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RESEARCH ARTICLE

The Formation of the Public Agenda in the Brazilian Tax Reform: Difficulties, Coalitions, and Impacts

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ABSTRACT
The text examines the formation of the public agenda on tax reform in Brazil, focusing on how its central narrative justified the proposed fiscal changes. The reform was presented as necessary for simplifying the tax system but faced resistance from regional and sectoral interests. Tax system distortions reinforced the need for reform. One key issue is the variation in tax rates across states, which increases transaction costs and limits market reach. Additionally, Brazil's tax system is regressive, with consumption taxes placing a greater burden on lower-income groups. Tax increases have been linked to rising public expenditure, often justified by social spending, which may serve political purposes. This study adopts a qualitative approach, using document analysis and public policy frameworks. The reform incorporates regulatory, redistributive, and distributive policy elements, leading to disputes among groups with conflicting interests. The role of advocacy coalitions, involving actors with diverse or opposing interests, was central to shaping the process. The Executive, Legislative, and various interest groups advanced measures balancing fiscal priorities with political objectives. The findings indicate that tax reform was structured as a strategy to legitimise fiscal changes, with different actors seeking to maximise their gains. Achieving a more balanced tax system requires political coordination to align divergent interests. Without structural adjustments, the reform risks maintaining inefficiencies rather than addressing fiscal imbalances.

KEYWORDS

Tax Reform, Advocacy Coalitions, Public Agenda, Fiscal Sustainability, Public Policy Narratives.

ARTICLE INFORMATION

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1. Introduction
Over the past eleven years, primary deficits have become recurrent, leading to an increase in public debt. Until 2013, the central government recorded primary surpluses, allowing for partial debt amortisation each year. From 2014 onwards, deficits not only prevented this amortisation but also required the government to issue more public bonds to cover its expenses. To curb the growth of the debt-to-GDP ratio, the government has continuously raised the tax burden. This cycle of rising government expenditure, accompanied by increased revenues, aims to balance public accounts but fails to address the root of the problem.
The electorate's lack of resistance to indebtedness stems from a limited public perception, characterised by a fiscal illusion. Society does not recognise the connection between increased public spending and slower economic growth, overlooking the inverse relationship between expenditure and GDP growth. As a result, spending policies continue to be implemented without a rigorous assessment of their effectiveness.

According to Pluviani, as argued by Nunes (1996, apud Pluviani), taxpayers do not oppose rising public expenditure due to a distorted perception that the apparent benefits of public spending outweigh the associated costs, which are indirectly passed on through taxes. This distorted perception reduces resistance to debt policies.

Even though, the costs of indebtedness reduce the resources available for financing public goods. The greater allocation of resources to interest payments and debt amortisation constrains fiscal space for both current expenditures and, above all, investments, which tend to have less social appeal.

Tax reform has become a central topic in public debate amid ongoing fiscal imbalances. This idealised vision continues to shape how reforms are framed and understood, often presenting them as definitive solutions to structural problems. Many voters see reform proposals as the necessary step to drive the country's growth. However, the belief that merely possessing natural resources is sufficient to generate development has no support in economic theory. Resource-rich countries that failed to invest in workforce qualification, infrastructure, research, education, and healthcare did not prosper. Furthermore, the creation of an institutional environment that fosters production, ensures contract enforcement, and combats fraud is essential. Countries that managed to develop, even with a late industrialisation process, made investments in these areas. Without such institutional changes, underdevelopment tends to persist, maintaining a cycle of unfulfilled expectations.
This idealised vision has influenced how reforms are presented and perceived, often elevating them as transformative solutions to structural issues. However, the belief that the mere abundance of natural resources is sufficient to generate wealth oversimplifies the issue. Historically, there have been similarly simplistic analyses. The idea, predominant in Mercantilism, that prosperity resulted from the mere accumulation of precious metals also proved to be a naïve misconception. Economic growth does not rely on a single factor but on the interaction between physical capital, human capital, innovation, strong institutions, and a stable political environment. As a result, expectations continue to rise but remain unmet.

Under these circumstances, Auty (1993) argues that natural resource wealth can act as a curse:
It is widely believed that natural mineral resources are desirable. However, there is growing evidence that this may not always be the case. Indeed, it seems that this 'natural asset' can distort the economy to such a degree that the benefit actually becomes a curse (Auty, 1993, p. 4).

After all, as Buchanan (1967) highlights, politicians seek re-election, which leads them to implement measures aimed at increasing popularity rather than technical solutions with less electoral appeal. This aspect must be emphasised to ensure that policy formulation enables the achievement of the proposed objectives. The selection of policy items is not neutral; on the contrary, it is subject to the interests of pressure groups and the actors involved. The argument suggests that, instead of genuinely representing the interests of citizens, certain politicians use public opinion as a tool to gain and maintain power, without a real commitment to the common good (Arrivabene, 2022). The configuration of public policy reflects the interests of pressure groups and key stakeholders, shaping the direction of tax reform and broader public policies. The configuration of public policy reflects the interests of pressure groups and key stakeholders, shaping the direction of tax reform and broader public policies.

In Brazil, tax reform is recognised as necessary to address fiscal distortions, simplify tax administration, and adjust the distribution of the tax burden. A manifesto signed in 2023 by over 65 economists, business leaders, and politicians, including former Finance Ministers and former Central Bank Presidents, reinforced the urgency of these changes (Pra Ser Justo, 2023). However, as Nunes and Nunes (2018) point out, tax policies have frequently been delayed, as all sectors seek to secure benefits. As a result, changes in tax policy laws have primarily favoured short-term revenue increases over structural reforms.

Some of the stated objectives of this reform include reducing regressive taxation, stimulating economic growth through the reduction of consumption taxes, and promoting business formalisation. Proponents argue that simplifying the tax system could lower collection costs and encourage tax compliance among businesses that previously operated without declaring their tax obligations.

