

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	BRAZIL/CSC - Southern Cone
▪ TC Name:	Support for the Digital Transformation of the Tax Administration in Brazil
▪ TC Number:	BR-T1515
▪ Team Leader/Members:	MARIA CRISTINA MAC DOWELL (IFD/FMM) Team Leader; CALIJURI, MONICA (IFD/FMM) Alternate Team Leader; DE FREITAS SEVERINO, LIGIA (CSC/CBR); VALENTE LINS, PAULA (CSC/CBR); AGUIAR, FERNANDO AMARAL DE (CSC/CBR); AVILA, KRYSLA A (LEG/SGO); LIZA BUILES (IFD/FMM); ASTUDILLO, KAREN (IFD/FMM)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	13 May 2022
▪ Beneficiary:	Ministry of Economy of Brazil
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$250,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	24 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/FMM - Fiscal Management Division
▪ Unit of Disbursement Responsibility:	CSC/CBR - Country Office Brazil
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation ; Institutional capacity and rule of law

II. Objective and Justification

- 2.1 Support the Federal Revenue Agency of Brazil (Receita Federal do Brasil, RFB) in its efforts to strengthen and modernize its institutional capacity, specifically the digital transformation of the tax administration.
- 2.2 In the last years, tax administration in the LAC region has undertaken substantial fiscal reforms and has been adopting modern management models with the aim of improving its performance. The RFB stands out among tax administrations. Nevertheless, despite the advances, several challenges remain to be solved, mainly related to digital and data analysis technologies and technological systems, that could lead to the digital transformation of activities and processes, tax litigation processes and taxpayers' risk management.
- 2.3 At the beginning of 2020, an assessment using Tax Administration Assessment Tool (TADAT) was conducted at the RFB. with participation of the IDB, which identified four main areas to be developed to reach good international standards, as follows: (i) Performance Outcome Area (POA) 2 – Effective Risk Management; (ii) POA 5 – Timely Payment of Tax; (iii) POA 6 – Accurate Reporting in Declarations; and (iv) POA 7 – Effective Tax Dispute Resolution.

Attending to the RFB request, the Bank, through the TC BR-T1446, has provided technical assistance to improve these weaknesses. In order to continue the activities,

the RFB has requested new technical cooperation, mainly focusing on the administrative tax litigation process, risk management, and assessing the state of the computer system of the Federal Revenue of Brazil (RFB), which includes technology and state of digitization.

Moreover, in January 2022, Brazil received the official invitation from OECD to start the formal accession process, bringing up new challenges to adapting tax legislation and RFB procedures to the OECD guidelines, that also will also need implementation support.

III. Description of Activities and Outputs

- 3.1 **Component I: Technological modernization of IT.** (i) Technology plans incorporating autonomy vis-à-vis IT service providers and the application of Digital Maturity; (ii) cross-country comparative studies of systems that are used by tax administrations in the region; and (iii) modeling for monitoring, forecasting and tax policy impact analysis.
- 3.2 **Component II: Risk and Registration Management .** Studies for: (i) improving tax and customs registries and their integration with public registries, private individuals and other cadastral bases, including mechanisms, procedures and good practices; and (ii) updating of the registries managed by the RFB: individuals, legal entities, urban and rural properties, and customs agents. And the development of methodologies for institutional and risk management compliance.
- 3.3 **Component III: Tax litigation .** This component will finance: (i) Comparative studies on administrative and judicial tax litigation models of other tax and customs administrations and proposals for improvement of the model currently in use; and (ii) study containing analyzes (quantitative and qualitative), recommendations and specification of tools for digital monitoring of themes.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Technological modernization of IT	US\$120,000.00	US\$0.00	US\$120,000.00
Risk and Registration Management	US\$60,000.00	US\$0.00	US\$60,000.00
Tax litigation	US\$70,000.00	US\$0.00	US\$70,000.00
Total	US\$250,000.00	US\$0.00	US\$250,000.00

V. Executing Agency and Execution Structure

- 5.1 Upon the beneficiary's request, the IDB, through the Fiscal and Municipal Management Division (FMM/CBR), through its Representation in Brazil, will execute this TC.
- 5.2 In line with the criteria established in Annex II of the Procedures for Processing TC Operations (OP-619-4), execution by the Bank is justified because: (i) Compliance with internal requirements (signing of a formal technical cooperation agreement, which on average takes six months) would delay the execution of the TC, jeopardizing the achievement of its objectives; and (ii) the requesting entity does not have the necessary technical, operational and institutional capacity to duly and timely execute the activities provided in the respective project. In addition, the Bank's execution is justified by the fact that most consultancies are expected to be international. The

Bank's execution will allow for a rapid response and implementation of the activities for the RFB.

VI. Project Risks and Issues

- 6.1 The main risk associated with this TC is still the eventual discontinuation of the implementation of government initiatives due to the pandemic crisis, such as social distance and travel restrictions measures that could delay the preparation of reports, meetings and seminars. The mitigation would consist of online meetings and remote consulting. Also, as stated in the Country Strategy the: (i) macroeconomic risks associated with the deterioration of the external context and with progress in fiscal consolidation; and (ii) institutional weaknesses could delay execution. However, considering the high interest and active engagement of the competent entities to be beneficiaries of this TC, the risk will be mitigated by focusing on technological and operational aspects that will reduce the risks.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".