benefiting higher-income taxpayers and health plans.

The tax reform related to consumption is currently underway in the National Congress, and the best way to unify taxes into two major groups is being discussed: one of federal collection and the other of state/municipal collection. The tendency is that the current reform on the agenda will actually materialize and that then the discussion of the tax reform on income, which is an impactful and very relevant factor in Brazil, will begin.



In fact, discussing income tax reform is no simple task. The theme is comprehensive and disposed of diverse nuances and complex economic and social aspects. In this article, the scope was to evaluate part of the problem, according to our objective, which is to evaluate three recurring issues in the discussion of the IRPF reform: tax progressivity and/or regressivity; the tax brackets, respective rates and legal deductions; and the taxation of profits, dividends, and investment funds.

As previously discussed in the diagnosis section, it is noted that in Brazil the Personal Income Tax has a progressive character up to a certain point of inflection, where from a given level of income income the effective taxation becomes regressive, not achieving the objective of tax justice among taxpayers.



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