There is also a claim that the reform seeks to redistribute the tax burden between the industrial sector, which bears a higher tax burden, and the services sector. Although the necessity of the reform and the government's narrative—framing it as a means to create a fairer and more efficient tax system—have strengthened public approval of the measure, in practice, the actual structure of the reform is largely tied to the financing of public expenditure, revealing a motivation distinct from that conveyed in the official discourse. The reform also presents economic value by generating net social benefits relative to costs and enhancing societal welfare by creating net wealth. In turn, according to the Kaldor-Hicks welfare criterion, tax policy can be deemed efficient if the benefits accruing to one group outweigh the losses borne by another, leading to a net welfare gain. Despite this, this assessment remains context-dependent, as the criterion does not mandate direct compensation for those incurring losses, raising concerns about distributive fairness. In the context of tax reform, it is unrealistic to expect all parties to benefit while simultaneously avoiding tax liabilities.

To address these inefficiencies, simplifying the Brazilian tax system is essential for improving fiscal administration and reducing compliance costs for taxpayers and the government. At present, the complexity of the system, with multiple tax rates and regulations specific to different sectors and states, not only makes tax payments more expensive but also hinders revenue collection.

Unlike the system in the United Kingdom, where tax rates are more uniform, in Brazil, rates vary across states, meaning that the same product is taxed differently depending on its location. It is important to highlight that the ICMS rate on petrol varies significantly between states, with Rio de Janeiro applying the highest rate at 34%, while Roraima has the lowest at 25%. This fragmentation creates distortions in the system and increases operational costs for businesses. A reform that reduces this complexity and establishes fewer standardised tax rates across all states could not only reduce bureaucracy but also facilitate tax compliance and promote a more competitive and transparent economic environment.

Another key point is that, simplifying the system could have direct effects on reducing tax evasion and informality, contributing to more efficient and predictable revenue collection. However, the actual impact of such changes will depend on how they are implemented and the system's ability to ensure a fair distribution of the tax burden.

The proposed Tax Reform has been presented as a measure to address distortions in the Brazilian tax system, with a focus on progressivity. While income taxes are progressive, taxes on services and the circulation of goods are regressive. To mitigate this regressivity, a model with multiple tax rates is applied, with the highest rates levied on non-essential goods.

In the media, the idea emerged that tax reform would provide a definitive solution to economic issues. Despite widespread support, this claim was not substantiated by consistent empirical evidence. Political discourse frequently employed the country's economic potential as a justification for the reform, portraying it as a means to simplify the tax system and reduce inefficiencies.
Although this argument generated social and political support, it also created expectations that were misaligned with the limitations and trade-offs of the process. The gap between promises and achievable outcomes heightened dissatisfaction and reinforced the recurrence of unmet expectations in the tax debate.

It suggests increasing taxes on income, property, and wealth while proposing reducing regressive taxes on consumption, which disproportionately affect lower-income groups. Additionally, it aims to secure funding for social policies, seeking to balance economic development with social justice.

However, some measures, such as the cashback mechanism, raise concerns about their effectiveness and sustainability. While cashback is promoted as a progressive tool to benefit low-income families, it risks being perceived as a populist strategy that provides immediate relief without addressing the structural inequalities of the tax system. This raises questions about the long-term sustainability of such measures and their potential to deliver genuine social justice.

The issue lies in the gap between what is promised and achieved in implementation, a common occurrence in public policies. There is concern that the reform could increase the tax burden, even though other aspects of the tax system are addressed. The proposed reform is a technical adjustment and a central item on the government's agenda, reflecting its critical role in addressing fiscal distortions and ensuring a more efficient system. The government agenda, the list of topics receiving attention from government authorities, plays a central role. In this context, tax reform can be seen as 'an idea whose time has come' (Kingdon, 1995, p. 219), highlighting the urgency of its implementation to address fiscal distortions and promote a more efficient system.

This analysis, building on the central role of the government agenda, draws on public policy theories, such as the advocacy coalition framework and Kingdon's "garbage can model" of agenda setting, to explore how the Brazilian tax reform incorporates regulatory, redistributive, and distributive policies. State governors, business associations, and interest groups play central roles in shaping the content of the reform. At the same time, the legislative and executive work together to support changes that are in line with their goals.

Advocacy coalitions form to influence the structure of actions, programmes, or public policies, shaping the decision-making process to favour shared interests and beliefs. This analysis, therefore, focuses on the interplay between political and economic actors in constructing the public agenda around tax reform, examining the challenges of balancing conflicting interests and promoting a reform that delivers collective benefits for the country.Type the text here

2. The Formation of the Public Agenda in Tax Reform

According to Souza (2006, p. 81), the agenda represents a space for establishing issues and problems that draw the government's and citizens' attention. Agenda formation is conditioned by identifying problems that, according to Silva (2013), need to be recognised by society, offer a possibility for action, and possess legitimacy. In this dynamic, political parties, the media, and pressure groups have played essential roles in discussing proposals for tax reform measures. Silva (2013) noted that these actors' initiatives legitimised the public agenda during that period. In this context, the emergence of advocacy coalitions becomes inevitable, as the groups involved present distinct, and at times opposing, beliefs and interests. The groups forming these advocacy coalitions include actors who can influence their own group and the direction of state actions and public policies. These coalitions are made up of actors capable of influencing both their own constituencies and state actions and play a crucial role in decision-making dynamics. According to Rua (2009), an agenda is a set of issues that must be prioritised for resolution. That said, the pursuit of personal interests by actors and pressure groups generates conflicts between agents. Moreover, these interests may not align with those of public good users but rather with those of suppliers.

The formation of the public agenda involves the participation of various actors and institutions, which influence policy formulation and implementation through different mechanisms. These include setting priorities, disseminating information, engaging in political articulation, and mobilising social support. Through such actions, groups seek to attract sympathisers to their cause. Propaganda plays a significant role in advancing ideas, as it allows for the construction of narratives that obscure facts and omit unfavourable aspects.

According to the common-pool resource theory, when multiple agents compete to influence the agenda, the contest for political resources tends to increase negotiation costs and complicate coordination among stakeholders. This number of involved agents compromises the effectiveness of the reform, as suggested by the common-pool resource theory.

The Brazilian tax reform exhibits characteristics of other public policies, including regulatory and redistributive policies, as described by Theodore Lowi (1964). Firstly, as a regulatory policy, tax reform focuses on businesses and sectors seeking to reduce their burdens or regulations that increase operational costs. This regulatory aspect makes it attractive to interest groups aiming to influence the reform, particularly concerning the simplification of taxation and the reduction of the tax burden for specific sectors—behaviour often associated with the phenomenon of rent seeking, in which organised groups seek to obtain benefits or tax exemptions. The significant lobbying activity of various interest groups attempting to shape regulations reinforces the connection between the reform and rent-seeking behaviour.

