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|| SURVEY

# Federal Tax Compliance

# 2019

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**GETAP**

GRUPO DE ESTUDOS TRIBUTÁRIOS APLICADOS

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**II SURVEY**  
Federal Tax  
Compliance  
**2019**

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A project coordinated by

**GETAP - GRUPO DE ESTUDOS TRIBUTÁRIOS APLICADOS**

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# 1. About GETAP

The Applied Tax Studies Group (Grupo de Estudos Tributários Aplicados) – GETAP is a non-profit association founded in 2011, dedicated to helping improve the Brazilian tax legislation through studies, surveys and work groups that result in suggestions of a technical nature, aimed at simplifying and rationalizing the Brazilian tax system.

Currently, GETAP has 71 associated companies, all of them large-sized, subject to special monitoring by the Brazilian Federal Revenue Service, distributed in several sectors of the economy and that operate throughout the national territory. Considering its representativeness, GETAP plays a significant role in terms of technical contribution in issues related to the domestic tax system in many spheres of production of tax norms.

Within its scope of action, GETAP's objective is to contribute significantly to simplify and rationalize the Brazilian tax system, always seeking to provide greater legal security in relationship between tax authorities and taxpayers.

In this context, GETAP carried out the Second Survey of Federal Tax Compliance in order to define its impact on the routines of the associated companies, derived from the compliance of federal tax obligations, as well as their related activities – the so-called tax compliance. It also compares the results with the first survey conducted in 2014 in order to highlight breakthroughs or setbacks in compliance activities as a way to assess the effects produced by the actions and initiatives of the Brazilian Federal Revenue adopted in recent years with a view to improving the tax environment. To this end, the study measured the time and number of people involved in the many activities related to this topic.

## 2. Introduction

### 2.1. Context of Tax Compliance in Brazil

In the past decade, the Brazilian tax scenario has been going through meaningful changes, especially regarding tax administration and management issues. Therefore, in order to increase control and speed of the inspection process for the federal, state and municipal tax authorities, several ancillary obligations have been introduced in replacement of other preexisting ones. One of the most notable examples are the digital files established under the Public Digital Bookkeeping System (Sistema Público de Escrituração Digital) - SPED, which include Digital Accounting Bookkeeping (Escrituração Contábil Digital) - ECD, Digital Tax Bookkeeping (Escrituração Fiscal Digital) - EFD, either related to State VAT (known locally as ICMS) and Federal VAT (known as IPI) (EFD-ICMS IPI) and EFD Contributions and, more recently, Tax Bookkeeping (Escrituração Contábil Fiscal) - ECF, as well as others that are in the final stages of implementation, such as the Digital Tax Bookkeeping System for Fiscal, Social Security and Labor Obligations (eSocial), the Digital Tax Bookkeeping of Withholdings and Information regarding Replaced Social Security Contribution (EFD-Reinf) and the Declaration of Debts and Tax Credits of Federal Social Security and Other Entities and Funds (DCTFWeb), the latter related to labor and social security information.

It is also important to mention that tax documents are becoming increasingly more digital and some of them are already well established in the corporate environment, such as the Electronic Invoice (NF-e) and the Electronic Bill of Lading. (CT-e), and others that are starting to be implemented, such as the Electronic Consumer Invoice (NFC-e) and the Electronic Services Invoice (NFS-e). The fact is that SPED, which has been around since 2007, has become increasingly consolidated as one of the main paradigm shifts in the relationship between tax authorities and taxpayers, in line with technological advances in digitization of processes and integration of information between the entities involved, a change that is proving to be irreversible.

However, this paradigm shift is going through a long period of transition. Despite the effective implementation of its many modules, one of the most relevant adverse effects of this transition to SPED is the overlap of ancillary obligations and information required from taxpayers, given that the replacement of existing ancillary obligations to their respective SPED module often fail to occur automatically. As a result, taxpayers are required to work with separate accessory obligations that have exactly the same purpose or contain redundant information. It should be noted that at the federal level, this situation has been mitigated in recent years - with the gradual elimination of federal ancillary obligations in favor of SPED. At the state level, however, such change is still at an early stage despite

the significant progress made mostly over the past two years in some states.

Within this context, taxpayers have been making an effort to implement and prepare the ancillary obligations required by the tax authorities. This implies allocating staff to specific training, adaptation and customization projects for the information systems that require even the hiring of specialized service providers.

In addition to the compliance (preparation and sending of files) required for the ancillary obligations, taxpayers are also making a great effort to perform their tax determination activities. Furthermore, the procedures for obtaining Clearance Certificates (CND), compliance with tax inspections and the management of administrative litigation represent related activities derived from corporate tax compliance.

Therefore, this survey, which refers to federal tax compliance, covers previous, subsequent and adjacent activities related to compliance with ancillary obligations. In other words, from the determination and to the compliance with the ancillary obligations, to the payment of the tax, obtaining a CND and managing administrative litigation.

## 2.2. New changes in comparison with previous Survey

Since the last survey conducted in 2014, the Brazilian Federal Revenue Service has adopted several initiatives to carry through the modules provided for in the SPED project by implementing new ancillary obligations in lieu of others. As such, this survey has brought to light new facts that were not present in the previous one and that cover the changes in the structure of the ancillary obligations required by the tax authorities, in addition to removing from its scope the ancillary obligations that have been terminated since the last survey. With this in mind, the following changes have been added to this survey in relation to the previous one:

### **Replacement of DIPJ for ECF:**

The Tax Bookkeeping (Escrituração Contábil Fiscal) – ECF, was established by Regulatory Instruction 1,422/13 and is now required from calendar year 2014, with the first delivery made in 2015. Its implementation, therefore, exempted the delivery of the Income Tax Return (Declaração de Informações Econômico-Fiscais da Pessoa Jurídica – DIPJ), as well as the bookkeeping and printing of the Taxable Income Control Register (Livro de Apuração do Lucro Real – Lalur) regarding facts that occurred as of 1 January 2014<sup>1</sup>, which has become one of the modules that make up the ECF. Moreover, the ECF no longer requires the IPI Forms so this information module has been eliminated.

<sup>1</sup>The regulatory act that introduced the exemption to deliver the printed version of the DIPJ and Lalur bookkeeping is Regulatory Instruction 1,489/14.

Additionally, with the advent of Base Erosion and Profit Shifting (BEPS) conducted by the Organization for Economic Co-operation and Development (OECD), and with the establishment of its Action Plans, which Brazil adhered to and agreed to adopt those relating to the Minimum Standards, the ECF began to require information pertaining to the Country-by-Country Report (CbCR) linked to Action no. 13 of the BEPS Project.

The survey, therefore, was changed to reflect this new reality, excluding the DIPJ and including the ECF in the list of accessory obligations related to corporate income tax (IRPJ)/social contribution on profit (CSLL), in a segregated manner in order to assess the time spent on each of its main information modules, which are: (i) e-Lalur (Electronic Taxable Income Control Register) and e-Lacs (Electronic Social Contribution Tax Base Register); (ii) Transfer Pricing; (iii) Profit earned abroad; (iv) Country-by-Country Report; (v) Withholdings of corporate income tax (IRPJ) and social contribution on profit (CSLL) and; (vi) Other blocks.

### **Eimination of FCONT - Transitional Accounting Tax Control:**

The main function of FCONT was to reconcile bookkeeping prepared with basis on international accounting standards adopted by Brazil (Law 11,638/07) with bookkeeping based on accounting standards prior to Law 11,638/07, given that the Transitional Tax Regime (Regime Tributário de Transição - RTT) introduced by Law 11,941/09, provided for tax neutrality related to a change in accounting methods and criteria deriving from international accounting standards. After the introduction of Law 12,973/14, the RTT was eliminated and with it the requirement of said ancillary obligation.

### **Establishment of e-Social, EFD-Reinf and DCTFWeb:**

The establishment of the Digital Bookkeeping System for Tax, Social Security and Labor Obligations (e-Social) under Decree 8,373/14; the Digital Tax Bookkeeping of Withholdings and Other Tax Information (EFD-Reinf) under Regulatory Instruction 1,701/17; and the Declaration of Debts and Tax Credits of Federal Social Security and Other Entities and Funds (DCTFWeb) under Regulatory Instruction 1,787/18, consolidated the labor and withdrawal modules within the scope of SPED. The establishment of this SPED module will allow the elimination of various ancillary tax and labor obligations. Within the scope of the ancillary obligations covered by the previous survey and the current implementation phase in which this survey was conducted, the following were eliminated and/or are in the process of being eliminated: the Declaration of Withholding Tax (Declaração de Imposto de Renda na Fonte - DIRF) and the Company System for FGTS Collection and Information (SEFIP) [FGTS being the Government Severance Indemnity Fund for employees].

The implementation of these ancillary obligations is occurring in phases and is in full development. For this reason, it should be noted that this survey sought to capture as much as possible these changes, reflecting the practical-regulatory reality regarding the period in which it was applied, given that the full implementation had not yet been concluded.

Therefore, in addition to introducing the changes to adapt to this new scenario with regard to ancillary social security and federal tax withholding obligations, the survey also sought to measure the time effectively spent and the number of people involved in the companies for the implementation of such accessory obligations, specifically with regard to e-Social and EFD-Reinf, since these obligations introduced a new form of interaction between tax authorities and taxpayers in regard to compliance of ancillary obligations through the use of a technological solution known as "Web-Service". It is worth mentioning that such results are additional to the scope of the survey, i.e., they are not covered in the concept of Tax Compliance adopted and, therefore, are not integrated in any results under this scope.

### **Unification of Clearance Certificates (CND) for Federal and Social Security Taxes:**

Joint Ordinance RFB/PGFN 1,751/14 repealed Joint Ordinance RFB/PGFN 3/07, replacing it in terms of the provisions on proof of good tax standing before the National Treasury. From its effective date, set in November 2014, the joint RFB/PGFN CND for federal taxes was unified with the specific CND for social security debts (CND-INSS). Therefore, since the end of 2014, taxpayers, in order to prove their good tax standing before the National Treasury, need to present a single Debt Clearance Certificate, which includes federal and social security taxes, whether recorded as collectible or not.

