

The Six Pillars of Brazilian Fiscal Federalism

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Abstract

One of the serious problems existing in the political-economic administration in Brazil, comes from the adoption of management models existing in other countries, without, however, make the necessary and essential adaptations to our own reality. Observing the Brazilian Fiscal Federalism, one can notice some peculiarities that can mischaracterize the concept of fiscal federalism. Therefore, in this study, the pillars on which Fiscal Federalism is based will be approached Brazilian Government, in order to provide information subsidies that enable understand our reality. Based on these studies, we conclude that Fiscal Education is disseminating element, essential for the population in general, to become aware on the socioeconomic role of taxes, providing more knowledge public management, giving citizens possibilities critical and technical, to gauge the degree of equity and efficiency of our Federalism Supervisor.

Keywords: fiscal federalism, efficient management, tax reform.

Jel Classification: H77, H71 and H79.

I. Introduction

"The principle of wisdom is to call things by their names."

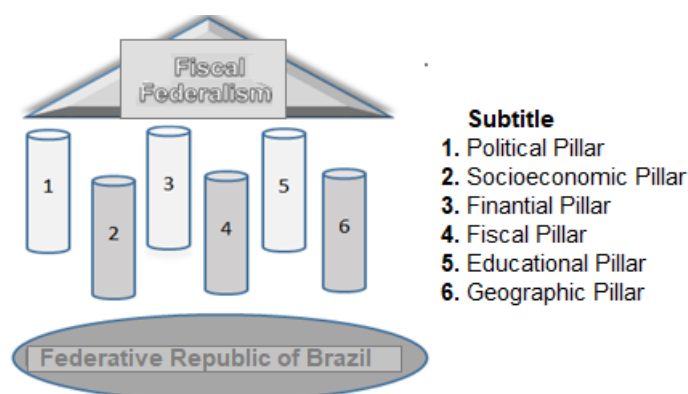
(Confucius)

Starting from the wise proverb above, we can say that fiscal federalism is responsible for the distribution of tax responsibilities within Brazil, and therefore, of the rules that establish the economic development of the regions of the National territory. In short, it takes care of the responsibility of collecting and spending resources among its subnational entities.

However, the biggest challenge faced would be the equitable division of resources throughout the territory, given its territorial extension and the specific economic and regional divergences of each Brazilian corner. Given these factors, what would be the protective measures against a fiscal war or against an unjust division of resources?

The answer to the question is complex. Therefore, in this monograph, the technique of explaining the content in six pillars (political; socioeconomic; financial; fiscal; educational and geographical) will be adopted by pedagogical strategy, directing the text to the more specific contents, as shown in fig .1 below:

Figure 1. Pedagogical Content Strategy



Source: Authors themselves, 2020.

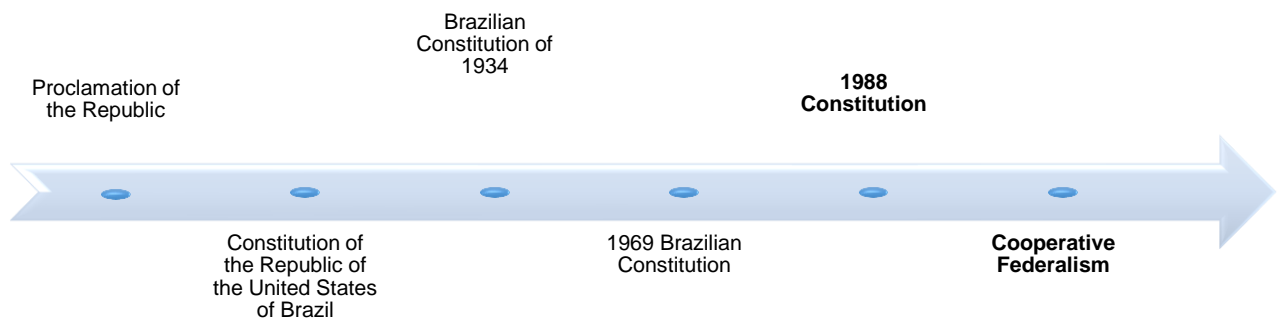
The objective of this strategy is to make it easier and clearer to understand what is exposed here, enabling a careful analysis of the phenomenon discussed here.

1. Political Pillar

Over the years, since the discovery of Brazil on April 22, 1500, the political, economic and cultural structure of the country has changed a lot, since there was a transition from a Monarchy to a Federative Republic.

According to the timeline, we verify the facts that significantly contributed to the process of this change:

Figure 2. Brazilian Federative Republic Timeline



Source: Authors themselves, 2020.

✓ Proclamation of the Republic

Also known as the Republican Coup, it occurred on November 15, 1889, by Marechal Deodoro da Fonseca, who declared the First Brazilian Republic. At that time, the country was facing a serious economic crisis and the military wanted more autonomy, thus removing the powers of the emperor.