Additionally, the tax reform can be seen as a redistributive policy, as its objective is to address economic inequalities by redistributing the tax burden more fairly among different social classes and regions of the country. Such public policy affects classes, categories, or groups and imposes concentrated costs on some to benefit others. 'Intermediaries', such as business associations and interest groups, play a central role in attempting to protect their beneficiaries or prevent certain classes from being disadvantaged. The redistributive nature of the reform tends to generate highly polarised disputes, particularly between those seeking to reduce the fiscal privileges of specific sectors and those fearing an increase in their own tax burden.

The reform incorporates distributive aspects in addition to its redistributive elements. It aims to benefit specific groups, such as small and medium-sized enterprises, by simplifying tax bureaucracy and reducing the current system's complexity. The centralisation of decision-making power in the Executive and the support of favoured groups make the process highly dependent on stable coalitions between the government and the beneficiaries.

Tax reform in Brazil is a comprehensive policy that encompasses regulatory, redistributive, and distributive aspects. Given its impact on various sectors of the economy, its formulation and implementation are highly complex. In light of disagreements over the proposed reforms, a phased implementation approach has been adopted. The reform is scheduled to take effect in 2026, with a transition period extending until 2032, allowing businesses and governments time to adapt to the new tax system. During this phase, the government and Parliament will monitor its effects and make adjustments as necessary to address potential distortions or operational difficulties.

The result may be that groups, despite aggregating citizens with similar interests, do not fully align with the political decisions made, with the agenda of more influential actors prevailing. Schumpeter (1984, p. 293) supported these conclusions, stating that the "will of the people" is often a product of political forces rather than a direct expression of popular interests:

The analysis of political processes shows us not a genuine will but an artificially manufactured one. And, often, this product is what truly corresponds to the volonté générale of classical doctrine. To the extent that this is so, the will of the people is the result, not the primary cause, of the political process.

3. Actors and Interests in Tax Reform

Tax reform in Brazil involves various interest groups, such as state governors, business associations, and other representative organisations. These actors exert pressure to ensure that legislation serves their interests and those of their constituencies. As Held (1987) argues, the influence of pressure groups is relevant in shaping public policies. This result is compatible with public choice theory. This finding is explained by the selfish behaviour of agents. According to Buchanan and Tullock (1962), particular interests often take precedence over the common good in policy-making.

In this agenda-setting process, legislative leaders play a central role, as they determine which topics will be debated in Parliament in the form of bills, directly shaping the reform process. These leaders act as arbiters, selecting and scheduling discussions while deciding which bills will be prioritised and when. From the perspective of Public Choice Theory, interest groups and legislative leaders employ strategies to maximise their benefits. As Buchanan and Tullock (1962) observe, political actors and interest groups influence public policies in ways that align with their own priorities, often prioritising private interests over collective welfare.
Parliamentary actions also often reflect alignment with specific political objectives, whether to address voters' interests, maintain party support, or increase influence within the legislature. Frequently, these groups sustain their political influence by collaborating with governments of different ideological orientations. It is not without reason that Bonifácio and Santos (2024) regard adesismo as a common practice in the Brazilian parliament. Parliamentarians are often incentivised to support the government coalition in exchange for benefits from the Executive, such as ministerial appointments, the release of funds for parliamentary amendments, leadership positions, or appointed roles (Cheibub et al., 2009).

Thus, the continuity of parliamentary power transcends ideological or governmental shifts. These alliances perpetuate a group of parliamentarians who maintain central influence over the decision-making process regardless of political fluctuations, ensuring the preservation of their interests over time. Perissinotto and Codato (2008) describe such actions as adaptive pragmatism.

Governors from less developed states, particularly in the North and Northeast, push for revenue redistribution to address regional disparities. In contrast, those from more industrialised states focus on retaining funds to sustain investment. The debate grows more complex due to economic and social differences, with some pressing for a larger share of revenue, others warning of fiscal losses, and some demanding compensation for resource-producing states.

Commercial and business associations tied to industry, agribusiness, and commerce also exert significant influence, advocating for tax simplification and reduced fiscal burdens on their sectors. In Congress, trade unions and service sector representatives promote specific agendas to protect their members' interests, forming temporary coalitions to meet specific demands.

Table 1 – Actors, Impacts, and Strategies in Tax Reform in Brazil

Actor	Impact	Polarity	Interests	Potential Actions
Federal Government	High	Favourable	Increase revenue	Political mobilisation, congressional articulation
Industrial Sector Companies	High	Opposed	Cost reduction, bureaucratic simplification	Lobbying, political pressure
Trade Associations	Medium	Opposed	Avoid increase in tax burden	Monitoring, participation in public hearings
Civil Society	Low	Variable	Price reduction, improvement in services	Mobilisations, awareness campaigns
State Governments	High	Favourable	Increase tax base, increase in revenue sharing	Pressure on senators and state representatives
Service Companies	Medium	Opposed	Increase in tax burden	Participation in working groups

i. Incidence of IPI, a federal tax that does not apply to the services sector.
ii. More onerous ICMS, as it affects production and every stage of the supply chain.
iii. Fewer tax credits, as although industry can offset ICMS and IPI, the services sector has fewer opportunities for tax deductions.

The tax burden on industry tends to be higher than that on the services sector, mainly due to the incidence of additional taxes, such as the IPI (Tax on Industrialised Products), and the complexity of the ICMS. However, effective taxation varies depending on the fiscal regime adopted and each sector's cost structure.

Unions and Service Sector Representatives in Congress: With a moderate level of influence, these groups are key players in defending the interests of their members, particularly in service sectors that may be vulnerable to changes in tax burdens. Their stance varies depending on the specific impact of the reforms on their sectors, but they generally oppose changes that could harm their members. Potential actions include forming coalitions and applying pressure in Congress to ensure that reforms do not have adverse financial consequences for their affiliates.