Regarding the Good Tax Standing Certificate (CRF), related to the FGTS Government Severance Indemnity Fund for Employees, it remains in force, given that this fund is not managed by the Brazilian Federal Revenue, but rather by the Caixa Econômica Federal bank.

### 2.3. Objective of the work

Based on the above scenario, GETAP has conducted a survey with its associates to assess the average taxpayer demand, based on the number of hours per year and the people involved in the procedures of federal tax compliance.

It should be noted that, except for the GETAP survey itself conducted in 2014, no previous survey was found to be as comprehensive as the one proposed here. This survey measures, in addition to the time spent on the preparation and delivery of accessory obligations, the number of hours spent in the calculation and payment of taxes and related issues, such as obtaining Debt Clearance Certificates and managing administrative litigation.

In order to achieve the proposed objective, GETAP created and sent to the associates a questionnaire based on the methodology described below. The virtual platform SurveyMonkey® was used to compile the answers and can be found at [www.surveymonkey.com](http://www.surveymonkey.com).

## 3. Methodology

The methodology used was submitting questions to obtain information about the time spent and the number of people allocated by GETAP associates to meet their federal tax obligations - without a "case study." The analysis of the actual cases may change the result.

The answers were provided by professionals from the tax departments of the associated companies, and in cases where judgment was allowed, there may be some subjectivity, considering the experience of each respondent.

The questionnaire used for the survey was structured to obtain information separated by tax. The questionnaire was divided into seven blocks: (I) information regarding corporate income tax (IRPJ) and social contribution tax (CSLL); (II) information regarding social contribution taxes on gross revenue (PIS/COFINS); (III) information regarding federal VAT (IPI); (IV) information related to federal tax withholdings, including social security; (V) information regarding social security taxes; (VI) information regarding Debt Clearance Certificates (CND) and; (VII) information relating to Administrative Federal Litigation and Other Information. It is worth pointing out that block VI only included the Certificates related to taxes levied by the Brazilian Revenue Service and the FGTS Government Severance Indemnity Fund for Employees.

In blocks I to V, at a second level of information, the questionnaire was subdivided to obtain information from three stages of "tax compliance": (a) determination, (b) compliance with accessory obligations, and (c) collection (tax payment and/or offsetting).

All questions in blocks I to VI require numerical answers related to the amount of annual hours (or monthly, in some cases) required to comply with a certain activity and the amount of people involved in it, without exclusive dedication, i.e. the concept of Full Time Equivalent (FTE) was not used. In the last question of each block, eight cases are presented representing the main causes hindering the process of preparation and delivery of accessory obligations related to each tax and the respondents were asked to classify these causes, from first to eighth place. For ranking purposes, the respondent had to give a score from 1 to 8, with "8" being first place, "7" the second and so on, with score "1" as the eighth place. The result of this question is used to create a final ranking obtained with basis on the weighted average of the scores of all cases (scale between 1 and 8).

The companies were instructed to answer the questionnaire based on information from only one company (company or root corporate taxpayer registry number - CNPJ), and it was suggested to them to use the company of the group with greater operational complexity, although it was up to the respondent to choose which companies would take part in the survey, in that which refers to the amount of companies as well as the their level of operation. All the results represent the average demand placed on a company (root CNPJ) for compliance with the various activities of tax compliance at the federal level.

The following definitions were used in the survey:

**a) Determination:** covers the research, searches, monitoring and interpretation of tax laws, their implementation in a systemic environment and application in business and operations; the calculation and review of tax calculations, including the bookkeeping of tax documents; management of accessory controls; including the hiring of external consultants to carry out such work;

**b) Compliance with ancillary obligations:** includes the generation of files, completion, consistency analysis, validation, final review and transmission of accessory obligations, including the hiring of external consultants to perform such work;

**c) Collection:** comprises all procedures for the payment and/or offsetting of taxes, such as: completion of remittance forms, as well as the preparation, consistency analysis, validation, final review and delivery of claims for tax setoffs, refunds or reimbursement, on paper or by electronic means.

In addition, the questionnaire contained questions referring to related activities, such as: procedures for obtaining a CND (block VI), management of administrative litigation (block VII), as well as indication of ancillary obligations that demand the most time and people due to their complexity.

The questionnaire was answered by the companies from November 2018 to April 2019.

### 3.1. Scope limitations

The purpose of the survey was only the analysis of tax compliance for federal tax, with the exclusion of matters related to state and municipal taxes.

Despite this scope limitation, result of shared ancillary obligations, such as is the case of EFD-ICMS/IPI, may be affected by taxes not covered by the survey since, in this case, the federal tax records are inseparable from state ones.

In terms of the federal taxes analyzed, we would like to point out that only those that represent the most significant amounts of collection were selected, in accordance with the report "Analysis of Federal Revenue Collection" of February 2019, published in the website of the Brazilian Federal Revenue Service (<http://receita.economia.gov.br/dados/receitadata/arrecadacao/relatorios-do-resultado-da-arrecadacao/arrecadacao-2019/fevereiro2019/analise-mensal-fev-2019.pdf>).

Therefore, federal taxes such as: Import Tax (II), Financial Transactions Tax (IOF), Excise Tax on Cross-Border Royalties and Services (CIDE) and their respective ancillary obligations, such as Siscoserv and programs such as Reintegra, were not considered in this survey.

Regarding the results of the analysis, it is also worth mentioning the following considerations and limitations:

(I) In order to avoid overlapping information, some aggregated results only considered the annual hours spent and not the number of people involved, given that for some situations the same person can work on more than one activity.

(II) Although the information requested in the questionnaire is based on the demand required for compliance with a single company of the business group and the results were presented based on this assumption, it should be considered that the corporate structure of the surveyed companies does not always allow acquiring information at the level of detail requested by the survey, since many of them perform such activities through centralized departments, such as shared service centers, among others. Therefore, the answers may have often been acquired through estimates whose criteria has not been evaluated. Likewise, and in some cases, the assumption of considering a single company of the business group may not have been observed, and any answers may have been acquired considering the demand required to meet the compliance of the business group as a whole;

(III) In order to refine the quality of the sample, reduce any discrepancies and mitigate distortions in the calculation of averages of both hours and people, as mentioned in the previous item, the data was submitted to statistical analysis using "R-Project®" for the elimination of outliers. The variable used for the analysis of the outliers was "number of hours", i.e. when determining an outlier, the respective data of the variable "number of people" linked to this outlier was also deleted from the sample. The assessment of the outliers was made with basis on the construction of a boxplot graph formed by the first quartile (25%), the third quartile (75%) and the median. The lower and upper whiskers extend, respectively, from the lower quartile to the lowest value not lower than the "lower limit" and from the upper quartile to the highest value not higher than the "upper limit". The limits are calculated as follows:

$$\text{Lower limit: } Q_3 - 1.5(Q_3 - Q_1)$$

$$\text{Upper limit: } Q_3 + 1.5(Q_3 - Q_1)$$

Where:  $Q_1$  = 1st quartile and  $Q_3$  = 3rd quartile

Points outside these limits are considered outliers for the purposes of the sample analyzed and disregarded for the calculation of the averages.

**(IV)** The sample did not consider blank or zero answers for the purpose of calculating the average. The reasoning applied to not consider such was to avoid distortions in the calculation of the averages caused by a respondent who does not perform a particular activity covered by the survey. An example of this could be the fact that a company may perform a non-industrial activity and, therefore, not pay IPI tax.

**(V)** Considering the structure used in the questionnaire, which seeks to obtain detailed information about hours and people involved in each activity related to each tax, and considering the implications of the methodology used in items (I), (II), (III) and (IV) the amount of sample data in each variable analyzed may be changed, so that the “sum of averages” does not correspond to the “average of sums.” For this reason and in order to obtain aggregate results and global results, such as the total annual hours allocated to the compliance of a given ancillary obligation; and to obtain global results, the total annual hours allocated to: (a) full compliance of each tax; (b) the calculation of all taxes; (c) compliance with all ancillary obligations; (d) payment of all taxes; and (e) the global federal tax compliance, required the use of the methodology of “average sums” to rearrange and aggregate data in order to arithmetically sum up the hours allocated to each activity and based on this new consolidated sample, find the average of the aggregate or global result desired, using the same methodology described in the previous items;

**(VI)** For the purpose of disclosing the survey results, despite the use of the methodology described in item (V), some aggregate and global results are approximate values, in line with the “sum of averages.”

### 3.2. Characteristics of the sample

The survey proposed by GETAP was submitted to its 71 associates and was answered by 43 companies, representing the participation of approximately 60% of all the associated companies. The submitted questionnaire was designed to obtain individualized information by company and not by economic group, as mentioned earlier in item 3.

The companies that answered the questionnaire represent several sectors of the economy, with predominance of the industrial sector, as shown in Illustration 1.

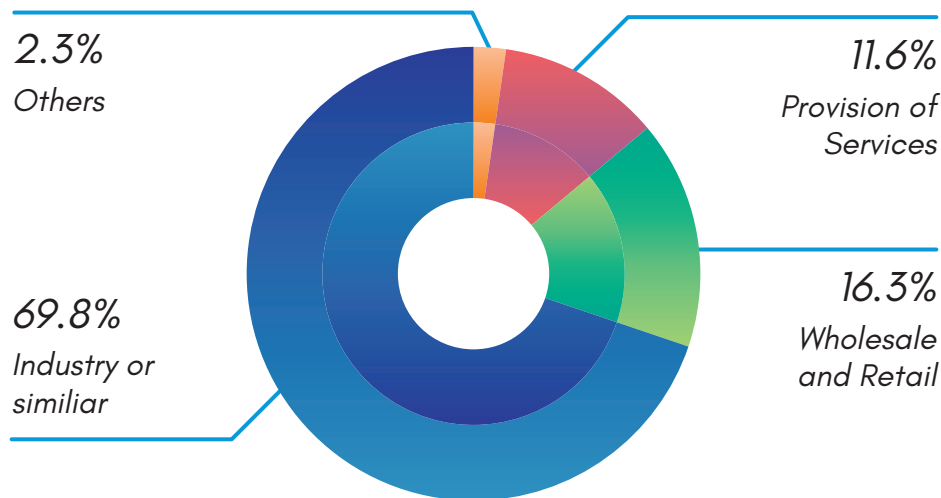


Illustration 1 - Economic sector of the surveyed companies.