✓ Constitution of the Republic of the United States of Brazil

The second constitution of Brazil and the first of the country's republican system, signed on February 24, 1891, in its first article states:

Art. 1 It is provisionally proclaimed and decreed as a form of government of the Brazilian nation - the Federative Republic.

Art. 2 The Provinces of Brazil, brought together by the federation bond, constitute the United States of Brazil.

Art. 3 Each of these States, in the exercise of its legitimate sovereignty, will, in due course, decree its definitive constitution, electing their deliberating bodies and their local governments. (BRASIL, 1981).

By reading the text above, we can verify the federalist character, where it distributed powers to the municipalities and former provinces, being an alliance to the whole nation. This was influenced by the international historical moment: liberalism from England, democracy from France and federalism from the United States of America.

✓ **Brazilian Constitution of 1934**

This Magna Carta was written with the intention of redemocratizing and giving justice and well-being to the whole nation, including an insurrection of the Military of São Paulo against the National Army, and also an increase and creation of labor laws and the social security system, as well as the municipalities were created (attempt to give more voice and autonomy to the old provinces). However, in spite of these ideas, in truth, there were changes only in a figurative sense, since only the richest section of the population still benefited and in no way changed the reality of the rest of society.

✓ **1969 Brazilian Constitution**

This Constitution transformed Brazil into a “Federative Republic of Brazil”. However, it establishes that states and municipalities should obey the Union and everything that is in law, in addition to linking the entire tax system to this rigid hierarchy format.

✓ **1988 Constitution**

This is the current Constitution, which is very detailed and, at times, even excessively detailed. For constitutionalist jurists, it is up to the Federal Constitution to just outline it - to approach topics in a generic way, leaving the more specific regulation to the infraconstitutional legislation, that is, the details. Here it is worth mentioning that the

fiscal and tax issues are meticulously dealt with in Title VI, from which we highlight article 145:

The Union, the States, the Federal District and the Municipalities may impose the following taxes:

I - taxes;

II - fees, due to the exercise of police power or for the use, actual or potential, of specific and divisible public services, provided to the taxpayer or made available to them;

III - improvement contribution, resulting from public works. (BRASIL, 1988)

In this way, fiscal responsibility between entities was further divided, initiating cooperative federalism.

✓ **Cooperative Federalism**

Created during the government of President Fernando Henrique Cardoso, due to the need to balance the nation's revenues and expenses, as Brazil was rising from a strong economic crisis, arising from the political turbulence faced in previous years (Collor's impeachment). For this, on May 4, 2000, complementary law N^o 101 was signed, which outlines mechanisms and guidelines for annual budgetary laws to control revenue and expenditure among the federated entities.

With this, everything would be accounted for and should follow percentages of pre-established expenses, removing many measures that were used unnecessarily.

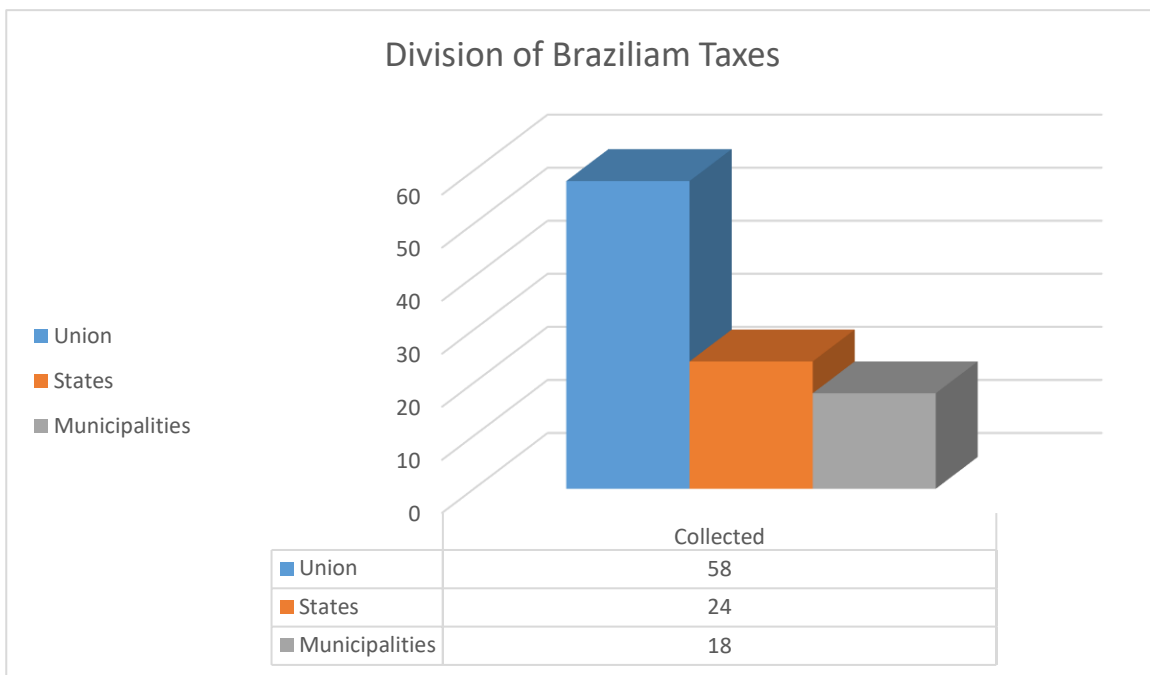
We conclude, therefore, that Brazilian Federalism is classified in its historical composition, in a federalism of disaggregation, where the Federalist State decentralized its functions. As for its competence, it is about cooperative federalism in which the balance and autonomy given to entities federated by the Federal Constitution, enabling the sharing of the provision of services in various subjects, such as health, environment, culture, housing, among others...