These positions highlight how competition between regional and sectoral interests creates distortions that complicate consensus formation. Thus, the negotiation process becomes characterised by conflicts of interest, where each group seeks to maximise its benefits and avoid losses, perpetuating structural bottlenecks. The actions of these groups, marked by mutual influence and divergent interests, underscore the difficulty of implementing a tax reform that broadly serves the public interest and equitably promotes social and economic development.

4. Deadlocks and Distortions in the Brazilian Tax System

The increase in the tax burden is associated with the expenditures of the federal, state, and municipal governments, which expand their spending and finance it through higher debt and tax revenue (Nunes e Nunes 2009). At the subnational level, administrations have increased taxes on non-essential goods. These differences in tax rates for the same product are highlighted by Mohn (2022. For instance, tax rates on perfumes and cosmetics range from 17% in Espírito Santo to 25% in Santa Catarina, illustrating the variation in taxation policies across states. Such increases in tax rates have contributed to a higher revenue share for these governments, as evidenced by IMF data (2024), which shows that government revenue as a percentage of GDP rose from 32.92% in 1996 to 42.57% in 2022.

In November 2024, the federal government presented measures to the National Congress, claiming they were aimed at curbing the growth of the public deficit and mitigating the increase in debt. These are recurring proposals, introduced whenever the public deficit becomes a concern in the financial market, often reflected in stock market declines and the appreciation of the dollar. These measures are presented as a solution to the public deficit and as a means to ensure the long-term sustainability of debt. It is a political narrative construct aimed at calming the market. The inefficacy of tax policy stems from the fact that some proposed measures will not be implemented, others will worsen the deficit, and some are merely intended to attract supporters of the policy but are ultimately ineffective.

Among the aforementioned initiatives, notable measures include adjustments to the higher income tax brackets, increasing taxation on higher earnings above R$50,000 per month. Additionally, the review of bonuses and allowances, commonly referred to as *penduricalhos*, aims to eliminate distortions that raise public sector salaries above the constitutional ceiling. Another significant proposed measure is the limitation of parliamentary amendments, intended to improve control and efficiency in the allocation of public resources.

In contrast to the government's proposed cost-cutting measures, such as the elimination of excessive salaries and the review of additional perks in the civil service, the payment of quinquennial bonuses to judges has already been approved in certain areas of the judiciary. However, its full implementation remains dependent on judicial and legislative decisions. These measures have faced legal challenges and concerns over their fiscal impact, sparking debates in the higher courts and the National Congress. This context highlights the contrast between fiscal adjustment initiatives and the reinstatement of benefits that could further strain public finances.

These actions reflect the government's ambiguous effort to balance public accounts and ensure greater fiscal sustainability in Brazil. Expecting the state to act as a single entity, a monolithic bloc, overlooks its internal complexity (Motta 2021). Different ministries operate with distinct priorities: while the Ministries of Economy and Planning focus on expenditure control and fiscal balance, others prioritise sectoral policies, advocating for increased funding. This often results in contradictory economic measures. If the state truly operated monolithically, economic policy measures would strictly adhere to established goals, avoiding contradictions.

Mises (2007) supports this perspective, asserting that taxation can become counterproductive when tax rates are raised to increase revenue, paradoxically resulting in reduced revenue. He illustrates this dynamic with the example of taxes on alcoholic beverages.
The fiscal and nonfiscal objectives of taxation do not agree with one another. [...] If the tax fully attains its nonfiscal objective of weaning people entirely from drinking alcoholic beverages, the revenue is zero. It no longer serves any fiscal purpose; its effects are merely prohibitive. Mises (2007, p. 54)

The Tax Issue is intrinsically linked to federal, state, and municipal government expenditures. Historically, the country has sought to offset successive increases in expenditures by raising revenue, leading to differentiated tax rates between essential and non-essential goods. This model pressures consumption, reduces sales, and negatively impacts employment and revenue collection, overburdening public budgets and increasing the demand for social assistance.

This dynamic also affects subnational entities, which, despite these risks, continue to seek increased revenue to finance their growing expenditures, further exacerbating economic and fiscal distortions. The current tax structure, shaped by conflicting regional and sectoral interests, struggles to become more efficient and equitable. Among the main issues are the high cost of labour, worsened by precarious employment conditions, and income tax disparities, which impose a heavier burden on individuals while large corporations benefit from lower effective tax rates.

Given these distortions, there is a reinforced need for tax reform to increase revenue, enabling subnational entities to finance their growing expenditures. The proposal also seeks greater equity and efficiency in the tax system to attract supporters. However, resistance from business groups keen to maintain tax benefits and governors who use incentives to attract investments complicates the creation of consensus. As a result, tax reform remains a complex and priority topic on the public agenda.

Another aspect highlighting the need for tax reform is the disparity in tax burdens across economic sectors. The industrial sector, responsible for increased productivity and, consequently, the country's economic growth, faces a higher tax burden than the service sector. To correct this distortion and promote the sector most relevant to economic development, the proposed tax reform aims to balance taxation by increasing the service sector's tax burden relative to the industrial sector.

Another reason for tax reform is the impact of the current structure on the cost of hiring workers. This increased cost and the precariousness of labour relations impose a heavy fiscal burden. Moreover, the tax system's high tax burden and complexity drive up the prices of goods and services, harming economic competitiveness.

Another critical aspect is the distortion in income taxation, which encourages informality among individuals and allows large corporate groups to pay lower effective rates, exacerbating inequalities within the tax system. These disparities highlight the importance of treating tax reform as a priority on the public agenda.

Nunes & Nunes (2010) highlight that the high volume of tax exemptions distorts the Brazilian tax system. These revenue losses finance the expenditures of subnational governments, which prioritise the expansion of spending without bearing responsibility for controlling aggregate supply at the national level, as price control is a federal government responsibility (Ter-Minassian, 1997).

These exemptions, often granted as incentives to attract investment or stimulate specific sectors, are at the core of the so-called 'fiscal war' between states. In many cases, though, businesses had already planned their investments in a particular state but still requested tax benefits. In this context, subnational entities compete to offer the most attractive incentives, which, while potentially generating localised gains, undermine national revenue.

Diamond and Mirrlees (1971) contend that tax systems should be designed to reduce distortions and uphold productive efficiency. Tax exemptions for specific sectors may lead to inefficiencies and weaken revenue collection. Therefore, revising these exemptions is important for enhancing the overall efficiency of the system.