It is also important to mention that all companies that responded to the survey are subject to taxation under the taxable income determination system, have annual gross revenues over BRL 1 billion and are subject to special monitoring by the Brazilian Federal Revenue Service. Illustrations 2, 3 and 4 show the distribution of companies by gross revenue, number of establishments and number of employees, respectively.

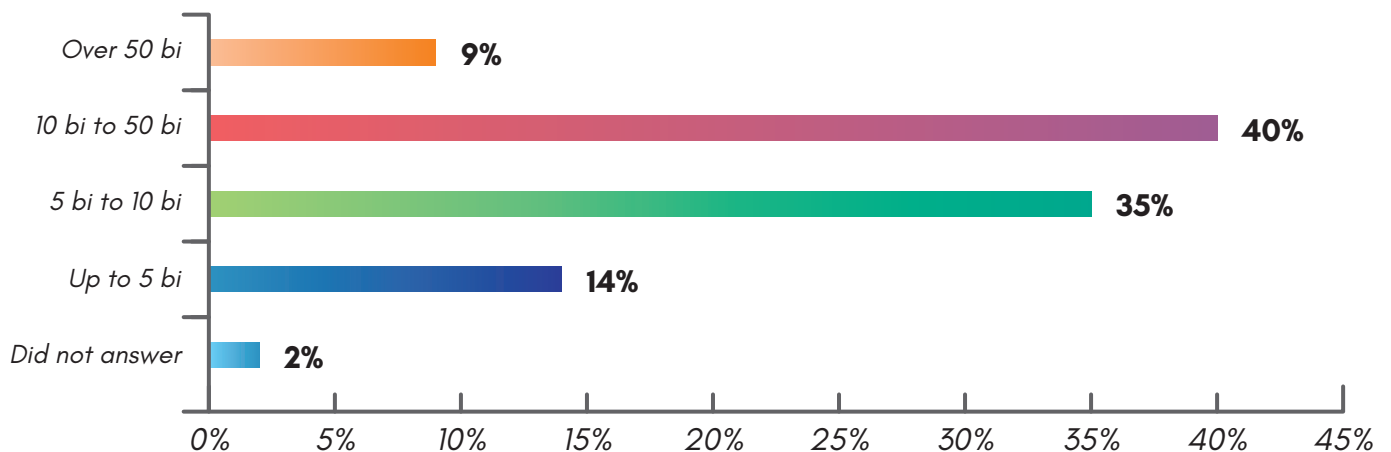


Illustration 2 - Annual Gross Revenue of the surveyed companies (BRL).

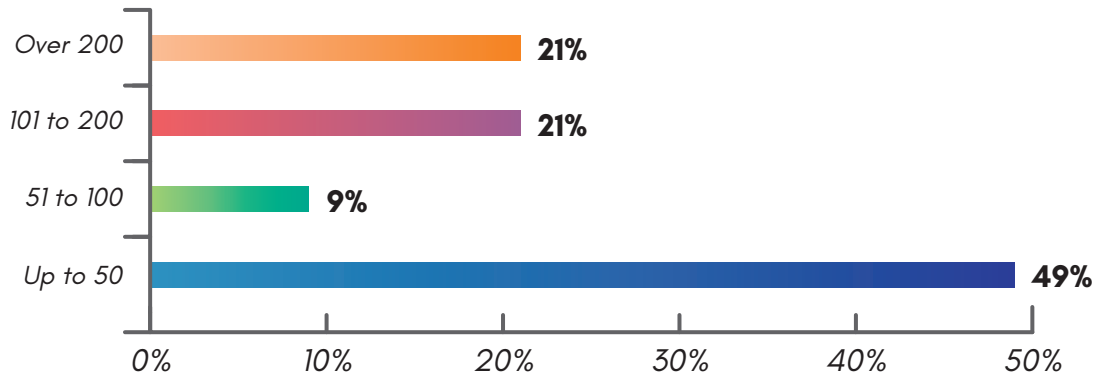


Illustration 3 - Number of Branches/Establishments of the surveyed companies.

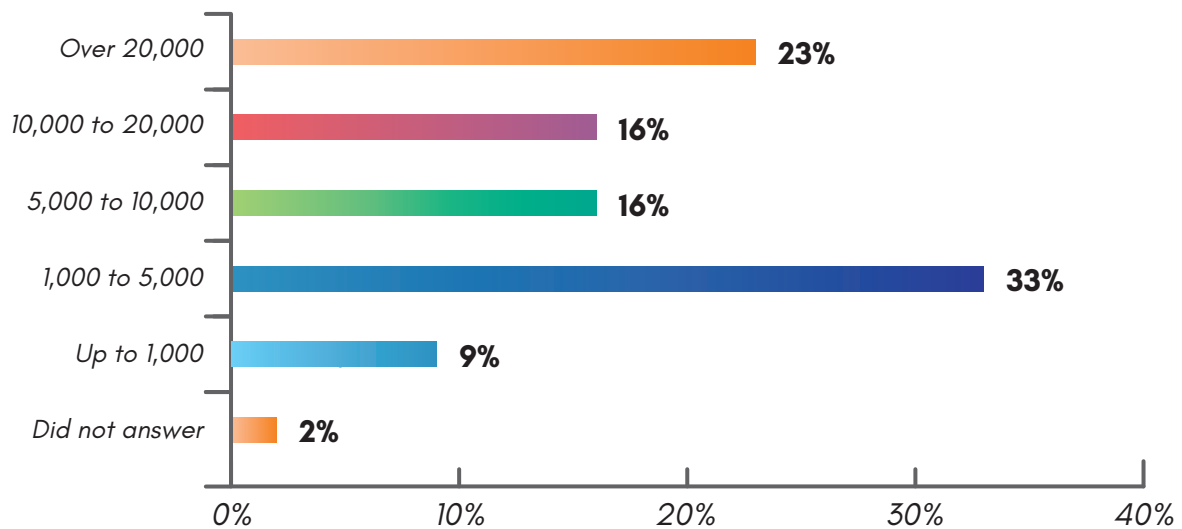


Illustration 4 - Number of Employees of the surveyed companies.

Regarding the people allocated to the tax area, it was found that, on average, they represent 10.6% of the total employees in the administrative area (Selling, General and Administrative - SG&A), and 0.5% of the total headcount of the surveyed companies.

Based on the responses of the surveyed companies and considering the methodology applied in the survey for the calculation of averages, we found the following “hypothetical average company” shown in Table 1, to which the average amount of annual hours and people involved would hypothetically be applied. This will be analyzed and discussed below.

Average Company under Survey	
Annual Gross Revenue (BRL billion)	15.5
Number of Employees	9,952
Number of Employees in SG&A	426
Number of Employees in the Tax Area	45
Number of Branches/Establishments	90

Table 1 - Hypothetical average company based on responses from surveyed companies.

# 4. Analysis and discussion of the findings

## 4.1. General Findings

The surveyed companies have, on average, 45 people (35 in 2014) in their tax areas, covering all spheres, namely federal, state and municipal taxes. For all the compliance federal tax, a company dedicates, on average, approximately 18,900 hours per year, which includes the steps of determination, preparation and compliance of ancillary obligations, payment and offsetting of taxes, obtaining CND and management of administrative federal tax litigation.

## 4.2. General Findings by Stage

The companies surveyed devote an average 6,911 hours per year to determine taxes, 7,078 hours to prepare and comply with ancillary obligations, 456 hours to pay and/or offset, 600 hours to obtain CND and 3,884 hours to manage administrative litigation, as shown in Illustrations 5 and 6 below:

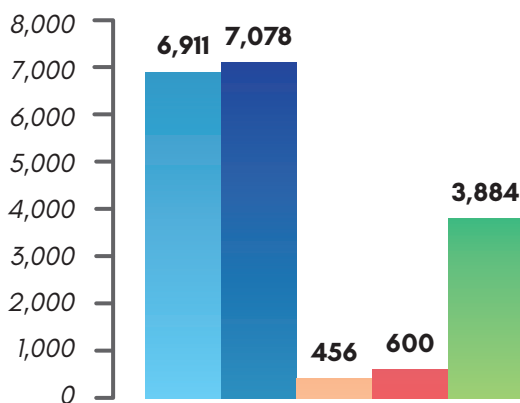


Illustration 5 - Average annual hours per stage.

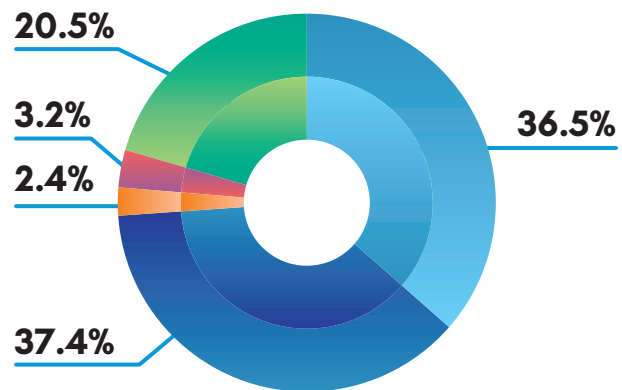


Illustration 6 - Average percentage distribution of annual hours per stage.



From the above results, it can be concluded that the stage that most demands time for the surveyed companies is the compliance with ancillary obligations, followed by the determination of taxes and the management of administrative litigation.