Still, Brazilian Federalism is inserted as second-degree federalism, where it has the three federative spheres (federal, regional and local).

2. Socioeconomic Pillar

Based on studies carried out in 2014, of the total amount collected, an apportionment can be made between the federative entities and equate their respective percentages of value distributions.

Graph 1. Division of Brazilian Taxes



Source: Nicolas Martins

As shown in Graph 1, of the total collected of R \$ 1.8 trillion, 58% was retained by the Union, 24% was divided between the States and the Federal District and 18% for the Municipalities.

We can highlight that the municipalities, which should have a large share of resources to carry out various social services, account for only 18% of the nation's total revenue share. According to the analysis of many scholars, the correct thing would be for 45% to stay with the Union, 25% with the States and 30% with the municipalities.

The literature always mentions the State Participation Funds (FPE) and rarely mention the Municipality Participation Fund (FPM). A possible reason for this fact, would be the influence of the low self-esteem of the Brazilians (“negative nativism”) as promoters of the inconsistencies of our federative system, in as a result of our Brazilian

political system being built on a concept of nationality fractured by the lack of greater self-esteem.

In this sense, Professor Luiz Carlos Bresser-Pereira, a training economist, in a sociological view of the obstacles that hinder Brazilian development, states that:

Self-esteem and national identity are two interdependent concepts. In this work I will try to focus my attention on self-esteem, because the national identity is marked by an excessive burden of prejudice. But, as I hope to be clear, this will not be a way to avoid the problem, but the second way in which, from the verification of the low self-esteem of Brazilians, I will face the issue of the colonial inferiority complex, and I will define what I mean by "developed nationalism" - the alternative that presents itself to Brazil as its political system moves from a democracy of elites to a democracy of civil society. (Bresser-Pereira 2000) (sic of the original).

Due to this bias, we have that what should be a system of economic-financial decentralization, has become a set of case-by-case actions, which promote the idea of donation, aid and assistance. Management takes place at a political business desk, whose interests are highly individualized and personal. Such actions erode the national unification system and prevent Brazilians from seeing the State as a major service provider and not as a "father".

This reality persists since Brazil was one of Portugal's colonies, as shown below:

It is not possible to ignore that our colonization was made by Portuguese who did not intend to settle in Brazil, and that our elites, since then, still continue to see Brazil as an object of exploitation, more than a nation that is being built. As Ismail Xavier says: The myth of the Brazilian elite is that it belongs to the great international bourgeoisie and sees Brazil as a great field of operations, of collecting wealth. (Bresser-Pereira 2000)

These disengagements with the collective national interests, mainly by the elites, prevented the development of development strategies according to the national potential and need.

Going against the inherited Brazilian line of reasoning, there are Brazilian politicians who have long tried to increase the importance of municipalization in our history. Among these politicians we can mention the ideas of the late André Franco Montoro regarding municipalization, mainly because this theme is related to the equity and effectiveness of fiscal federalism. Montoro, during his government in São Paulo, implemented the five principles of democratic administration, which are:

1 - Everything that can be done by society itself must be done by it, and not by the government.

2 - The public power must intervene only and whenever its performance is necessary. Neither minimum nor maximum state, but state when necessary. And this is accentuated whenever it is required in the public interest.

3 - In the intervention of the public power, there must be an order of priorities. First, the municipality must act. Anything that can be done well by the municipality must be done by it, and not by the state or the Federal Government.

4 - Likewise, the state should only do what cannot be done well by society or the municipality.