4.1 Tax System Distortions

Brazilians are not satisfied with the high tax burden. The country's tax system is seen as an obstacle to productive activities, as noted by Sousa and Moura (2024). Despite substantial revenue collection, public funds offer limited returns. This inefficiency is largely driven by the fact that federal and state governments prioritise revenue maximisation to sustain public spending, which, in turn, reinforces their political position. One consequence of this is the application of different state tax rates on the same product across various regions, often without clear justification. An example is the ICMS (Value-Added Tax on Goods and Services), which varies significantly between states, ranging from 17% to over 30%, as seen in electricity tariffs. Additionally, high federal tax rates undermine the competitiveness of Brazilian products (Correia, Santos & Siqueira, 2024). As a result, the excessive tax burden discourages economic activity.

Public dissatisfaction with taxation and distrust towards potential tax increases are exploited in different political narratives. A recent example is the viralisation of a video by federal deputy Nikolas Ferreira (PL-MG), in which he accused the federal government of planning to tax Pix transactions. The video surpassed 200 million views on social media and generated significant public debate. In the recording, the deputy suggests that the government would monitor informal workers as if they were *major tax evaders*. The widespread dissemination of this narrative demonstrates the population's resistance to any potential increase in the tax burden, even when officially denied by the government.

The tax system, designed to finance public expenditure, appears to be reaching the threshold of what taxpayers are willing to tolerate, beyond which tax evasion tends to become more frequent. The high tax burden disrupts neutrality by diverting resources from the private sector, reducing consumption, and funnelling revenue into low-productivity expenditures. It also distorts resource allocation, discourages productive investment, increases compliance costs, and weakens business competitiveness, encouraging informality and tax avoidance.

This tax burden ultimately violates the principles of neutrality and equity. As noted by Salvador:
In the first case (neutrality), taxes should not influence economic agents' decisions regarding resource allocation, as this would affect efficiency. The principle of equity states that taxes should be distributed fairly among members of society (Salvador, 2006, p. 79).
Unlike federal systems, where tax policies vary by jurisdiction, the United Kingdom, a unitary state, applies a uniform VAT system with three national rates: a standard rate of 20%, a reduced rate of 5% for essential goods, and a zero rate for food and basic necessities. This structure simplifies tax administration, reduces bureaucracy, and prevents tax wars between regions. In contrast, in most South American countries with federal systems, tax policies may vary across jurisdictions.

In the UK, VAT collection and enforcement are centralised under HM Revenue and Customs (HMRC), ensuring standardised rates and eliminating regional disparities. While this uniformity brings efficiency and predictability, it also limits the flexibility found in federal systems to accommodate regional economic differences.

Thus, VAT administration in federal states operates differently from that in unitary states. While federal systems allow for revenue-sharing between the central and regional governments, granting greater autonomy and the ability to tailor taxation to local needs, unitary states maintain centralised VAT control, ensuring uniform administration but less flexibility.Type the text here.

Table 2. Distribution of Taxpayers and Income by Income Tax Band – Calendar Year 2020 (Values in R$)

Distribution of Taxpayers and Income by Income Tax Bracket - Calendar Year 2020 (Values in R$)

Income Bracket	Percentage of Taxpayers	Taxable Income	Income Subject to Exclusive Taxation	Exempt Income
Up to 22.847,76	35,23%	24,82%	0,66%	23,80%
From 22.847,77 to 33.919,80	21,75%	34,70%	31,96%	53,22%
From 33.919,81 to 45.012,60	12,41%	2,75%	26,30%	0,39%
From 45.012,61 to 55.976,16	7,71%	21,88%	21,39%	0,31%
Above 55.976,16	22,91%	15,85%	19,68%	22,29%
Total	**100,00%**	**100,00%**	**100,00%**	**100,00%**

The table above categorises income into brackets such as "Up to R$22,847.76" and "Above R$55,976.16." The data shows that taxation is higher in the R$22,847.77 to R$33,919.80 range, where 34.70% of earnings are taxable. This occurs because salary income is taxed at source, making tax evasion more difficult. However, only 15.85% of income is taxed in the highest bracket. This describes a regressive structure in which lower-income individuals contribute a larger share of their earnings than those in higher brackets. For this reason, Stiglitz (2012) argues that wealth accumulation tends to be greater for those who derive their income from capital.

Many people, however, work informally and do not declare their income, allowing them to receive financial support from the federal and state governments. While this is not shown in the table, it affects how the tax burden is shared, leaving fewer taxpayers to cover a larger share of contributions.

This distortion occurs partly because individuals and businesses use legal mechanisms to reduce their tax burden, such as exemptions, deductions, loss offsets, and tax planning. While labour income is taxed at the source, capital income, including dividends and capital gains, often benefits from lower rates or exemptions, which shifts the structure of the income tax system away from its intended progressivity.

Beyond the disproportionate burden on lower-income taxpayers, another factor contributing to the regressive nature of the system is the distinction between taxable and exempt income. While labour income is heavily taxed, certain types of earnings, such as dividends and some pensions, are exempt, effectively reducing the tax base for higher-income taxpayers.

Another notable point is the proportion of income subject to exclusive taxation at source. In the lowest income band, only 0.66% of earnings fall into this category. In contrast, this proportion rises to 19.68% in the higher income bands, suggesting that capital income, such as financial investments, constitutes a larger share of high-income taxpayers' earnings. This further reinforces the regressive nature of the system, as capital income often benefits from lower tax rates or exemptions, while labour income remains subject to higher effective taxation.

Brazil's income tax system is unbalanced. Lower-income taxpayers pay a larger share of their earnings in tax, while wealthier individuals, despite being able to contribute more, benefit from exemptions that limit the system's progressivity. Still, individuals and businesses remain the main sources of tax revenue, though they contribute proportionally less.

Nonetheless, the main distortion in the tax system is the high tax burden, which increases production costs, prices, and employment costs. Reducing this burden could lower prices, stimulate demand, and expand market supply. This measure is necessary, as tax policy has been used to finance electoral expenses, presented as social policies.

