

NARRATIVE REPORT ON BRAZIL



PART 1: TELLING THE STORY

Brazil is ranked twenty sixth on the 2015 Financial Secrecy Index ranking, having been assessed with a secrecy score of 52, which places it in the lower mid-range of secrecy scores.

Overview

Brazil has taken little action to reduce commercial ties with tax havens. Most of its actions at the international level have revolved around developing links with fellow BRIC countries and trying to rejuvenate the MERCOSUL initiative (its commercial agreement with Argentina, Uruguay and Paraguay, plus recent newcomer countries with observer status: Bolivia, Chile and Venezuela).

Brazil is currently experiencing major political and economic turmoil, which might create some opportunities for tax justice because of the huge demand for increased tax revenue, which may lead to fewer tax breaks for wealthy people and big business.

Brazilian Economy

Brazil faces a massive fiscal deficit arising from three factors: first, overspending in the last two years to guarantee President Dilma's reelection; secondly, an unfavourable global economy, mainly because slack demand in the leading economies has reduced Chinese demand for commodities, which in turn has reduced government income; and, thirdly, the implementation of a regressive economic policy has further aggravated the downturn in government income.

In addition to economic problems, Dilma also faces a court investigation into corrupt activities at Petrobras, an oil company mostly owned by the government and the largest company in Brazil. Petrobras has close political ties to a number of political parties, and the corruption scandal involves most of Brazil's largest heavy construction companies, many of which are also large political campaign donors (to all parties). Of course, the political opposition aims to take advantage of these investigations and has been floating the idea of impeaching the President.

Between the 1950s and 1980s the Brazilian economy grew at an annual average of 7.7 percent, making it one of the world's fastest growing economies at that time. However, the 1980s debt crisis caused stagnation combined with high inflation, resulting in several currency devaluations. Public finances fell into disarray and many state-owned enterprises were weakened by lack of investment. The Real Plan of the late 1990s reversed this period of stagnation, and the commodities-led export boom of 2004-2010 saw a period of rapid growth linked to the booming Chinese economy.

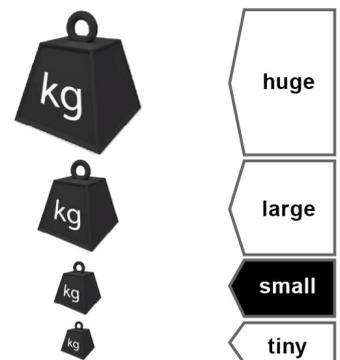
Rank: 26

Chart 1 - How Secretive?

52
Secrecy
Score



Chart 2 - How Big?



Brazil accounts for slightly under 0.7 per cent of the global market for offshore financial services, making it a small player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Read more
 → Full data
 → Brazil on TJN Blog
 → Full Methodology

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However, the export boom was accompanied by rapid appreciation of the Brazilian currency, the Real, which caused the economic phenomenon known as the '*Dutch disease*'. This had the effect of raising the effective prices of exported goods while also lowering the effective prices of imports, making non-commodity related exports less competitive on the global markets. By 2010, commodities represented almost 65 percent of exports by value.

The discovery of offshore oil and gas in the 1990s created a huge opportunity for national and international investors. Many oil 'majors' and 'supermajors' are involved in exploration and production activity, most of whom are likely to be making extensive use of tax havens. Tellingly, Petrobrás, the state co-owned oil company, has been allowed by the government to use Austria as a place for incorporating and registering its offshore oil platforms, on the grounds of reducing its 'costs'. Needless to say, tax avoidance schemes such as this will only worsen an already deteriorating public finance situation.

Tax Administration and the international arena

The economic downturn is putting huge stresses on public finances at federal and state levels. Falling tax revenues and higher interest payments on already large public debt levels have forced several administrations to delay paying salaries and postpone crucial expenditures.

Increasing taxes is never going to be a popular option, but the extremity of the emerging public deficit has reopened debate around a wealth tax on high net-worth individuals, a proposal which was trailed in the Federal Constitution as far back as 1998. Additionally, exemptions from capital gains tax which were first allowed in 1996 are now being challenged. Cutting the tax exemption on profit and dividends distribution would generate an extra R\$ 70 billion (about US\$ 20 billion) according to a study by Instituto Justiça Fiscal, an organisation linked to the Tax Justice Network. Furthermore,

eliminating a tax exemption on interest paid on own capital (a ruse that creates a tax deductible cost on interest that would be paid on company capital) could generate an extra R\$ 20 billion (approximately US\$ 5.71 billion).

The Secretariat of the Federal Revenue of Brazil (Secretaria da Receita Federal do Brasil – RFB) has updated its guidelines¹ in 2014 in order to define what and which are the low taxation jurisdictions and privileged regimes. All those that do not tax capital income or tax it at a rate lower than 20 percent are considered tax havens: 64 jurisdictions are currently on this list, but, interestingly, Switzerland was removed in 2014. Ironically, there are a number of scenarios in which Brazil taxes capital earnings at rates below 20%!