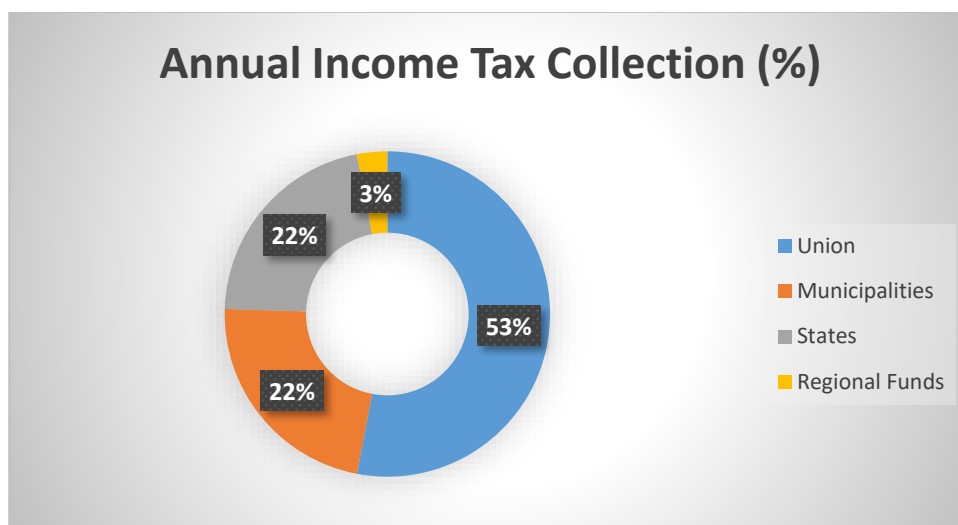
5 - And the Federal Government should only do what cannot be done by states, municipalities or by society. Franco Montoro 261 irreplaceable and Parliamentary Profiles will have high functions of ensuring national defense, representing Brazil in international relations, exercising the high correction of the country's economic and social policy, issuing currency, legislating on matters of national interest, exercising regulatory action, whenever required by the public interest, and, above all, strict inspection action regarding morality and publicity in the application of public resources.

(J. d. Lima 2009)

Another point of important analysis is the verification of the structure of the Brazilian tax apportionments, since, in it, we can verify the apportionment structure among the federal entities.

In the case of this study, we will address the Income Tax, which is a species of the tribute genre, with regard to the distribution between the Federation-nation and the sub-national entities:

Graph 2. Annual Income Tax Collection



Source: Authors based <https://docplayer.com.br/4656544-Sistema-e-administracao-tributaria.html>

As shown in Graph 2, it is possible to see that there is little transfer in percentage of taxes, especially that of Income Tax, to the Municipalities, which generates a deficit of resources.

The issue of withholding transfers to federal entities goes beyond the political-administrative area and becomes a judicial battle. For example, the Kandir Law, which brought relief from some products and thereby reduced the collection of taxes in member states and municipalities. The legal dispute dragged on from 1996 and it was only in the first half of 2020 that an agreement was brokered by the Judiciary, which obliges the Union to make compensatory transfers until 2037, in a total estimated at R \$ 65.6 billion.

However, the implementation of this cooperative federalist system, over time, encountered resistance from cultural and behavioral origins of the various Brazilian elites. This is a phenomenon that dates back to the era of Brazilian colonialism.

The governors of the federated entities imagined that with Cooperative Fiscal Federalism there would be greater freedom to spend at will. So subnational states and municipalities were lavish and promoted real cleaning in public coffers, until they were unable to afford current expenses (including salaries for civil servants). Through the evolution of the Brazilian public debt, it was imagined that if the government were more sober and parsimonious in taking advantage of the advantages that the system of Cooperative Fiscal Federalism would certainly provide, the Brazilian fiscal tax framework would reflect another reality.

However, it was only when the public debt was already at a stratospheric level that it was thought to end the party. The on-call theorists have produced mind-blowing theses to justify that dire situation and identify those responsible.

Thus, GILMAR RIBEIRO DE MELLO and VALMOR SLOMSKIE, when analyzing this situation, claim that they contributed to the Brazilian fiscal disaster (during the Federal Cooperative Tax system):

The indebtedness of Brazilian States and Municipalities has many explanations, one of which is cited by Lopreato (2000, p. 9) as being due to the freedom of governors to use the financial articulation between the Treasury, state banks and companies in leveraging resources, where state

banks concentrated a high share of loans in the states themselves, offsetting the reduction in credit from federal agents, in addition to committing part of their assets to the loading of securities debt, especially in the main states responsible for the expansion of securities debt as a source of fund-raising. Another major factor in the increase in indebtedness was the lack of definition of sustainable conditions for the total of state debts and the rollover of non-negotiated debt, based on the high interest rates in force in the Real Plan, feeding the financial component of indebtedness and contributing to the deterioration of assets of state companies and banks. In fact, partial debt renegotiation and measures to control access to new financing did little to curb indebtedness (Lopreato, 2000, p. 15). (Mello and Slomski 2009)

In the mid-1990s, the partying with the public purse reached its peak. From this moment, the system of Cooperative Fiscal Federalism is declared bankrupt. In fact, this did not happen only in Brazil, as well as in other countries, due to the neoliberal ideals.