The maintenance of high taxes is often justified by the need to fund social programmes such as the Benefício de Prestação Continuada (BPC), Bolsa Família, and other income transfer and welfare policies. These programmes rely on tax revenue for their continuation. A reduction in the tax burden could lead to spending cuts or require a reassessment of budget priorities. It is necessary to consider the trade-offs between tax reduction and fiscal sustainability, particularly in the political sphere. Any proposal to lower taxes would face challenges in Parliament, either due to opposition from groups against reducing revenue or the difficulty of reaching political agreement for its approval.

A high tax burden not only affects income distribution but also has direct implications for production costs and business competitiveness. Higher taxes on labour and production drive up final prices, reducing consumers' purchasing power and limiting businesses' ability to adjust their margins. In this context, taxation impacts competition by restricting firms' capacity to lower prices and compete more effectively in the market.

Decreasing prices encourages higher demand and increases market supply, contributing to broader economic benefits. In this context, consumers gain access to a greater quantity of goods at lower prices, while more efficient producers scale up production to meet rising demand. As a result, less efficient businesses that cannot sustain lower profit margins are forced out of the market. Consequently, overall economic welfare improves.

As competition increases, the companies that stay in the market see their profits grow, allowing them to invest in reducing costs and improving their products. This process leads to a more efficient use of resources, encouraging innovation, higher productivity, and broader social benefits.

While a competitive market fosters efficiency and growth, excessive taxation can have the opposite effect. The continuous increase in tax rates is often used as a response to inefficiencies in tax collection. However, this measure exacerbates the situation by overburdening workers and companies operating within the formal economy. The impact of a high tax burden, combined with the system's complexity, discourages the formalisation of businesses and workers, creating a less competitive and dynamic economic environment. Furthermore, the fiscal pressure on consumers and companies hampers economic growth, deterring investment and the creation of formal jobs.

Given the negative effects of excessive taxation on economic growth and formal employment, reforming the tax system must be a priority. In light of these issues, it becomes clear that overhauling the tax system requires careful consideration in the public agenda. Simplifying regulations, redistributing the tax burden, and establishing mechanisms that encourage the formalisation of workers and businesses are essential steps to restoring fiscal efficiency and promoting a competitive economic environment.

4.2 The Cashback Mechanism: Progressive Innovation or Populist Measure?

Given the regressivity of the tax system, even in direct taxation such as income tax, the government introduced the cashback mechanism to improve the system's progressivity and reduce inequalities. However, this measure will reduce federal government revenue. Moreover, families operating informally might receive funds beyond their declared income, obtaining amounts higher than those declared do. Thus, this mechanism may not effectively contribute to reducing inequalities in the country. Furthermore, the selective nature of the refunds could be perceived as a strategy for generating political popularity rather than promoting sustainable reform.

This criticism is reinforced by the possibility that cashback may serve merely as a compensation mechanism to sustain the high tax burden on consumption, which disproportionately affects lower-income groups. Cashback might offer only temporary relief rather than addressing deeper structural issues, as it treats the symptoms without tackling the root causes of inequality. Instead of addressing underlying distortions, the measure risks becoming a short-term response driven by political interests.

Implementing this system will require disbursements from the Federal Government and additional administrative efforts to oversee resource allocation. Institutions such as the Office of the Comptroller General, the National Treasury Secretariat, and the Federal Court of Accounts (TCU) will be responsible for oversight, leading to increased financial and personnel costs

Past experiences from income transfer programmes such as Bolsa Família offer valuable insights into potential vulnerabilities in the implementation of the cashback mechanism. Recently, the Federal Government ordered a review of user registrations for the Benefício de Prestação Continuada (Continuous Cash Benefit) and Bolsa Família families. In August 2024, the Central Bank reported that around 5 million beneficiaries had transferred nearly R$3 billion via Pix to online gambling platforms. Such misuse exposed gaps in the oversight mechanisms. In response, the government proposed banning the use of Bolsa Família cards for gambling, while the Supreme Court reinforced these measures by prohibiting similar misuse across social programmes (UOL Economia, 2024; Mix Vale, 2024). These examples illustrate the need for robust safeguards when implementing programmes like cashback.

5. The Construction of the Agenda and Narratives of Tax Reform

5.1 Formation of the Public Agenda and Historical Debate

The formation of the Public Agenda and the consequent implementation of the public policy for Tax Reform in Brazil is not recent, having been debated since the 1990s. During this period, the government and society recognised the deficiencies in the tax structure and the need for reforms. Political parties, the media, and pressure groups discussed proposals for measures, aware that those who control the narrative can shape how people perceive reality, using narratives as tools of persuasion and social control. According to Silva (2013), the initiative of these actors, as representatives of society, granted legitimacy to the public agenda at that time. The experience of 1995 'eroded the foundations of corporate profit taxation and individual capital gains,' distorting the system and necessitating further adjustments to the tax structure.

In 2019, tax reform once again became a public agenda. Among the promises of the proposed constitutional amendment for tax reform, the reduction of the tax burden stood out, alongside other commitments, such as preserving the fundamental principles of the 1988 Constitution, including the autonomy of the three branches of government, limitations on the power to tax, and tax decentralisation. This measure occurred when Brazil's tax burden continued to rise over the previous eight years, emphasising the urgency of reform to ease fiscal pressure on the population and businesses. The proposal also assured taxpayers' constitutional rights and guarantees would be fully maintained. Thus, it mixed promises with guarantees already expected to be preserved. Nevertheless, these assurances reveal contradictions that highlight tensions and polarisation influencing the public debate.

5.2 Paradoxes and Polarisation in Tax Reform

One paradox in these proposals is that taxes on essential food items would be reduced—by abolishing the PIS and replacing others like ICMS and COFINS—while at the same time aiming to increase revenue for expanding public goods. Cutting tax rates and boosting the supply of public goods simultaneously is only feasible if public spending becomes more efficient. The paradox becomes even more evident with the proposal to reduce the tax burden on capital income by replacing the revenue generated by the Social Contribution on Net Income (CSLL), the Social Security Contribution, and the tax on capital profits. This proposal contradicts the intention to reduce taxation on essential items while maintaining or increasing revenue. Tax reform advocates also assured the maintenance of state and municipal tax revenues. In this way, they argued that the proposed reform did not aim to increase the tax burden on individual taxpayers but to redistribute it more equitably by sector and taxpayer category, collecting at decreasing fiscal costs.