### 4.3. General Findings by Ancillary Obligation

In relation to the ancillary obligations surveyed, Illustrations 7 and 8 show the average amount of annual or monthly hours incurred by each ancillary obligation object of the research.

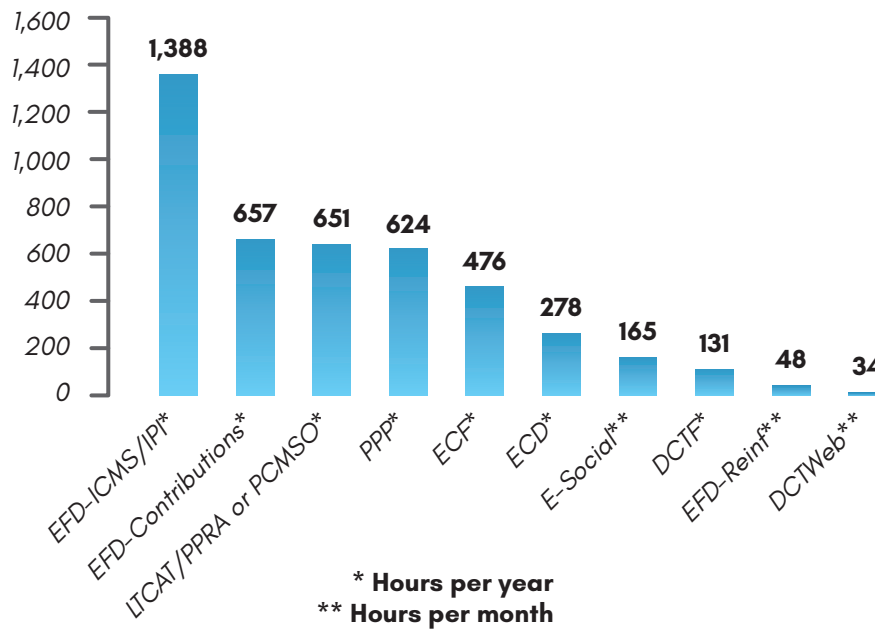


Illustration 7 - Average annual hours per Ancillary Obligation.

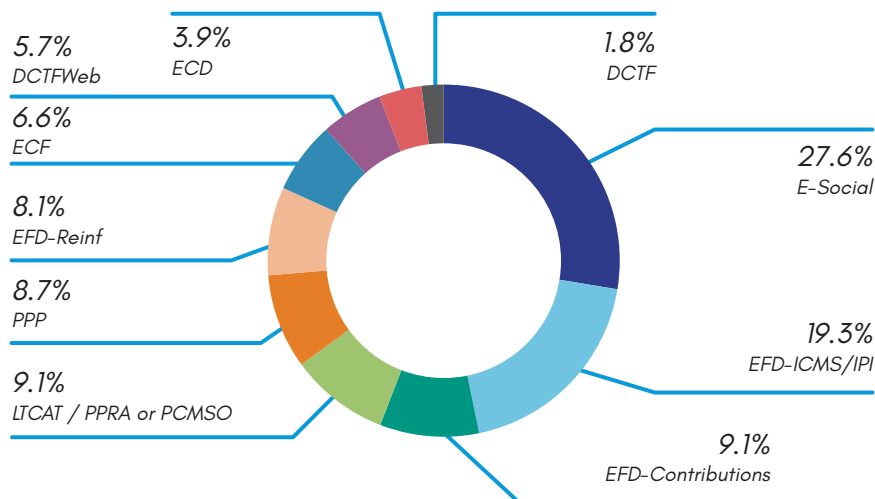


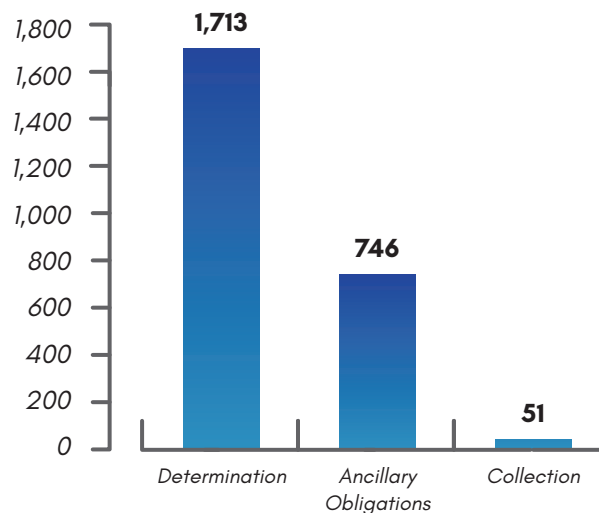
Illustration 8 - Average percentage distribution of annual hours per Ancillary Obligation.

The Illustrations above show that E-Social and EFD-ICMS / IPI are the ancillary obligations that require the most preparation time, in addition to EFD-Contributions and LTCAT / PPRA or PMCSO. Together, E-Social and EFD-ICMS / IPI require around 46.9% of the total preparation time for federal ancillary obligations that the surveyed companies are subject to. Let us proceed to the analysis of results for each tax object of this survey.

## 4.4. Findings by Tax

### 4.4.1. Corporate Income Taxes – IRPJ and CSLL

The surveyed companies incur an average of approximately 2,500 hours on “compliance tax” activities attributed to IRPJ and CSLL. Of this total, an average 1,713 hours are spent on the determination procedures, 746 hours for the compliance with ancillary obligations and 51 hours for the payment and/or offsetting of these taxes, as summarized in Illustration 9.

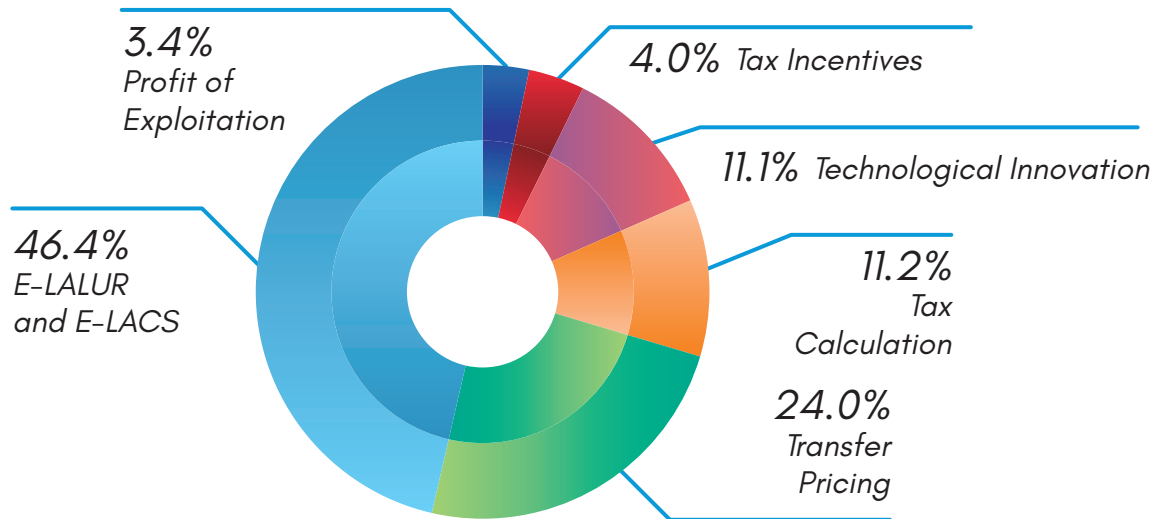


*Illustration 9 – IRPJ and CSLL: Average annual hours per stage.*

This result confirms that the IRPJ and CSLL determination stage demands more time from companies than other tax compliance activities of these taxes.

#### **Determination**

This is explained by the fact that, prior to assessing the tax due on profit, the taxpayer needs to collect specific data for various calculations, such as transfer prices, thin capitalization, operating profit, tax benefits such as technological innovation, LALUR and LACS (Part B values), among others. As a result, the survey sought to determine the preparation time for these specific items of the determination stage, as shown in Illustration 10.



*Illustration 10 - IRPJ and CSLL: Average percentage distribution of annual hours for Determination*

Illustration 10 demonstrates that the LALUR and LACS portion represented 46.4% of the total determination time. It should be noted that they include the gathering of information, quantification and control of temporary additions and exclusions (non-deductible provisions, PCLD, etc.) controlled in Part B, as well as control of the adjustments related to the adoption of Law 12,973/14 regarding the tax treatment applicable to the new Brazilian accounting standard, in line with International Accounting Standards (IFRS), among others.

In addition, the research sought to identify separately the impacts of time spent applying the methods and calculating adjustments related to Transfer Prices. Such controls and calculations required 24.0% of the total hours incurred, which reflects the complexity involved in their determination.

Regarding Technological Innovation, the percentage of 11.1% seems to be in line with the complexity of the compliance required to take advantage of this benefit, as expenditures must be controlled in specific accounts, control of hours incurred per project and per professional is required, among other benefit-specific requirements.

In addition to the activities previously listed, the survey indicated that the time spent on the calculation of taxes (11.2%) is also relevant, largely due to the fact that this stage includes the gathering of information and quantification of permanent additions and exclusions, differences in income and expense appropriation regimes (cash and accrual) and tax deductions in relation to incentives such as PAT, Rouanet Law projects, among others.