A viable option for us to collect in a cohesive way would be the implementation of more expressive rates in the income tax contribution of the richest. We would thus be able to reduce other tax burdens and increase tax collection.

This form of impact directly on the payroll is already adopted in countries such as the USA and Finland, where there is a more egalitarian and proportional system.

Through the table below, we can see how much each salary bracket contributes in our country with income tax (table 2020):

Table 1. IRPF 2020

Calculation Basis (R\$)	Current rate (%)	Calculation Basis (R\$)	Bill of Law nº 4040/20	Bill of Law in this work
Up until 1.903,98	–	Up until 1.985,97	-	-

In 1.903,99 up untill 2.826,65	7,5	In 1.985,87 up untill 2.948,37	7,5	7,5
In 2.826,66 up untill 3.751,05	15	In 2.948,37 up untill 3.912,58	15	15
In 3.751,06 up untill 4.664,68	22,5	In 3.912,58 up untill 4.865,55	22,5	22,5
Above 4.664,68	27,5	In 4.865,55 up untill 39.293,00	27,5	27,5
		Above 39.293,00	30	40

Sources: Authors themselves, 2020.

The ideal would be to reach withholding rates of 40% of the income of the richest withheld by the tax, in order to pass it on to the entire Federation. This change would also go in the same direction as Bill 4040/20, prepared by deputy Enéias Reis.

The value of the rate is within the average of other countries and perhaps, this way, we would have a better distribution of income in our national territory.

To complement the reasoning, the Gini index as shown in Graph 3, which shows the level of income inequality, also points out that the Brazilian indicator worsens each year, demonstrating that the distribution is at an unsatisfactory level:

Graph 3. Gini Index



Sources: Valor Econômico 2020

Changing the income tax collection rate would be a beneficial factor in the entire national tax chain, in addition to achieving more satisfactory social improvements for the nation.

3. Financial Pillar

A major challenge is to ensure that the entire Brazilian territory is being supervised by our tax administration efficiently, in order to enroll debtors in active debt in a timely manner. In order to solve this problem, it would be interesting to invest in a single and integrated data system to achieve a collection check in an ideal time for checking.

As researched, several technological changes have already been implemented and we can highlight that the system used by the Federal Revenue Service is increasingly elaborated and contributes to the collection and distribution of information. Below are some of the main tax utilization tools:

✓ Taxpayer Service Centers

Created in 1993, the Taxpayer Service Centers (CAC's), are unified internet rooms with the objective of centralizing the service to citizens in a single location. Currently, it is possible to count on a higher quality in the information and services provided by the internet, which causes improvement in the assistance.

✓ Receitanet

Program that validates and transmits, via the Internet, tax returns and federal contributions from individuals and legal entities, in addition to other documents.

Through encrypted data, it facilitates data delivery and reduces costs.

✓ **Consultation of Individual and Legal Records**

Through this consultation, the applicant receives information on suitability or not to whoever is going to sell something, in order to issue valid tax documentation throughout the Brazilian territory. This consultation is free, and data such as CNPJ should be provided if the respondent is a legal entity, or CPF and date of birth if the respondent is an individual.

This system is fully linked to the Treasury Department's invoice validator system. If the registration is unfit, the system will automatically reject the documentation, making the sale impossible.

✓ **National Synchronized Register**

The purpose of this tool is to integrate the tax registration procedures between the Tax Administrations of the Union, the States, the Federal District and the Municipalities, and other bodies and entities that are part of the process.

It uses the CNPJ number as the only cadastral registration at the federal, state and municipal levels and aims to simplify and rationalize registration, alteration and cancellation processes for legal entities and other entities (economic entities), with the consequent reduction in costs and terms. The integration of the registration information of legal entities and other entities, will allow greater efficiency and effectiveness in carrying out procedures inherent to Brazilian tax administrations.

Currently implemented in the States of Bahia and São Paulo, both only within the scope of the State Treasury departments, the project will be gradually expanded to the other intervening bodies in the process of registering and legalizing companies across the country.

As interesting measures in the future, it could use the SPED's (Public Digital Bookkeeping Services) tax and accounting sent by the companies, which is part of the Modernization Project for Tax and Customs Administration (PMATA), to automatically calculate taxes, such as Income tax. In this way, we would have automation of collection and more reliable information sent by taxpayers.

Another tool that would prevent fraud and use of data by people of bad faith would be the mandatory use of e-CPF digital certificates, in the case of individuals, and the e-CNPJ, for legal entities, in their consultations and procedures. Through this electronic identity document issued by a Certification Authority accredited by the Root Certification Authority of ICP-Brasil - AC Raiz and certified by the SRF Certification Authority (AC-SRF), the authenticity of the issuers and recipients of the documents and data that travel on a communication network, as well as ensuring data privacy and inviolability.