Brazil's transfer pricing rules are considered an international anomaly and have been severely attacked by the OECD, which bases its transfer pricing rules on the arm's length method. Due to the extreme difficulties incurred in trying to identify suitable comparable prices for transfer pricing, Brazil has opted for a fixed margin approach which takes account of comparable company data and performance. See [here](#) for a fuller explanation of the Brazilian approach to transfer pricing.

Read more

- [Full data for Brazil](#)
- [Brazil on TJN Blog](#)
- [Full Methodology](#)

¹ Instrução Normativa nº 1037 (04-06-2010) available at <http://normas.receita.fazenda.gov.br/sijut2consulta/link.action?visao=anotado&idAto=16002#128258>

PART 2: BRAZIL'S SECRECY SCORE

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Brazil

- 1 ■ **Banking Secrecy:** Does the jurisdiction have banking secrecy?
Brazil partly curtails banking secrecy
- 2 ■ **Trust and Foundations Register:** Is there a public register of trusts/foundations, or are trusts/foundations prevented?
Brazil partly discloses or prevents trusts and private foundations
- 3 ■ **Recorded Company Ownership:** Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?
Brazil does not maintain company ownership details in official records

KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Brazil

- 4 ■ **Public Company Ownership:** Does the relevant authority make details of ownership of companies available on public record online for free, or for less than US\$10/€10?
Brazil does not require that company ownership details are publicly available online
- 5 ■ **Public Company Accounts:** Does the relevant authority require that company accounts are made available for inspection by anyone for free, or for less than US\$10/€10?
Brazil does not require that company accounts be available on public record
- 6 ■ **Country-by-Country Reporting:** Are all companies required to publish country-by-country financial reports?
Brazil does not require public country-by-country financial reporting by companies

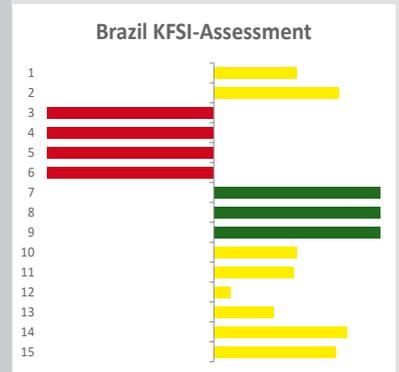
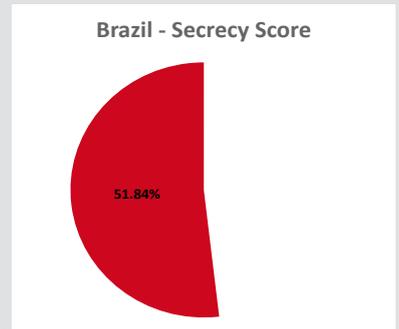
EFFICIENCY OF TAX AND FINANCIAL REGULATION – Brazil

- 7 ■ **Fit for Information Exchange:** Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?
Brazil requires resident paying agents to tell the domestic tax authorities about payments to non-residents
- 8 ■ **Efficiency of Tax Administration:** Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit?
Brazil uses appropriate tools for efficiently analysing tax related information
- 9 ■ **Avoids Promoting Tax Evasion:** Does the jurisdiction grant unilateral tax credits for foreign tax payments?
Brazil avoids promoting tax evasion via a tax credit system
- 10 ■ **Harmful Legal Vehicles:** Does the jurisdiction allow cell companies and trusts with flee clauses?
Brazil partly allows harmful legal vehicles

INTERNATIONAL STANDARDS AND COOPERATION – Brazil

- 11 ■ **Anti-Money Laundering:** Does the jurisdiction comply with the FATF recommendations?
Brazil partly complies with international anti-money laundering standards
- 12 ■ **Automatic Information Exchange:** Does the jurisdiction participate fully in multilateral Automatic Information Exchange via the Common Reporting Standard?
Brazil partly participates in Automatic Information Exchange
- 13 ■ **Bilateral Treaties:** Does the jurisdiction have at least 53 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention?
As of 31 May, 2015, Brazil had less than 53 tax information sharing agreements complying with basic OECD requirements
- 14 ■ **International Transparency Commitments:** Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?
Brazil has ratified less than five of the most relevant international treaties relating to financial transparency
- 15 ■ **International Judicial Cooperation:** Does the jurisdiction cooperate with other states on money laundering and other criminal issues?
Brazil partly cooperates with other states on money laundering and other criminal issues

Secrecy Score



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 52 per cent for Brazil has been computed by assessing its performance on 15 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail, [here](#).

Green indicates full compliance on the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); and yellow indicates partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 31.12.2014 (with the exception of KFSI 13 for which the cut-off date is 31.05.2015).

Full data on Brazil is available here: <http://www.financialsecrecyindex.com/database/menu.xml>

All background data for all countries can be found on the Financial Secrecy Index website: <http://www.financialsecrecyindex.com>