### Ancillary Obligations

With respect to the preparation and compliance with ancillary obligations related to Corporate Income Tax and Social Contribution on Net Income, according to the answers provided, Tax Bookkeeping (ECF) is the ancillary obligation that demands the most preparation time, followed by Digital Accounting Bookkeeping (ECD), as shown in Illustrations 11 and 12 below:

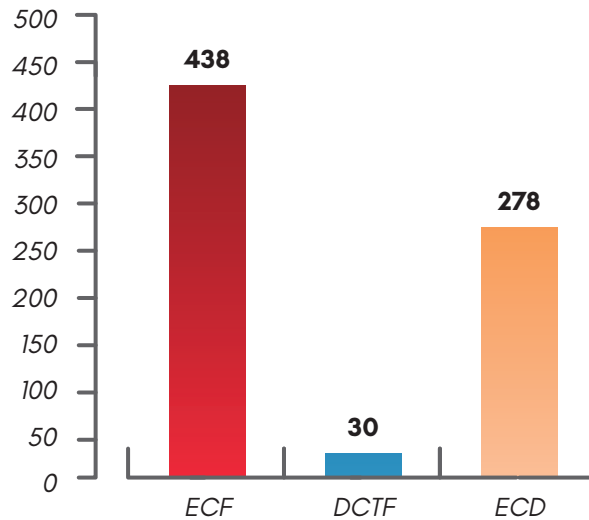


Illustration 11 - IRPJ and CSLL: Average annual hours per Ancillary Obligation.



Illustration 12 - IRPJ and CSLL: Average percentage distribution of annual hours per Ancillary Obligation.

From the Illustrations above, it can be inferred, with regard to the ECF, that the amount of hours incurred to its completion may be related to the difficulty of capture, confirmation of data consistency (including, in comparison with other statements submitted to the RFB), as well as the binding of the entries in the ancillary books of adjustments related to additions, exclusions and offsets prescribed by the tax legislation for the calculation basis assessment to the account or subaccount or even the individual accounting entry itself and the final consolidation of information and imputed values in the ECF, which usually come from different departments of the companies.

Similarly, when it comes to ECD, it seems to us that the major difficulty may be related to systemic issues, processes and internal controls related to the generation of information at the required level of detail, the creation, control and management of subaccounts arising from Law 12,973/14, as well as the adequacy of such information to the ECD reference plan, which often requires manual configuration.

This is confirmed by the results shown in Illustrations 13 and 14 below, which show the average annual demand for hours dedicated to compliance with the main ECF blocks and records. It should be noted that the block that requires the most hours is precisely the auxiliary books (e-LALUR and e-LACS - Block M), which record all adjustments related to additions, exclusions and compensations prescribed and authorized by tax legislation, including adjustments related to tax treatment arising from changes promoted by the adoption of new accounting methods and criteria, in compliance with Law No. 12,973/14. This block alone requires, on average, 180 hours per year, or 41.1% of the time spent preparing the ECF.

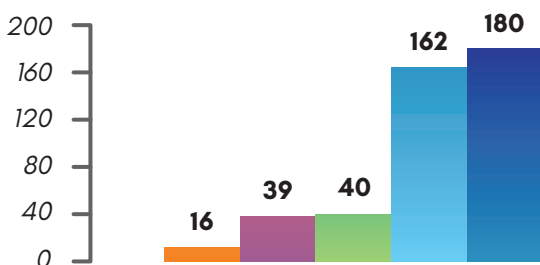


Illustration 13 - ECF: Average annual hours of its main blocks and records.

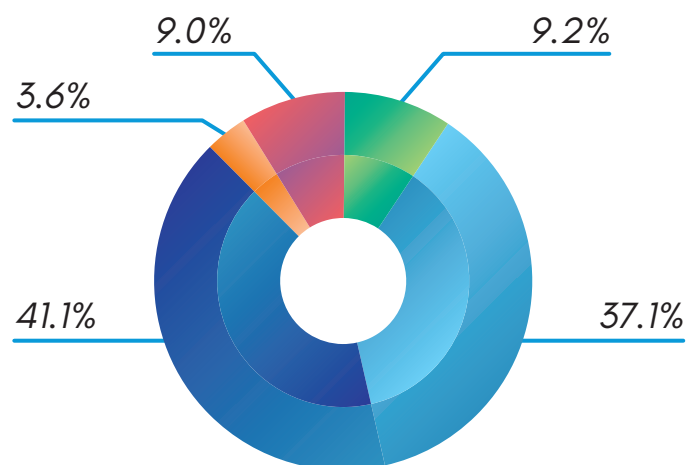
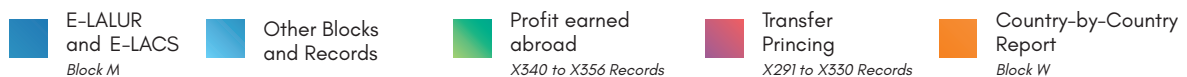


Illustration 14 - ECF: Average percentage distribution of annual hours of its main blocks and records.



In fact, the adequacy of information systems seems to be the major obstacle faced by companies, as many of the systems used (such as SAP) need to be customized and adapted to Brazilian tax rules, which entails high costs. The amount and detail of the records required in ECF and ECD make it very complex and costly to adapt the systems.

## Causes

These inferences are validated by what is shown in Table 2 below, which points out that the major difficulties faced by taxpayers in the process of completion and delivering ancillary obligations related to IRPJ/CSLL are precisely the adaptation and adequacy of systems and the complexity of the accessory obligation. Also noteworthy is the topic related to the complexity of the legislation.

Position	Causes of Difficulty	Average Rating
1st	Adaptation and adequacy of systems	<b>6.42</b>
2nd	Obligation Complexity	<b>6.12</b>
3rd	Complexity of Legislation	<b>5.86</b>
4th	Process complexity and internal controls	<b>5.60</b>
5th	Simple obligations, however, with a lot of information	<b>3.86</b>
6th	Accumulation of tax returns with same delivery date	<b>3.56</b>
7th	Short deadline between preparation and delivery	<b>3.12</b>
8th	No relevant difficulties	<b>1.47</b>

*Table 2 - IRPJ and CSLL: Main causes that make the completion and delivery process of ancillary obligations difficult.*

It is well known that the tax laws related to IRPJ and CSLL have been amended by ordinary laws which still require regulation. The Income Tax Regulation, which consolidates the IRPJ legislation, was recently reissued in November 2018, but was already out of date when it was created as it covers the Income Tax legislation published until 12/31/2016. Regarding CSLL, there is not even a regulatory decree.

The legal norms are being disciplined through infra-legal acts, such as Consultation Solutions, Regulatory Instructions, among others, acts that are edited in large quantity, covering various themes, demanding time to follow up and assimilate their content, which often brings questions about your application.

The sum of these factors confirms the high levels of the numbers presented in the research.

Finally, Table 3 shows the average number of people allocated to “tax compliance” activities related to IRPJ and CSLL.

Activity	People Allocated
Determination	3.8
Ancillary obligations:	
ECF	3.9
DCTF	1.9
ECD	3.1
Collection	2.0

Table 3 - IRPJ and CSLL: Average number of people allocated by activity.

In conclusion, the survey Illustrations show that, for IRPJ and CSLL purposes, there is still a great demand for hours to comply with the respective tax obligations, both in the determination and in the ancillary obligations, despite the decrease observed when compared to the previous survey, which will be addressed in a specific topic.

#### 4.4.2. Social Contribution Taxes on Gross Revenue - PIS and COFINS

The surveyed companies incur an average of approximately 1,700 hours per year on “compliance tax” attributed to Social Contribution Taxes on Gross Revenue - PIS and COFINS. Of this total, an average 982 hours are spent on the determination procedures, 682 hours for the compliance with ancillary obligations and 59 hours for the payment and/or offsetting, as summarized in Illustration 15 below.

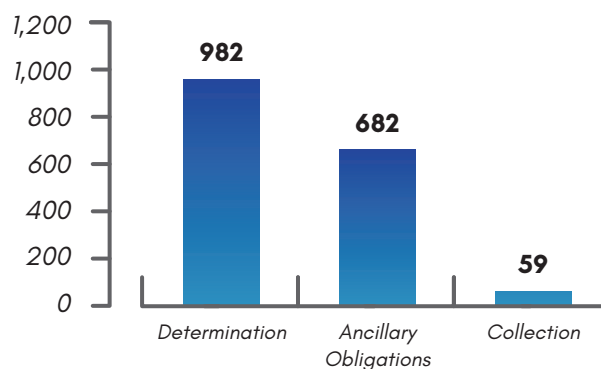


Illustration 15 - PIS and COFINS: Average annual hours per stage.

This result shows that the PIS and COFINS “tax compliance” stage that demands the most time is determination, followed by compliance with ancillary obligations.

##### Determination

Regarding the determination of PIS and COFINS, the most time-consuming task is the procedures required to determine the segregation and proportion of revenues between the cumulative and non-cumulative regimes of such contributions, followed by the calculation required to determine the debts and credits of said taxes, as shown in Illustration 16.



*Illustration 16 - Social Contribution Taxes on Gross Revenue  
PIS and COFINS Average percentage distribution of annual hours for Determination*

Regarding the determination, we need to consider the existence of several peculiarities regarding the Social Contribution Taxes on Gross Revenues - PIS and COFINS, such as: a) recognition of revenues according to the cost incurred; b) different tax rates; c) direct appropriation or proportional apportionment of credits; d) operations with suspension; e) individualized analysis of goods and services purchased for the purpose of determining the credit of contributions, in view of the lack of clarity of the concept of input in the legislation; among others, which results in greater detail of the information provided. More recently, court rulings, in principle favorable to taxpayers, regarding the concept of credit determination inputs and the exclusion of ICMS from the contribution calculation base, have not resulted in efficiency gain in the assessment. The determination of what can be input for credit-taking purposes continues to require case-by-case analysis and the exclusion of ICMS from the calculation base has added complexity to the calculation of contributions.

It is well known that the repeated changes in the PIS and COFINS legislation make the calculation of such tax very complex, as it is constantly necessary to verify if the revenue from the sale of a certain product is subject to different tax or systems, such as the application of zero percent rate and single-phase and tax substitution system.

In addition, the absence of regulations or manuals compiling the PIS and COFINS calculation rules make the determination of the tax even more difficult, since the legislation on the subject is significantly sparse.

### Ancillary Obligations

According to the surveyed companies, the ancillary obligation related to PIS and COFINS that demands the most time and people is EFD Contributions, as shown in Illustrations 17 and 18.