4. Fiscal Pillar

The fiscal pillar is an important supporting factor for national federalism, being responsible for guiding constitutional laws and norms, in order to obtain better results. Below are some important topics on the topic:

✓ Restructuring and Tax Adjustment Program

The Federal Government created Provisional Measure No. 2,192-70, on August 24, 2001, where the obligations of its States and the Federal District are refinanced in up to 360 months, if necessary. Called the Tax Restructuring and Adjustment Program (PAF), it is a document available to the entire society on the Union's transparency portal and tax targets, financial debts and staff expenses are agreed.

This provisional measure was able to contribute to the fiscal situation of the states. However, there was a significant worsening that started in 2015. As a result, it was Complementary Law 156, of December 28, 2016, known as the "new PAF" was created.

There were several changes, such as: changes in the indicators of fiscal targets, joining concepts of the Fiscal Responsibility Law (LRF), such as Consolidated Debt and Current Net Revenue; establishment of a spending ceiling for all federal entities according to primary expenses, restricting their annual variation to the IPCA index.

✓ **ICMS tax: incidence and expectations**

The incidence of this tax is increasingly restricted to its collection in Brazilian tax operations and this is causing an imbalance in the federal tax accounts.

Since the Federal Constitution of 1,988, this tax has increased in incidence for part of the tertiary (services) and communication sectors. As it is a non-cumulative tax, it ends up generating revenue only in final consumption, losing its taxation over its intermediate consumers.

It was through the Complementary Law Kandir, signed on September 13, 1996, that there was an inclusion of oil derivatives, such as fuels, lubricants and electric energy, provided they are not intended for commercialization and industrialization.

Highlighting an important part of this complementary law, we note that in its art. 3 its non-incidence appears in:

V - Operations related to goods that have been or are intended to be used in the provision, by the author of the exit, of a service of any nature defined in a complementary law as subject to the service tax, which is the responsibility of the Municipalities, except in the cases provided in the same complementary law; (BRASIL 1996)

According to IBGE data, only in non-taxed areas of this sector, total revenue in 2014 was:

Maintenance and repair services: R \$ 24,282,654.00

Real estate activities: R \$ 39,990,241.00

Other activities and services: R \$ 68,149,156.00

If we made an 18% tax (rate used in the state of São Paulo), we would have a minimum tax revenue of approximately twenty-three million reais, which would be passed on to the municipalities.

In this case alone, the nation has already lost a large part of its revenue. The tertiary sector (services) is one of the three sectors that is in full development and growth.

5. Education Pillar

5.1 Initial Aspects

Aware that the purpose of this event is to democratize knowledge about tax issues, we will start by analyzing the expression “tax education”, which on the website of the Secretariat of Finance is defined as follows:

Fiscal Education is a nationally developed state program that seeks to disseminate information and concepts about fiscal management, favoring the understanding and intensification of social participation in the processes of generation, application and inspection of public resources.

(São Paulo State Finance Department s.d.)

Fiscal Education has been taught for a long time on academic campuses, just like the university extension course called “Fiscal Education and Citizenship”, a partnership between the Federal University of Rio Grande do Sul (UFRGS) and the 10th Fiscal Region of the Federal Revenue of Brazil. However, due to the relevance of the subject, in recent years, this program has been included in the curricula of basic education, in the form of “interdisciplinary themes”.

For example, since 2,011, in the State of São Paulo, the decree nº 57.362 / 2011, instituted the GROUP OF FISCAL EDUCATION OF SÃO PAULO, GEFE-SP. This initiative proves to be successful, since, according to the website of the Secretariat of Finance, more than 3,000 hours / classes have already been taught, covering an audience of 100,000 citizens.

This success of the “Tax Education” courses seems to be justified because it is an important instrument of citizenship, as it citizens understand the tax system,

become aware of: the importance of paying taxes for life in society; supervise the effective application of these budgetary resources of derived origin (tax) in the real needs of society; reduction of inequalities; social promotion, and, finally, to inspect the implementation of government plans that aim to reach the community.

It also seems right that we affirm that it is through “Fiscal” Education that the citizen can be awakened to the awareness that the State exists to meet public policies, which are aimed at the citizen who funds them. The State is not an end in itself, but a political-administrative entity, a social aggregator whose role is to guarantee the well-being of its citizens.

It is worth mentioning that this awareness bias was not always present in our tax collection machine, nor was it included in the list of intentions of our government officials. In fact, the emeritus Professor Ivan Cordeiro Lima, in his book Fiscal Education for Citizenship, states that:

“(...) Initiatives aimed at promoting closer ties between the State and the taxpayer, in Brazil, have been taking place for a long time. To exemplify, the “Talão da Fortuna” program was created in the State of São Paulo in 1964, whose objective was to encourage citizens to request the tax document at the time of purchase and to report tax infractions of which they were aware.” (I. C. Lima 2019)

With all due respect, such initiatives have been stigmatized and have not been (as they are not yet) well received or received by the population, since they resemble whistleblowing attitudes. It is a posture diametrically opposed to education, which involves raising awareness. They had a punitive character, typical of that dictatorial era.