The proponents of tax reform claimed that the proposal provided a solution adapted to Brazil's reality, adjusted to the peculiarities of its fiscal federalism while combating tax evasion, improving tax justice, and promoting changes for a progressive adaptation of the tax system to the demands of market globalisation and Brazil's competitive integration into the international scenario.

The debate on tax reform in Brazil was also marked by clear political polarisation, similar to what has been observed in other countries. Opposing political groups used different narratives to influence public opinion and shape tax reform according to their interests. With each new proposal, new demands arose, leading to a continuous process that distances the reform from the promised configuration of the tax structure.

In a scenario comparable to that observed in the United States, where Democrats called tax reform "the mother of all tax revisions" and Republicans labelled it "the mother of all tax increases," political and economic actors in Brazil adopted similar rhetoric. While proponents of the reform presented it as a solution to simplify the tax system and alleviate the burden on the poorest, critics labelled the proposal as a disguised tax increase, particularly for specific sectors of the economy, such as services.

This perspective divergence demonstrates how tax reforms frequently become fertile ground for polarising narratives. Different political and economic groups present their views in line with their interests and perceived implications of the proposed changes. While proponents sought support by promising social justice and economic growth, opponents warned of possible tax increases for specific segments of the population and economic sectors.

These proposals garnered popular support, even though they represented regulations that were difficult to approve. However, it is important to note that such proposals often form part of a strategic narrative to win supporters, presenting themselves as a social commitment, even though their effective implementation faces numerous political and economic obstacles. Harvey (2005) discusses this idea of using narratives to direct the debate and shape perceptions, analysing how political and economic discourses are constructed to legitimise certain policies and gain public support.
In this sense, opinions become assimilated by others, as Guimarães Rosa (2006) describes: "Other people's opinions slip out of them, stealthily, and blend into many others, even without us knowing, shaping our ideas, showing how narratives infiltrate and influence collective thinking."

This agenda presented feasible and necessary promises, such as preserving constitutional principles and taxpayer guarantees, along with others, like reducing the tax burden, which infiltrated as strategic narratives to gain popular support. Such promises were used as narratives to secure popular backing and legitimacy through discussions led by political parties, the media, and pressure groups.

In this context, each group—political parties, interest groups, or social actors—presents narratives to convince politicians, authorities, and society. These discourses advocate for tax reform focused on social justice, reducing inequality, and simplifying the tax system.

However, two essential circumstances must be considered when analysing the current tax reform agenda. The first is the persistence of a fiscal crisis affecting all three levels of government, a situation that has persisted since the deterioration of public accounts in 2015. The second is the high level of disagreements among various sectors of society and federal entities regarding the tax system, resulting in a consensus on the need for reform, albeit with each group advocating for its version of the proposal.

In light of the above, the narrative of the tax issue successfully convinced society that its implementation was essential to promoting social justice and fostering economic growth. By highlighting the inequalities generated by the current tax system, proponents of reform presented socially appealing arguments, such as the need to ease the burden on those with lower incomes and correct distortions that benefit specific groups. Additionally, they promised that a more efficient and modern tax system would attract investments, generate jobs, and improve income distribution.

This approach sought to align the interests of different sectors of society, presenting the reform not merely as a fiscal change but as an essential step toward achieving a fairer and more prosperous country. In doing so, the proponents employed a simplified narrative framework that created an expectation of future welfare. However, the persistence of such narratives, despite past failures, raises the question of how social expectations shape the acceptance of tax reform proposals and other policy changes.

5.3 Social Expectations, Obstacles, and Previous Experiences

This phenomenon of society accepting proposals that are difficult to implement is not uncommon. Surprising yet predictable, it reflects the emotional appeal and hopes for improvement announced in such proposals. This can be interpreted in light of the famous remark attributed to Otto von Bismarck, as cited by Roberto Campos (TV Cultura, 1991): *Bismarck once said that only a fool learns from his mistakes; a wise man learns from the mistakes of other*s (Bunn & Sagan, 2014, p. 2).

However, the behaviour described can also be understood through the concept of adaptive expectations. Society tends to adjust its forecasts gradually, relying on past experiences but failing to immediately incorporate new information, Mankiw (2021). This learning process, though continuous, occurs with a delay, allowing flawed proposals or unrealistic promises to persist as seemingly viable solutions.

Hirschman (1991) argues that proposals promising significant changes often wield persuasive power over the masses, even if they face challenges in implementation, gaining widespread support due to their convincing rhetoric and emotional appeal. Adaptive expectations help explain why, despite repeated failures, the cycle of acceptance and hope endures, reinforcing the attraction of political and economic proposals.

People may see these measures as solutions to everyday difficulties and a way to improve their well-being. This emotional appeal can overshadow more rational or technical analyses, leading to popular support. This creation of hope strengthened popular backing for tax reform, regardless of the political and economic obstacles involved.

Measures promising long-term, self-sustaining growth have been recurring in Brazil. In the 1990s, many authors believed that facilitating the trading of shares on stock exchanges would lead to the dispersion of company equity and provide businesses with

cheaper financing capital, even for the long term. Despite the expectations generated in the 1990s, the promise of self-sustaining growth through facilitated stock trading did not materialise as anticipated.
Although the opening of markets and the modernisation of stock exchanges promoted greater access and liquidity in the stock market, they did not ensure a significant dispersion of company equity or the expected expansion of company capital.

The privatisation programme for public companies was implemented to free up government resources so the state could reinvest in infrastructure. These expenditures would enable the expansion of private investment, and the transfer of ownership of privatised companies from the public to the private sector would contribute to increased efficiency. Again, expectations failed to materialise.

A similar process occurred with Public-Private Partnerships. Once more, the programme was seen as capable of driving economic growth in the country. Governments could finance public activities and contribute to increased efficiency. Similarly, pension and administrative reforms failed to achieve their promised goals.

In summary, despite their recurrence and the expectations they generate, difficult-to-implement proposals often fail to deliver the promised results. Hirschman (1991) analysed the emotional appeal of these measures, arguing that they create a climate of hope that can overshadow more rational and realistic evaluations.