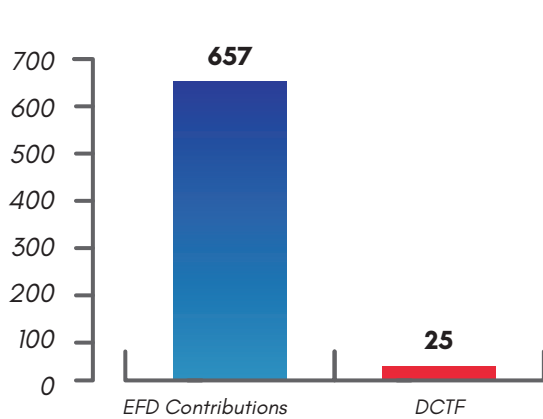


Illustration 17 - PIS and COFINS: Average annual hours per Ancillary Obligation.

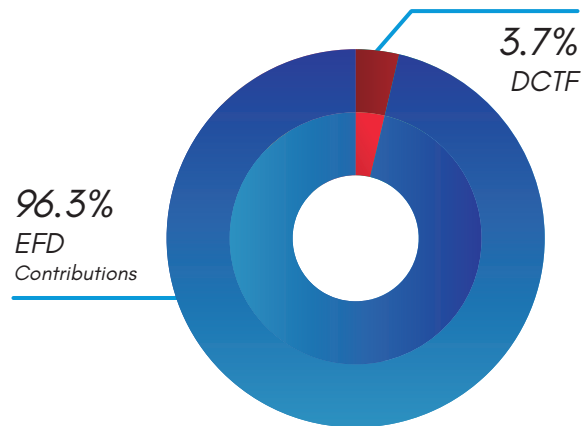


Illustration 18 - PIS and COFINS: Average percentage distribution of annual hours per Ancillary Obligation.

These results may be related to the fact that EFD Contributions is a monthly delivery obligation, which requires a very detailed and voluminous range of information, having the following as main challenges: (I) complex and dispersed legislation; (II) the need for high investment in technological infrastructure or system for filling automation; and (III) interpretation of the manual involved in the preparation of the EFD itself. Thus, faced with these obstacles, companies spend several hours in the compilation of data and elaboration of the archive according to the layout of the validating program.

### Causes

The most difficult cause of the process of fulfilling and delivering ancillary obligations is the adaptation and adequacy of systems, followed by the complexity of the legislation and the complexity of the obligation, as shown in Table 4.

Position	Causes of Difficulty	Average Rating
1st	Adaptation and adequacy of systems	6.35
2nd	Complexity of Legislation	6.23
3rd	Obligation Complexity	6.00
4th	Process complexity and internal controls	5.86
5th	Simple obligations, however, with a lot of information	3.70
6th	Accumulation of tax returns with same delivery date	3.28
7th	Short deadline between preparation and delivery	3.21
8th	No relevant difficulties	1.37

Table 4 - PIS and COFINS: Main causes that make the completion and delivery process of ancillary obligations difficult.

The amount of records and the level of detail of information and balance control, especially in EFD-Contributions, make the adequacy of systems very complex and expensive.

Finally, Table 5 shows the average number of people allocated to “tax compliance” activities related to PIS and COFINS.

Activity	People Allocated
Determination	2.7
Ancillary obligations	
EFD Contributions	2.1
DCTF	1.8
Collection	2.1

Table 5 - PIS and COFINS: Average number of people allocated by activity.

Given the results presented, it can be concluded that companies have faced difficulties in understanding and applying the PIS and COFINS calculation rules. In addition, regarding ancillary obligations, the greatest difficulty lies in adapting their systems to comply with them, especially with regard to EFD Contributions. All these factors confirm the high number of hours indicated for such taxes, especially regarding their determination.

### 4.4.3. Excise Tax – IPI

Of the companies surveyed, 67% said they are IPI taxpayers and spend an average of approximately 2,300 hours annually for “tax compliance” related to this tax. Of this total, an average 781 hours are spent on the determination procedures, 1,421 hours for the compliance with ancillary obligations and 61 hours for the payment and/or offsetting, as summarized in Illustration 19 below.

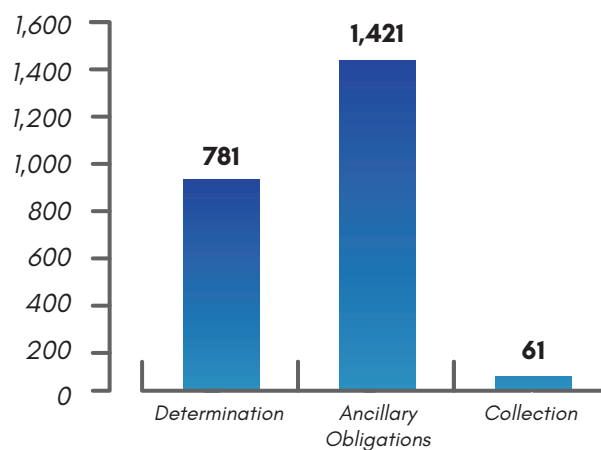


Illustration 19 - IPI: Average annual hours per stage.

It should be noted that the demand required to comply with IPI "tax compliance" ancillary obligations represents almost twice the time applied to the determination of the tax.

**Determination**

Regarding the determination of this tax, the task that requires the most time is the calculation of the debts and credits of said tax, followed by the tax classification of products according to TIPI, as shown in Illustration 20 below:

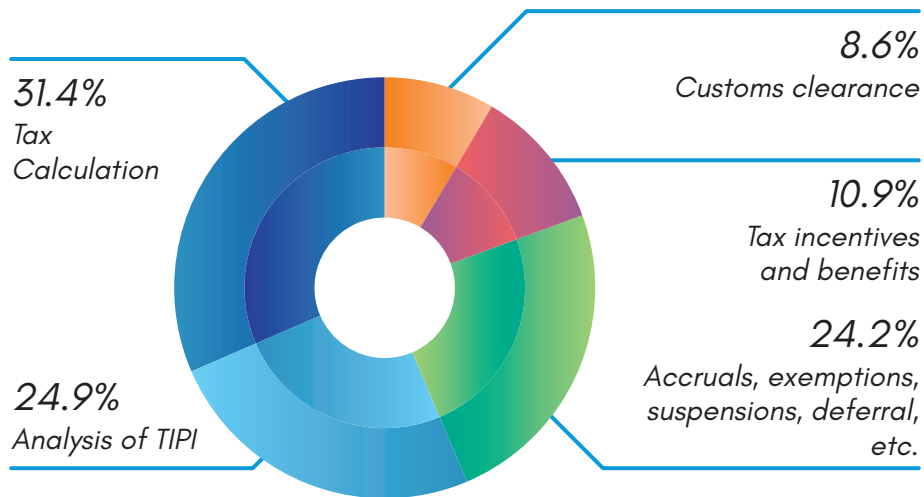


Illustration 20 - IPI: Average percentage distribution of annual hours for Determination

The calculation of the tax, i.e., assessment of IPI debts and credits represents the largest portion of time in the context of determination. It is observed that the analysis of TIPI in conjunction with tax incentives and benefits requires very similar time, due to the need for continuous monitoring of changes in IPI rates issued by RFB, as well as the analysis of tax benefits and their effects on IPI tax credit appropriation on purchases of products with these characteristics.

**Ancillary Obligations**

According to the surveyed companies, the ancillary obligation related to IPI that demands the most time and people is EFD-ICMS/IPI, as shown in Illustrations 21 and 22 below.

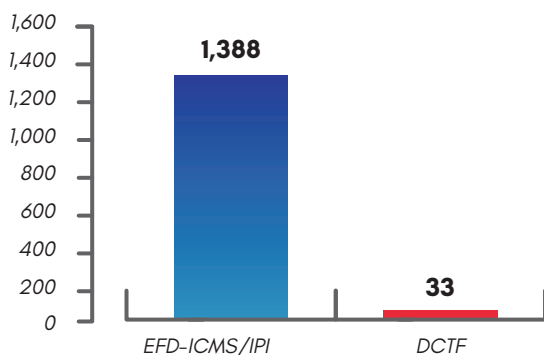


Illustration 21 - IPI: Average annual hours per Ancillary Obligation.

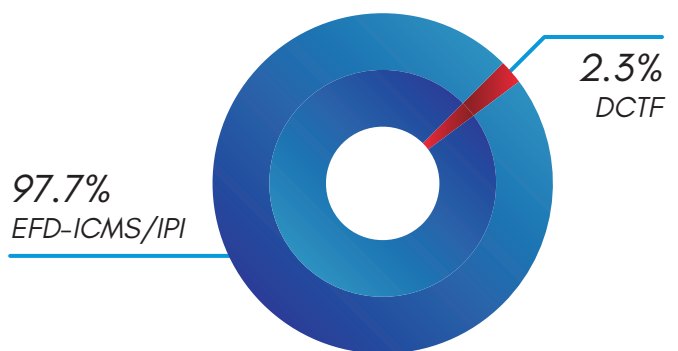


Illustration 22 - IPI: Average percentage distribution of annual hours per Ancillary Obligation.

The results show that almost all the time is related to EFD-ICMS/IPI. Such fact is strongly justified by the constant need for adaptation and adequacy of systems. In theory, all changes and/or new legislative publications lead to the rapid adaptation of the systems to comply with EFD-ICMS/IPI, as this is a monthly obligation.

It is noteworthy that EFD-ICMS/IPI should not require excessive time, given that the information is currently electronic, including the issuance of invoices. However, large companies have global software or software purchased from IT companies, which requires financial investment and people at each parameterization of the system, to meet the changes in EFD-ICMS/IPI.

Currently, the market is working with the development of the so-called "block K" (Production and Inventory Control), which, although not yet mandatory for some sectors, presents detailed information that, in many cases, companies will need to develop so that they can be applied in this new demand.

### Causes

The respondents pointed out that the cause for making the completion and delivery of IPI ancillary obligations process more difficult is the complexity of the legislation, followed by the adaptation and adequacy of systems and the complexity of the ancillary obligation. Please refer to Table 6.