Only with the air of the restoration of the democratic regime in our country, does Tax Education prove worthy of the citizen's attention and it reappears impregnated with high and authentic purposes. In fact, this fact is recognized by the aforementioned Prof. Ivan Cordeiro Lima:

“(...) Currently, the National Fiscal Education Program (PNEF) has been in operation in Brazil since 1999, centered on the exercise of citizenship and which aims to encourage citizen participation in the functioning and improvement of control instruments social and fiscal status. Additionally, the PNEF aims to work on topics such as: the social function of taxes (seen as an instrument to reduce social inequalities); The quality of public spending; the public budget; combating tax evasion, smuggling, embezzlement and piracy;

participation and social control, among others. Thus, the citizen must be led to understand that the active and solidary participation of part of him is beneficial for the whole society. "(I. C. Lima 2019)

In this same sense is Chaves' position (1), which asserts that:

"The exercise of citizenship is directly related to the rights and duties of the citizen employed in the Federal Constitution, although it is not limited to them. Citizen awareness is essential for achieving social well-being and building a good relationship between the state and society. In other words, it is necessary to know the individual and collective rights and duties, as well as their respective relevance to the functioning of the State and society, to exercise them and supervise their execution. In this sense, we have education as the main instrument in the formation of citizens, promoting autonomy, participation and social control." (Chaves 2018)

5.2 Concepts related to "Fiscal Education"

The retro explanation clearly demonstrated the importance of Tax Education. Even so, in order to continue the exhibition, it is convenient to establish some concepts, as shown below:

✓ **State**

Although there are numerous concepts, definitions and classifications for the term State, in this work, the definition of the illustrious Professor PROF will prevail. ANDRÉ LUIZ LOPES, whose graft is shown below:

"State is the political-legal organization of a society to achieve the public / common good, with its own government and determined territory. (...)" (LOPES 2010)

For simplification, we can subdivide the State into: Nation-state, which is formed by the combination of other states, which are called member states, or sub-nationals. The joining of member states is indissoluble. Professor LOPES emeritus also lists the essential elements for the formation of the State:

"Sovereignty, territoriality and the people are the characteristics of the Modern State that originated from the need for unity, the search for a single sovereign government within the bounded territory." (LOPES 2010)

It must be pointed out that state actions, aiming to achieve the common good, must be characterized by a coherent assessment of need and possibility (strict observance of the community's interests); by a political evaluation (private interests versus collective interests); and the observance of the freedom / authority binomial (this is the use of authority to limit individual freedoms in the portion necessary to achieve a certain common good).

✓ **Federation**

It consists of the indissoluble union (federative pact) between states that maintain political-administrative (subnational) autonomy, becoming subject to a central entity (nation-state) that holds sovereignty, with Division fundraising and responsibilities, with political and legal overlap, since both the nation-state, as well as the subnationals are subject to the Federal Constitution, and those have the autonomy to, within the domestic sphere, proclaim their own State Constitutions.

It is noteworthy that in Brazil, the Federation is composed of three political-administrative entities: Union, Member States and Municipalities. In the administrative sphere, the Federal and State Governments have three powers: executive, judicial and legislative. However, Municipal Governments only have Executive and Legislative power and do not have Constitutions, as their legal regimes are governed by Organic Laws.

The Federation, as a rule, is formed as a result of difficulties such as national heterogeneity, large territorial extension, socioeconomic inequalities and, mainly, rivalries between elites (exercise of power).

Consequently, the Federation should alleviate these problems by granting autonomy to subnational entities and promoting equal participation in national decisions (decentralization in the political, legislative, administrative and financial spheres.)

In summary, for a Federation to be harmonious and function well, it is necessary that each political-administrative entity knows exactly what it is responsible for doing,

how to do it and where the resources for this will come from. These answers belong to Fiscal Federalism.

✓ **Fiscal Federalism**

This is a concept related to Financial Law, as it deals with how political-administrative entities organize themselves to manage public resources, that is, an administrative technique that makes it possible to share resources and responsibilities between various governmental spheres (Union, state governments and municipal governments).

Although we know that public resources have more than one source, here we will only deal with secondary or coercive revenues (taxes), fundraising, as well as their destination are provided for in our Federal Constitution. However, there is such an imbroglio due to the fact that, in certain activities, the Constitution designated competing competences. As for example in the area of health and education, whose managerial responsibilities are attributed to both the Union, the member states and the municipalities. Therefore, when there is a dysfunction in one of these areas, it is difficult to know which public sphere is responsible.

