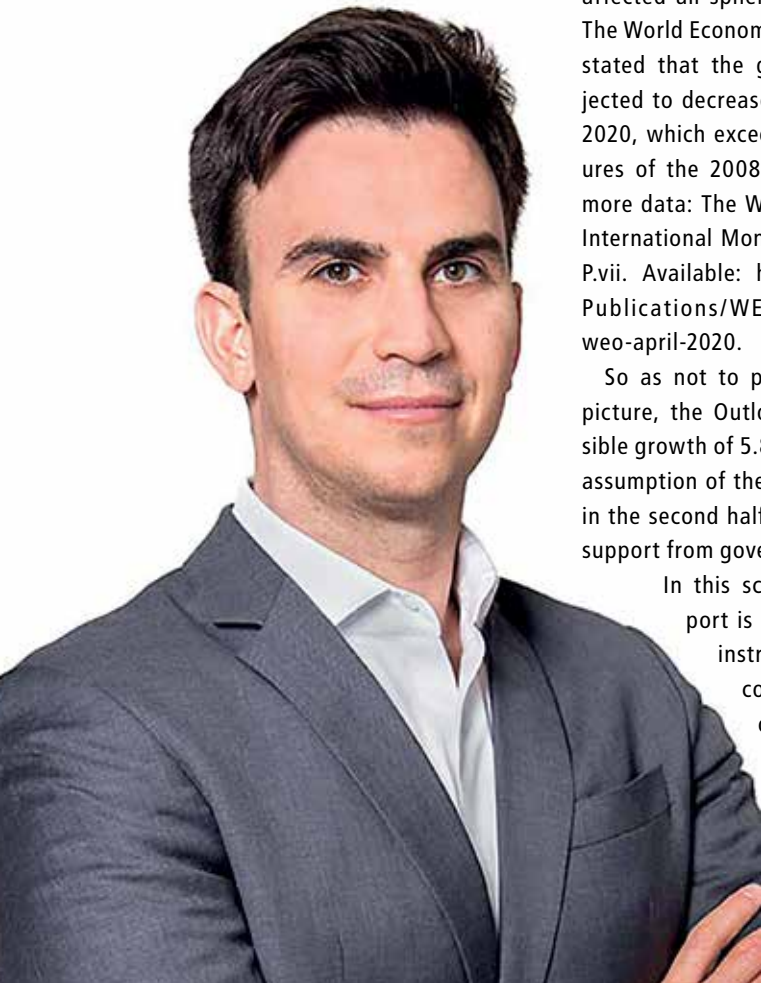


Measures in response to the coronavirus crisis

Brazilian and worldwide perspectives



The global pandemic of COVID-19 has affected all spheres of human activities. The World Economic Outlook in April 2020 stated that the global economy is projected to decrease by about 3 percent in 2020, which exceeds the comparable figures of the 2008-09 financial crisis. For more data: The World Economic Outlook, International Monetary Fund, April 2020. P.vii. Available: <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>.

So as not to paint a completely dark picture, the Outlook also mentions possible growth of 5.8 percent in 2021 on the assumption of the pandemic fading away in the second half of the 2020 and policy support from governments.

In this scenario, tax policy support is one of the fundamental instruments in order to overcome the consequences of the pandemic. On the 15th of April, the Orga-

nization for Economic Co-operation and Development (OECD) presented its new Report "Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience".

Within the support measures for the business, the major priority of the OECD and G20 countries is to ensure the cash flow of businesses by a number of tax and non-tax measures.

In the situation of crisis, a range of short-term and long-term measures are important. Nevertheless, immediate and short-term measures are of special importance as they give a chance for businesses to survive. The majority of jurisdictions granted deferrals of tax payments (mostly regarding corporate income tax (CIT), personal income tax (PIT), added value tax (VAT), social security contributions (SSCs), and in some cases property tax). In some jurisdictions, businesses have received extended deadlines for the filing of tax returns.

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In line of the worldwide measures adopted, Brazil has adopted only a few of them which have been insufficient to support the maintenance of businesses and jobs. Among the measures adopted, we can mention the suspension of deadlines for individual tax returns filing, for deadlines concerning tax debts and for presenting information about social security contributions (incl. PIS and COFINS). Moreover, the Attorney General's Office of the National Treasury suspended deadlines for procedures and charges concerning debts; The Administrative Council for Tax Appeals suspended deadlines in administrative proceedings. The late measures included a deferral for some taxes, especially social contributions (PIS, COFINS and payroll social contribution), but limited to a short period.

When we compare with other countries, we see that broader measures have been adopted abroad in order to support the businesses. When we analyze the measures implemented by Denmark, for example, the possibility of reducing the preliminary payment of corporate income tax is one such, as it is expected that most of the companies will have losses or, at least, less profitability by the end of the fiscal year.

In other countries, loss-offset provisions were changed and loss carry-back for the 2020 tax year became possible against the profits received in the previous tax year in some countries (e.g.: Singapore and Czech Republic), while other states prolonged loss-carry forward period for losses in 2020.

Currently, in Brazil, there are only loss-carry forward provisions. However, because of the unclear economic situation and possible bankruptcy of many enterprises, loss-carry back provisions would help a substantial number of companies stay in business and should be discussed.

One more type of measure to provide cash flow is connected with the administration of payments of taxes. It includes the speed tax refunds (for the VAT and other taxes), lowered thresholds for the simplified procedures (VAT), and a higher threshold for tax prepayments.

Additionally, there are the number of waivers introduced, such as limited-time waivers for social security contributions, taxes for small businesses, water usage taxes and vehicle taxes, etc.

Overall, some of the measures apply to all businesses, some only to specific vulnerable ones, for example, ones involved in particular segments, such as tourism, commercial air travel; or in consideration with the size of enterprises: medium and small companies, self-employed. There are support measures for medical equipment supplies, simplified custom, and tax procedures. In Brazil, import tax for medical equipment and medicines used in connection with COVID-19 was reduced to 0%. The federal government also zeroed excise taxes (IPI) on essential products.

Nevertheless, considering the Brazilian historical issue of accrued ICMS (State VAT) due to different rates applicable in operations, it is worth emphasizing the need for States to reevaluate the bureaucratic procedures so as to reduce the time-period in which the taxpayers get access to the accrued ICMS tax credits.

In the same way, the Brazilian government should discuss clearer rules for PIS/COFINS tax credits under the non-cumulative method for inputs that have become essential during the pandemic outbreak.

In the current situation, all these measures taken or that need to be discussed and implemented can incentivize the economy either by improving the companies' cash flow and/or by reducing the tax burden.

There is a question, however, if economies would be ready to repay debts in the nearest future and if there is a visible possibility for states' budgets to take this burden without a guaranteed recovery in the near future. It is an open question and the answer will be different for each country and its economy. Strong economies such as the US and Germany will most likely be able to recover soon and retain support measures for a significant time. However, one cannot be sure about the rest of the world, especially developing countries such as Brazil.



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Thus, it is always necessary for a state to find a balance of the needed and possible measures. Undoubtedly, this crisis will finally show the states the need for the reforms: involving new technologies, change of the tax administration model, new taxable transactions. Those measures should serve the purpose of the taxing balance; they should not overburden fairly taxed businesses.

Bringing the discussion to the Brazilian reality and not ignoring the needs of the State to provide all the means to face the pandemic, our message is that we have the immediate need to open the dialogue among all level of governments to have coordinate tax measures and analysing the international experience can be an essential tool to Brazil.

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