

TAX COLLECTION - MODERATION EXPECTED AHEAD

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- Federal tax collection totaled BRL180.2 billion in January, in line with our forecast (BRL181.5 billion) and the median of market expectations (BRL179.2 billion), representing a 1.5% YoY decline in real terms. The core measure increased 3.7% YoY — the sixth consecutive rise.
- The IRPJ/CSLL (business tax) increased 5.8% YoY—considering extraordinary tax collection of BRL1.5 billion in the month, still reflecting activity recovery in 4Q20. The tax collection related to consumption and the labor market continued to decrease, affected by the pandemic and a lower fiscal stimulus at the end of 4Q20.
- The use of tax credits is still rising, reaching BRL23.1 billion in January (BRL6.4 billion higher than January 2020). A higher use of tax credit remains a risk to revenue forecasts (beyond the pace of activity recovery).
- We expect some moderation in tax collection in 1H21, considering the end of fiscal stimulus and the impact of possible increased in the number COVID-19 cases, which could translate into some softening in real activity and tax proceeds. For 2021, we expect 3.8% YoY real growth.

Data published today by the Brazilian Revenue Service (Portuguese acronym, RFB) showed total federal tax collection of BRL180.2 billion in January, in line with our forecast (BRL181.5 billion) and the median of market expectations (BRL179.2 billion). Tax collection decreased 1.5% YoY in real terms in January (Figure 1A). The core measure (not considering atypical revenue and tax credit) grew 3.7% YoY in real terms, the sixth consecutive month with an increase. This improvement comes on the heels of a gradual recovery (or normalization) of economic activity. According to our forecasts, GDP registered a +2.8% QoQ-sa rebound in 4Q20.

The breakdown shows good results for taxes related to business, and weaker results for those related to consumption and revenue linked to formal labor market (payroll and pension contributions)—Figure 2. The IRPJ/CSLL (business tax) increased 5.8% YoY—considering extraordinary tax collection of BRL1.5 billion. Taxes related to the labor market (withholding income tax) continued falling and should take longer to show a consistent recovery, probably in 2H21, in our view.

Although we expect a gradual recovery with domestic activity's reopening process (improved by the vaccination rollout), the greater use of tax credits implies significant downside risks for the year, in our view. In January, tax credits reached BRL23.1 billion, compared to BRL16.9 billion in 2020.

Oil royalty revenue continued to decline (-23.7% YoY) in January 2021 and will be an important factor for tax collection in 2021; in 2020 it registered a 22% YoY drop. We anticipate a significant recovery in the coming months, considering an increase of international oil prices.

Finally, we expect some moderation in tax collection in 1H21, considering the end of fiscal stimulus and the impact of possible increases in the number of COVID-19 cases, which may translate into some softening in real activity and tax proceeds. For 2021, we expect 3.8% YoY real growth.

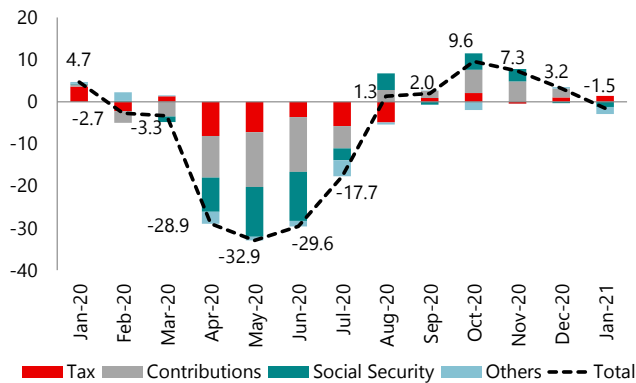
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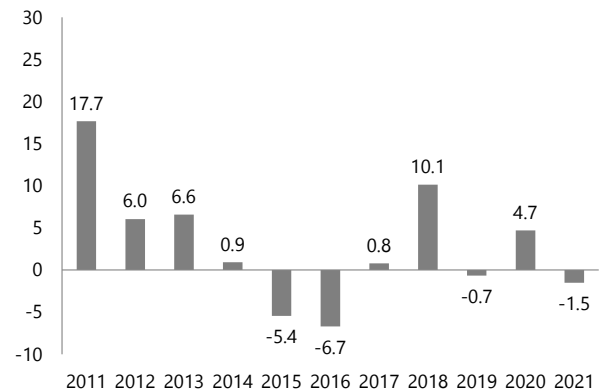


Figure 1.A. Federal Revenue (% YoY real terms)



Sources: Brazilian Revenue Service, Santander.

Figure 1.B. Tax Revenue (January % YoY - real terms)



Sources: Brazilian Revenue Service, Santander.

Figure 2. Tax Revenue Breakdown (BRL million)

Brazilian Tax Collection							
	Weight ¹	Month ²				YTD ²	
		Jan-20	Dec-20	Jan-21	Annual change (%)	Jan-21	Annual change (%)
Total	100	182,988	159,462	180,221	-1.5	1,710,337	834.7
Taxes	38.5	77,182	56,575	79,757	3.3	665,949	762.8
Foreign Trade	3.2	4,276	4,660	4,981	16.5	52,473	1,127.2
Industrialized Products (IPI)	4.0	5,005	6,447	5,954	19.0	66,182	1,222.4
Income Tax	29.9	64,537	43,156	66,599	3.2	520,662	706.8
Households	2.9	2,136	3,874	3,498	63.7	46,365	2,070.4
Companies	12.0	35,678	14,190	37,839	6.1	217,982	511.0
Withholding income tax	15.0	26,723	25,091	25,262	-5.5	256,315	859.2
Financial Operations (IOF)	1.4	3,330	2,168	2,190	-34.3	24,628	639.5
Rural land property	0.1	34	145	34	0.0	2,003	5,834.6
Contributions	28.6	53,331	39,673	53,296	-0.1	489,390	817.6
Social Security (COFINS)	15.2	24,581	22,268	23,626	-3.9	256,989	945.5
Social contribution (PIS/Pasep)	4.4	7,074	6,210	6,784	-4.1	73,911	944.8
Net profit (CSLL)	6.2	18,773	7,233	19,751	5.2	112,773	500.7
Other Contrib.	2.8	2,903	3,962	3,135	8.0	45,718	1,474.8
Pension	28.0	38,533	58,203	36,281	-5.8	466,967	1,111.9
Others Revenue	4.8	13,942	5,011	10,887	-21.9	88,031	531.4

Source: Brazilian Revenue Service and Santander

1 - average in 12 months

2- real terms



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