Assuming that in Brazil there are 26 subnational states and more than 5,000 municipalities, we can already see the size of the difficulty in managing the state machine in order to meet the multiple needs of these federated entities. The situation worsens, to the extent that most of these municipalities are economically underfunded and the only source of income for these communities is retirement (minimum wage) or assistance from social programs (minimum income program, family allowance, etc.). However, the problem does not focus only on micro-municipalities, given that there are subnational states that are not self-sustaining, requiring the nation-state to give them greater economic-financial attention or different treatment with regard to tax and fiscal issues.

The existence of these competing competences (or lack of a better understanding of them) leads to conflicts between the federated entities. Proof of this are the celebrations that affect the environment. This occurs frequently, but the most

evident and recent conflict occurred in the question of the procedures of government entities regarding the pandemic of the “corona” virus. The conflict was not politically resolved, judicialization was necessary, and the following understanding prevailed:

STF recognizes competing competence of states, DF, municipalities and the Union in combating Covid-19. The Plenary of the Supreme Federal Court (STF), unanimously, confirmed the understanding that the measures adopted by the Federal Government in Provisional Measure (MP) 926/2020 to confront the new coronavirus do not rule out competing competence or taking normative measures, administrative by the states, the Federal District and the municipalities.
(STF 2020)

6. Geographical Pillar

In balanced cooperative federalism, under the legitimizing principle of financial solidarity, the values of the development and recovery of Federation entities in conditions of “inequality” compete for the unity of the national State.

We have several programs whose purpose is to reduce regional inequalities in the country. The best known among them remains the Manaus Free Trade Zone.

The Manaus Free Trade Zone, according to art. 1 of Decree-Law No. 288, of February 28, 1967, is defined as:

An area of free import and export trade and special tax incentives, established with the purpose of creating an industrial, commercial and agricultural center in the interior of the Amazon, endowed with economic conditions that allow its development, in view of local factors and the great the consumer centers for their products.

In this way, instruments capable of implementing this fundamental objective cannot be modified, reduced or extinguished. The federal project highlights planning, through the use of budget laws, as an instrument to ensure development actions, national or regional, in addition to the eradication of poverty and inequality. Still art. No. 165 of the Constitution claims that budget laws must be in accordance with development plans or programs, in order to fulfill the objective of serving the population in order to reduce existing regional inequalities.

Such ideas meet the constitutional aims of the Democratic Rule of Law, benefiting the country with:

- i. Reduction of regional inequalities;
- ii. Eradication of poverty;
- iii. Balanced and sustainable development of the country

Brazil is a continental country, with a high degree of heterogeneity and with abysmal inequalities. Faced with this reality, theoretically, a federal legislative system was established that is bicameral: Deputies (they would represent the people indistinctly) and Senators (they would represent the interests of state governments related). Thus, in theory, the issue of governmental representativeness would be able to equalize regional differences and social inequalities.

However, the prevailing culture in Brazilian society, makes the representative governance system flawed. And, it is at this point, that we are going to explain the perversity of Brazilian Fiscal Federalism with the issue of low self-esteem that permeates our society.

Still in the magisterium of Dias, we read that:

In Brazil, which is characterized by great economic heterogeneity between the various federal units and differentiated tax bases, the state financial system must adopt means of transferring resources with a redistributive sense between the regions, aiming to compensate or mitigate the existing differences, contributing to the balance of the system and for the solidification of federalism. (Dias 2007)

So, it is clear that the theories related to public management, thought for Brazil, are not totally wrong, but the distortions and mischaracterizations that these theories suffer when they are effectively applied, are what make them poison instead of medicine, because there is willful malpractice by our managers.

This misuse of the public purse is harmful to Fiscal Federalism, because in the teaching of José Luis Fiori:

“(…) the existence, in the constitutional elaboration, of premises related to the priority conferred on the public agenda for the construction of efficient and legitimate local powers, with a solid link with the central state, which would be responsible for the fundamental systemic functions and for the preservation of the federative unit [13]. The author states that there should be a federative complementarity, leading to extensive negotiations between legally equal and materially unequal federative entities, with maintenance of a national identity, a cooperative federated network and democratization through decentralization.” (Fiori 1994)

For this reason, the bicameral model is theoretically excellent, and, if there were a commitment by the elected representatives, this would contribute to the Brazilian Fiscal Federalization to fulfill its duties in a more equitable and efficient way.

II. Final Considerations

This work highlighted the importance of Fiscal Federalism to Brazil, demonstrating that it is the basis for our democratic government.

It was through the views of various sectors that we proved their influence and benefits in the long and medium term, facilitating the transfer and eliminating regional inequalities.

It is extremely important that this system is in full adaptation, considering our national characteristics are more heterogeneous than that of other countries that already use this form of government management.

It is still possible to highlight the importance of Tax Education to all citizens, in order to understand the socioeconomic function of taxes and the benefits arising from their additions.

In conclusion, the role of schools in this context is of fundamental importance to ensure that our citizens, whether young or adult, acquire knowledge of our historical, social and economic context, thus being able to intervene and modify social reality.

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