

**BRAZIL: FISCAL POLICY**

**Tax Collection Gradually Improving as Activity Recovers**

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As published today by the Brazilian Revenue Service (Portuguese acronym, RFB), federal tax collection totaled BRL119.8 billion in September, close to market forecasts (BRL119.7 billion) and higher than our estimative (BRL117.2 billion). The main difference to our forecast was the extraordinary result of business taxes (IRPJ/CSLL) of BRL2.5 billion. Tax collection increased 2.0% YoY in real terms in September (Figure 1A), suggesting a gradual recovery and marking the second consecutive month of growth, after five months of steep decreases, due to the impact of COVID-19.

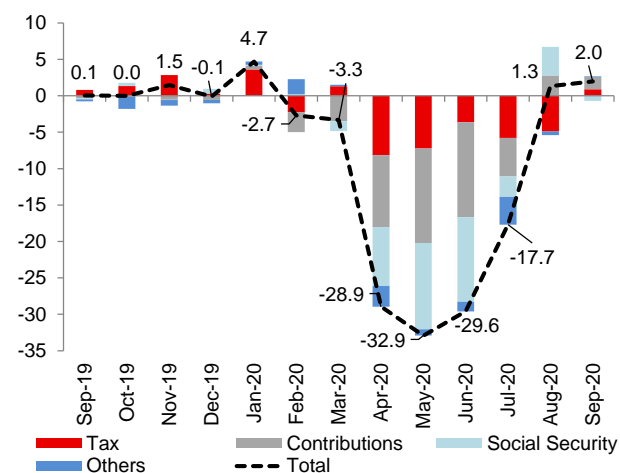
Real core revenue increased 4.2% YoY, indicating a recovery compared to Q2 (-30.1% YoY). This "improvement" comes on the heels of a gradual recovery (or normalization) of economic activities and the end of temporary tax deferrals. While the faster-than-expected economic rebound spawns upside risks for tax collection, the higher use of tax credits implies significant downside risks for the coming months. In year-to-date numbers, tax credit reached BRL108.3 billion, compared to BRL70.6 billion in 2019.

The breakdown shows a notable improvement (Figure 2). The result of IRPJ/CSLL showed an increase of +8.5% YoY, not considering the extraordinary result (BRL2.5 billion). Taxes related to the labor market (withholding income tax) continue to decrease and should take longer before showing a consistent recovery.

We continue to expect total federal tax collection to plunge close 8.5% in real terms this year — equivalent to tax losses of ~BRL135 billion compared to 2019. This estimate already considers the likely creation of a new tax amnesty program that would allow taxes to be paid in installments over the next few years.

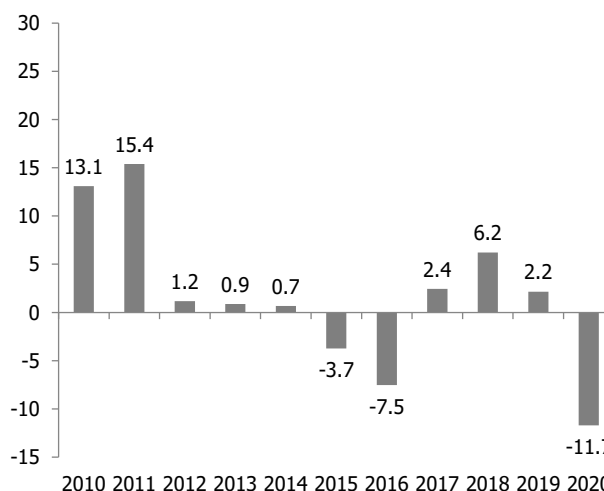
We estimate that this measure widens the central government's 2020 primary deficit by a full BRL80 billion. In any case, given the faster-than-expected recovery in economic indicators of recent months, we see slight upside risk to our government revenue forecasts for this year. For now, we see the 2020 central government's primary fiscal deficit totaling BRL880 billion (12.6% of GDP).

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



Sources: Brazilian Revenue Service and Santander

**Figure 1B. Tax Revenue - (% Ytd September - real terms)**



Sources: Brazilian Revenue Service and Santander

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Figure 2. Tax Revenue Breakdown (BRL million)

Brazilian Tax Collection							
	Weight <sup>1</sup>	Month <sup>2</sup>				YTD <sup>2</sup>	
		Sep-19	Aug-20	Sep-20	Annual change (%)	Sep-20	var. anual (%)
<b>Total</b>	<b>100</b>	<b>117,515</b>	<b>125,301</b>	<b>119,825</b>	<b>2.0</b>	<b>1,035,415</b>	<b>-11.7</b>
<b>Taxes</b>	<b>38.8</b>	<b>42,877</b>	<b>40,001</b>	<b>43,912</b>	<b>2.4</b>	<b>409,576</b>	<b>-7.5</b>
<b>Foreing Trade</b>	3.0	3,992	3,572	4,006	0.3	32,033	-3.0
<b>Industrialized Products (IPI)</b>	3.7	5,000	5,088	5,670	13.4	39,164	-9.9
<b>Income Tax</b>	29.9	29,232	30,389	32,144	10.0	319,345	-4.3
<b>Households</b>	2.7	2,864	3,987	3,602	25.8	30,345	-2.1
<b>Companies</b>	11.4	9,634	11,007	12,425	29.0	126,374	-4.6
<b>Withholding income tax</b>	15.7	16,734	15,395	16,118	-3.7	162,627	-4.6
<b>Financial Operations (IOF)</b>	2.0	3,560	918	861	-75.8	17,609	-43.1
<b>Rural land property</b>	0.1	1,092	35	1,230	12.6	1,425	8.5
<b>Contributions</b>	<b>27.9</b>	<b>35,044</b>	<b>41,138</b>	<b>37,048</b>	<b>5.7</b>	<b>291,059</b>	<b>-15.7</b>
<b>Social Security (COFINS)</b>	15.0	21,191	24,634	21,369	0.8	152,692	-21.7
<b>Social contribution (PIS/Pasep)</b>	4.3	5,694	7,380	5,953	4.5	44,322	-15.8
<b>Net profit (CSLL)</b>	5.9	5,328	5,625	6,305	18.3	65,511	-7.9
<b>Other Contrib.</b>	2.7	2,831	3,498	3,421	20.8	28,534	8.2
<b>Pension</b>	<b>28.1</b>	<b>35,078</b>	<b>40,266</b>	<b>34,250</b>	<b>-2.4</b>	<b>279,114</b>	<b>-12.8</b>
<b>Others Revenue</b>	<b>5.3</b>	<b>4,515</b>	<b>3,897</b>	<b>4,615</b>	<b>2.2</b>	<b>55,667</b>	<b>-14.3</b>

Source: Brazilian Revenue Service and Santander

1 - average in 12 months

2- real terms



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