The promise of self-sustaining growth and structural improvements in Brazil—whether through facilitating stock trading, privatisation, public-private partnerships, or tax and administrative reforms—has often proven illusory. The convincing rhetoric of these proposals significantly impacted public opinion and garnered widespread support, but political, economic, and practical obstacles prevented their results from being achieved.

This contrast between the generated optimism and the reality of implementation indicates the need for more thorough and realistic analyses in public policy planning, considering expectations and inherent challenges within the country's political and economic context.

In public policy literature, governments advance an agenda and transform it into policy through agenda-setting. In this process, political actors, such as policy entrepreneurs and advocacy coalitions, leverage favourable circumstances to build consensus among interest groups and authorities. They articulate strategic narratives to secure public and political support, ultimately leading to the policy's formulation, adoption, and implementation (Kingdon, 1984; Sabatier, 1988)."

However, as seen in past tax reforms, the reliance on broad narratives often leads to unrealistic expectations and subsequent disillusionment. The contrast between reformist rhetoric and actual implementation underscores the necessity of a more pragmatic and technically sound approach to fiscal policy. Rather than being shaped solely by political narratives, tax reform must be rooted in economic feasibility and institutional capacity. This highlights the challenge of balancing political discourse with policy execution—an issue that remains central to the ongoing debate on tax reform in Brazil.

6. Conclusion

Predictions regarding the outcomes of economic reforms have often been more optimistic than what has materialised. These expectations have been shaped by the long-standing belief that Brazil has significant potential for economic progress—a view dating back to its discovery and reinforced over time. This perception has persisted across generations, frequently serving as justification for political and economic measures that promised to position the country as a global power.

However, this belief in Brazil's potential has often masked structural deficiencies that constrain development. The notion that the country has everything it takes to succeed has fuelled excessive optimism about economic and social reforms, resulting in ambitious promises that are not always followed by concrete results. This has led to repeated frustrations and disagreements regarding national development. Popular expressions and narratives, sometimes in an ironic or satirical tone, attribute economic stagnation to historical and social factors, such as colonisation or cultural traits. These interpretations often oversimplify the complexities of development and reinforce established perceptions of Brazil's structural limitations.

Since the 1990s, policies promising self-sustaining long-term growth have repeatedly been proposed but have not delivered the expected results. It was assumed that facilitating stock market participation would encourage capital dispersion and provide more affordable, sustainable financing. However, despite efforts to modernise and broaden access to the stock market, the anticipated expansion did not occur. This aligns with the understanding that savings rates depend largely on income levels—higher-income groups are more likely to save, while lower-income populations tend to consume most of their earnings (Kalecki, 1983).

The privatisation programme of the 1990s was intended to reallocate public resources to infrastructure investment, stimulate private sector activity, and improve efficiency. However, outcomes fell short of initial projections. Similarly, the Public-Private Partnerships introduced in the early 2000s as mechanisms to spur growth failed to achieve their intended objectives. Pension reforms implemented from the 1990s onwards did not deliver the expected fiscal balance or long-term financial sustainability, as pension deficits remained high. Various administrative reform proposals have also failed to produce substantive structural change, leaving the cost of the public sector largely unaltered.

The trajectory of tax reform in Brazil appears to follow a similar pattern. The debate reflects competing economic, political, and social interests. While the simplification of the tax system has been presented as the central goal, it has largely served as a strategic narrative to legitimise fiscal changes, where the priorities of specific groups override broader national interests. Although tax reform has been promoted as a solution to inefficiencies, in practice, the process is often influenced by sectional interests, limiting progress towards equity and fiscal sustainability. As a result, tax reform has frequently been postponed or diluted, with key commitments left unfulfilled.

The simplification of the tax system has been framed as a means of improving administrative efficiency and reducing compliance costs. However, tax reform is not merely a technical matter; competing political narratives also shape it. The idea of fiscal simplification has been widely used to gain political and public support. As Foucault (1971) argues, discourse shapes perception, and those who control the narrative influence what is accepted as truth. The way tax reform is presented influences its acceptance, regardless of its actual effects. While tax changes were expected to reduce structural inefficiencies, the emphasis on simplification has primarily served to secure approval. Voters continue to place trust in policymakers’ discourse, despite the unfulfilled promises of previous reforms.

Nevertheless, simplification alone does not resolve the broader issue of fiscal imbalances and revenue generation. Addressing distortions in the tax system and reducing the tax burden could yield social and economic benefits. However, increased tax revenue, by expanding the role of the state, may lead to greater government intervention in the economy. A larger state presence increases opportunities for lobbying and interest group influence, potentially leading to further distortions. Such intervention often materialises through additional regulation, which raises production costs and reduces the competitiveness of domestic firms. Over time, these higher costs can discourage investment, reducing capital accumulation, employment, and wage growth, ultimately lowering overall economic welfare.

The government must create conditions that enable stable prices and encourage production growth. Achieving this requires political determination and a long-term perspective. The Public Choice theory, as formulated by Buchanan and Tullock (1962), suggests that voters and politicians tend to prioritise short-term benefits, even at the expense of long-term economic stability. This preference for immediate gains often obstructs the implementation of necessary structural reforms. Additionally, Niskanen (1971) argues that bureaucracies have an inherent incentive to expand their budgets, which can lead to inefficiencies and hinder the adoption of policies focused on long-term economic and social objectives.

To ensure fiscal stability, any increase in public expenditure should be matched by corresponding revenue growth, as required by the Brazilian Constitution. Without such fiscal discipline, the provision of essential public services is at risk. The issue is not the absence of rules but the failure to enforce existing ones. Furthermore, mechanisms designed to bypass fiscal constraints have become increasingly common.

Despite this, government expenditure continues to rise, with new commitments being made. Nunes (2024) characterises this pattern as fiscal alcoholism, stating: *Brazil is a fiscal alcoholic. It starts spending and cannot stop*. This pattern reflects both public demand and the government's inclination towards expansionary policies. The alignment of interests between the government, political parties, and voters—often influenced by official narratives—has reinforced this tendency. Government-sponsored advertising has also played a role in securing public backing for fiscal policies and tax reform measures.

A notable example occurred when a parliamentarian gained more public support than the President of the Republic after releasing a video criticising a regulatory measure. The government subsequently revoked the regulation, following claims that it would result in higher taxes. Although no new tax was actually introduced, the measure was withdrawn in response to public pressure.

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