Position	Causes of Difficulty	Average Rating
1st	Complexity of Legislation	6.67
2nd	Adaptation and adequacy of systems	6.43
3rd	Obligation Complexity	6.07
4th	Process complexity and internal controls	5.83
5th	Short deadline between preparation and delivery	3.30
5th	Simple obligations, however, with a lot of information	3.30
5th	Accumulation of tax returns with same delivery date	3.30
6th	No relevant difficulties	1.10

*Table 6 - IPI: Main causes that make the completion and delivery process of ancillary obligations difficult.*

Finally, Table 7 shows the average number of people allocated to “tax compliance” activities related to IPI.

Activity	People Allocated
Determination	6.5
Ancillary obligations	
EFD-ICMS/IPI	4.9
DCTF	2.0
Collection	2.4

Table 7 - IPI: Average number of people allocated by activity.

In the light of the results presented, we have found that, with regard to the IPI, companies have faced difficulties in adapting systems and internal controls resulting from constant changes in tax legislation, which demand a quick adaptation for their correct determination and for elaboration of its ancillary obligations, mainly the EFD-ICMS/IPI.

#### 4.4.4. Withholding Taxes

The surveyed companies spend on average 2,000 hours per year on “compliance tax” attributed to withholding federal taxes on services rendered. Of this total of hours, an average of 995 hours is spent on the determination of withholdings carried out as a service customer, 201 hours for the control of the withholdings incurred as a service provider, 755 hours for the fulfillment of ancillary obligations and 80 hours for the payment and/or offsetting.

In addition, with the advent of a new ancillary obligation with respect to withholding taxes under the SPED, called EFD-Reinf, whose obligation for companies with the same profile as the respondents of this survey began in May 2018, an average of total hours spent for its implementation in the corporate environment was measured, the result of which was 852 hours, as shown in Illustration 23. As previously mentioned, the hours related to the implementation of this new ancillary obligation were not taken into account for the purpose of tax compliance.

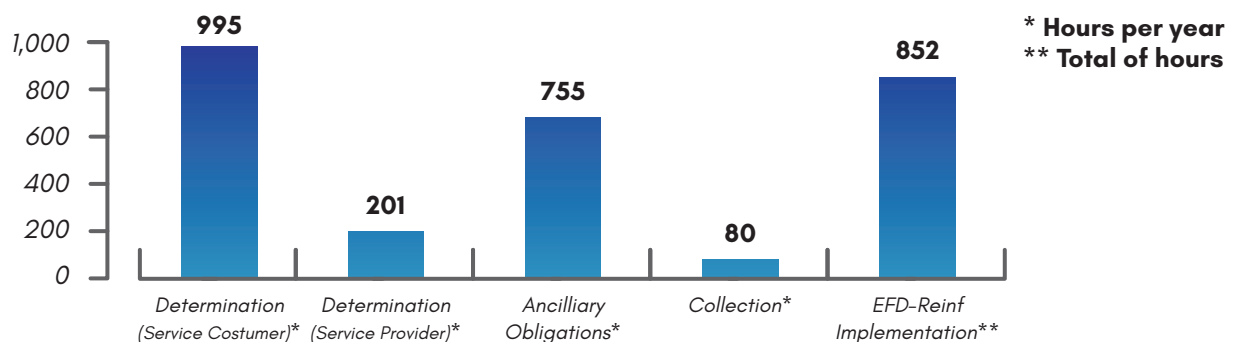
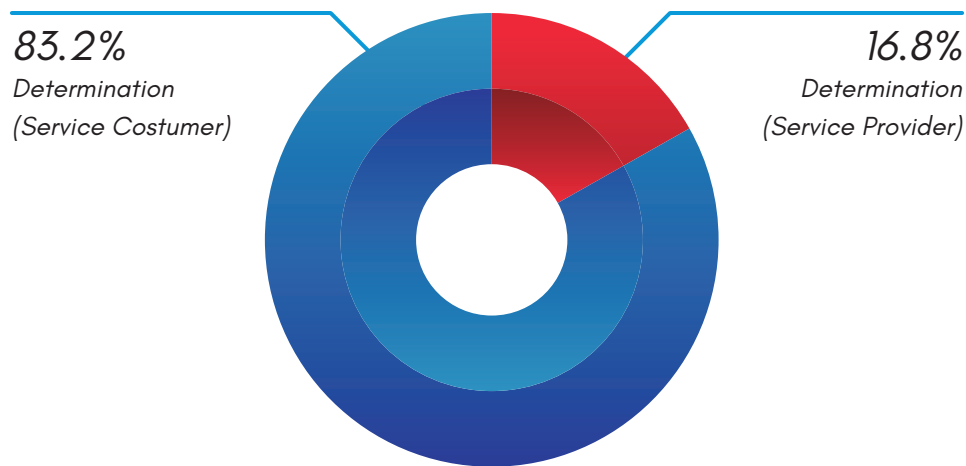


Illustration 23 - Withholding Taxes: Average annual hours per stage and average total hours of EFD-Reinf implementation.

This result shows that the “tax compliance” stage regarding Withholdings that demands the most time is the determination of withholdings as service customer, followed by compliance with ancillary obligations.

### Determination

Illustration 24 shows the average percentage distribution of hours for the determination as service provider and service customer.



*Illustration 24 - Withholding Taxes: Average percentage distribution of annual hours for Determination.*

It is known that the withholding tax technique aims to avoid evasion, which requires the service taker to calculate and collect the taxes that would be due by the provider. Taking into account the dynamics of hiring services in the companies surveyed, it appears that many hours are spent to control and collect such withheld amounts. While this represents an instrument of control and ease for the tax authorities, for taxpayers this represents many hours and people allocated for the determination, compliance with ancillary obligations and corresponding payment.

Within this context, companies spend many hours assessing these taxes, and given the above aspects, companies need to gather a large amount of information and corroborate the data collected, which is often not an easy task, because it involves a significant complexity of parameterization of systems and processes. This whole process has been intensified in recent years with the institution of EFD-Reinf, whose direct reflection is the high demand of hours verified for its implementation. One hopes that after the whole implementation process, which involves reorganizing processes and internal controls, training, system adequacy and learning curve, improvements in efficiency can be seen in the near future. However, at this time such efficiency gains have not yet occurred, as we will see below.

### Ancillary Obligations

According to the surveyed companies, the ancillary obligation related to withholdings that demands the most time is EFD-Reinf, as shown in Illustrations 25 and 26 below:

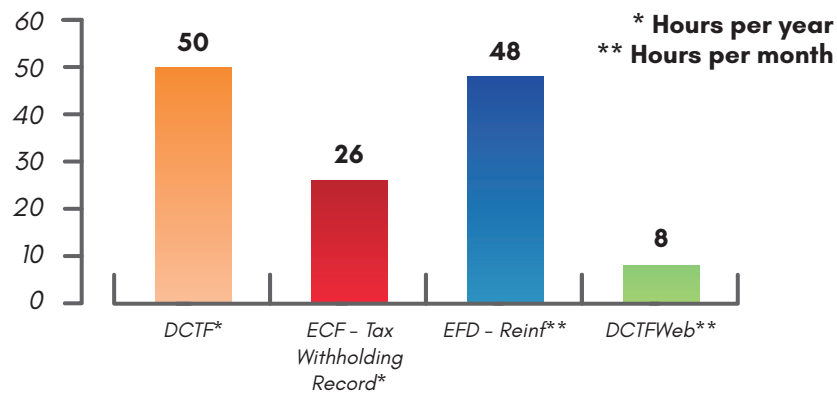


Illustration 25 - Withholding Taxes: Average annual or monthly hours per Ancillary Obligation.

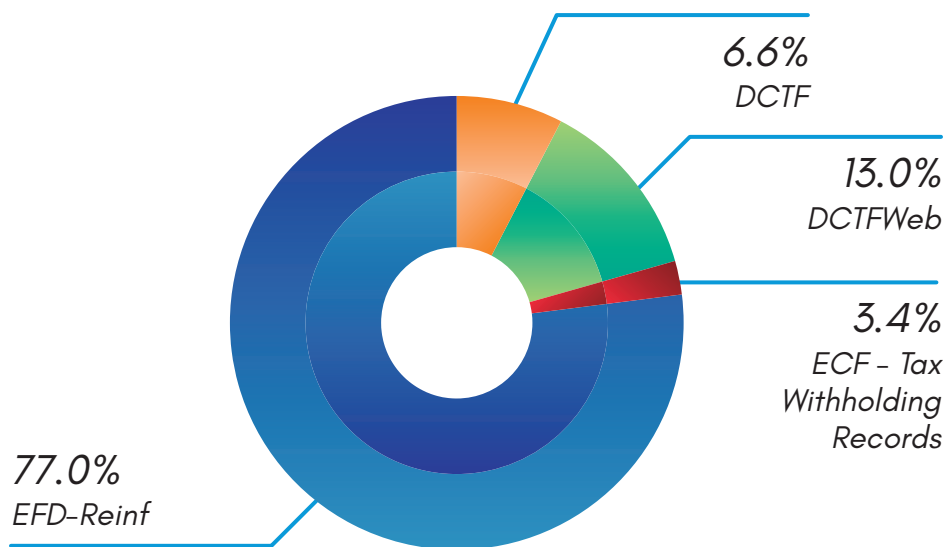


Illustration 26 - Withholding Taxes: Average percentage distribution of annual hours per Ancillary Obligation.

As one can infer, more than 3/4 of the time spent on withholding-related ancillary obligations is demanded by EFD-Reinf. Compared to DIRF, the main ancillary obligation that it intends to replace, there has been a significant increase in the number of hours required to comply with it, as we will see later in a specific topic on the results compared with the previous survey.

## Causes

The causes that make the completion and delivery of ancillary obligations related to federal tax withholdings more difficult are the adaptation and adequacy of systems, followed by the complexity of the processes and internal controls, as well as the complexity of the obligation, as Table 8 shows, largely due to the implementation of new ancillary obligations, the learning curve of which can still be considered incipient.

Position	Causes of Difficulty	Average Rating
1st	Adaptation and adequacy of systems	<b>6.33</b>
2nd	Process complexity and internal controls	<b>6.09</b>
3rd	Obligation Complexity	<b>5.84</b>
4th	Complexity of Legislation	<b>5.58</b>
5th	Accumulation of tax returns with same delivery date	<b>3.98</b>
6th	Short deadline between preparation and delivery	<b>3.47</b>
7th	Simple obligations, however, with a lot of information	<b>3.37</b>
8th	No relevant difficulties	<b>1.35</b>

*Table 8 - Withholding Taxes: Main causes that make the completion and delivery process of ancillary obligations difficult.*

Moreover, such result reinforces the difficulties faced by companies in preparing the determination of withholding taxes especially as service takers, and this results from aspects related to the lack of internal controls, the effective parameterization of systems, the complexity of the legislation and the large volume of information to be analyzed and compiled. As an example of such aspects, one can mention the differentiation of criteria for the assessment of the withholding of income tax and social contribution (PIS, COFINS and CSLL) on the accrual basis and cash basis, respectively; diversity of assessment periods (monthly, biweekly, weekly and even daily); and minimum limits on the occurrence of withholding by vendor within the applicable assessment period.

Finally, Table 9 shows the average number of people allocated to "tax compliance" activities related to the withholding of federal taxes and to the implementation of EFD-Reinf.

Activity	People Allocated
Determination (Service Customer)	<b>2.4</b>
Determination (Service Provider)	<b>1.3</b>
Ancillary Obligations	
EFD-Reinf	<b>1.9</b>
DCTFWeb	<b>1.5</b>
DCTF	<b>1.6</b>
Collection	<b>2.2</b>
EFD-Reinf Implementation	<b>5.8</b>

Given the results presented, it can be concluded that companies have faced greater difficulties in assessing and complying with new ancillary obligations related to withholdings made as service takers.

*Table 9 - Withholding Taxes: Average number of people allocated by activity.*

### 4.4.5. Social Security Contributions and Labor-related Obligations

The companies surveyed spend, on average, approximately 3,800 hours per year for “tax compliance” related to social security contributions, as well as for the fulfillment of labor obligations and those related to occupational health and safety. Of this total, an average 271 hours are spent on the determination procedures, 3,436 hours for the compliance with ancillary obligations and 138 hours for payment and/or offsetting.

Furthermore, with the advent of a new ancillary obligation related to social security contributions and labor information, called E-Social, the implementation of which is taking place in five phases and is in a more advanced stage for companies that have the same profile as that of the respondents of this survey, which started sending the first pieces of information in January 2018 and whose obligation to send monthly payroll information began in May 2018, the average total hours spent for its implementation in the corporate environment was measured, which results in 5,739 hours, as shown in Illustration 27, which, as previously mentioned, were not considered for tax compliance.

One hopes that after the whole implementation process, which ranges from reorganizing processes and internal controls, to learning curve, training, and system adequacy, improvements in efficiency can be seen. However, at this time such efficiency gains have not yet occurred, as we will see below.

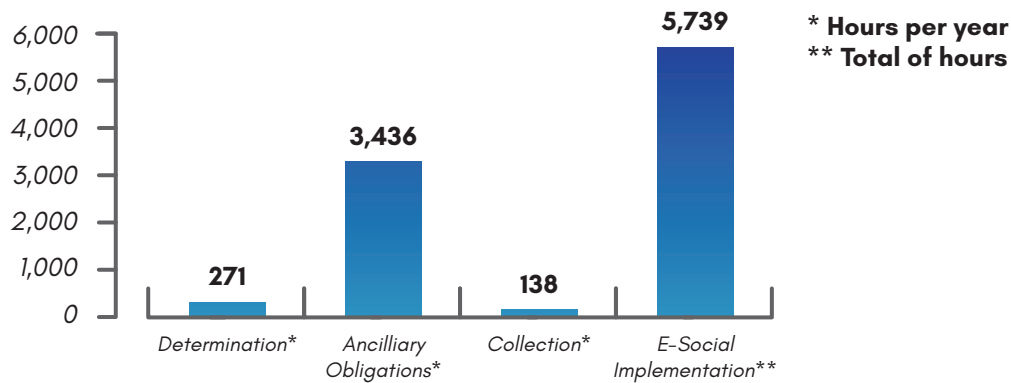


Illustration 27 - Social Security Contributions / Labor Obligations: Average annual hours per stage and average total hours of E-Social implementation.

The table shows that the largest investment in hours in terms of tax compliance with social security contributions and labor obligations occurs in the fulfillment of ancillary obligations.

### Ancillary Obligations

According to the surveyed companies, regarding ancillary labor obligations, the E-Social is the obligation that demands the most time for compliance, with an average of 165 hours per month, followed by obligations connected to the Secretariat of Labor of the Ministry of Economy. The survey considered LTCAT/PPRA and PCMSO, representing an average of 651 hours per year. Regarding obligations strictly related to social security, the PPP represented 624 hours per year, as can be seen in Illustrations 28 and 29.

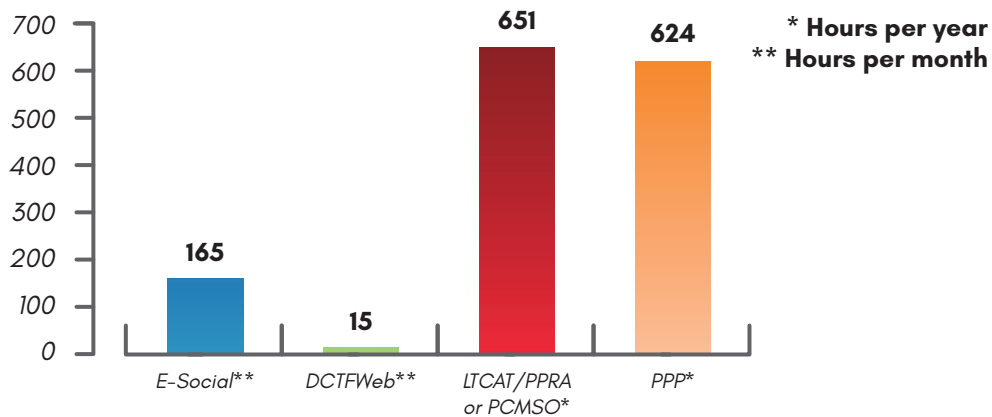


Illustration 28 - Social Security Contributions / Labor Obligations: Average annual or monthly hours per Ancillary Obligation.



Illustration 29 - Social Security Contributions / Labor Obligations: Average percentage distribution of annual hours per Ancillary Obligation.

In the light of the above, more than half of the time spent on labor ancillary obligations is demanded by E-Social. This new ancillary obligation aims to facilitate the management of information relating to workers, in a standardized and simplified manner, and its centralized platform enables the fulfillment of 15 tax, social security and labor obligations in a unified manner.

However, when compared to the main ancillary obligation that it has replaced, there has been a significant increase in the number of hours required to comply with it, as we will see later in a specific topic on the results compared with the previous survey.

The labor obligations related to LTCAT, PPRA or PCMSO, as well as the PPP, provide for procedures to be complied with by companies in the areas related to occupational health and safety, as well as risk profile. They address the need to issue reports, periodic company examinations and indicators of dangerous or unhealthy activities. Monitoring, supervision and control to comply with these rules is permanent, and requires the allocation of specialized professionals (doctors, nurses, engineers in occupational medicine, etc.) depending on the number of employees of each company, which may also justify the high number of allocated persons presented (see Table 11).

The number of hours revealed by the survey to meet these obligations is compatible with the universe of the companies that participated in the survey, as, as pointed out in item 3.2 of this Report, 69.8% of them belong to the industrial sector, which demands intensive labor.

Such massive labor that affects the sample basis of companies can also explain, regarding PPP, the percentage of 18.2% of total hours incurred. This obligation requires detailed data from the history of each of the company's employees for social security benefit control purposes.

It is noteworthy that part of such labor obligations will be incorporated into E-Social, representing the fifth and final phase of their full implementation. The incorporation and mandatory submission of information on occupational safety and health in E-Social is scheduled to start in January 2020 for companies with the same profile as that of the respondents of this survey.

### **Causes**

Not surprisingly, the causes that make the completion and delivery process of electronic ancillary obligations more difficult for social security contributions are related to the complexity of the ancillary obligation and the adaptation and adequacy of systems, followed by the complexity of the legislation, as shown in Table 10.

Position	Causes of Difficulty	Average Rating
1st	Obligation Complexity	6.21
2nd	Adaptation and adequacy of systems	5.93
3rd	Complexity of Legislation	5.77
4th	Process complexity and internal controls	5.65
5th	Simple obligations, however, with a lot of information	3.72
5th	Short deadline between preparation and delivery	3.72
6th	Accumulation of tax returns with same delivery date	3.70
7th	No relevant difficulties	1.30

*Table 10 - Social Security Contributions / Labor Obligations: Main causes that make the completion and delivery process of ancillary obligations difficult.*

The causes presented in Table 10 may be directly related to the fact that, since the establishment of E-Social, companies are significantly investing in training, adapting their systems and reorganizing processes and internal controls, including raising, sharing and integrating labor information involving various areas and departments of the company, which up till now had been managed separately.

Additionally, it seems to us that the provisions on the incidence of social security contributions (gross revenue or payroll) have required more attention of the companies on the analysis and interpreting of the set of rules governing them, which may explain the “complexity of the legislation” indicated as one of the main reasons for the difficulty in dealing with this tax obligation.

Finally, Table 11 shows the average number of people allocated to “tax compliance” activities related to social security contributions and labor obligations and the implementation of E-Social.

Activity	People allocated
Determination	1.8
Ancillary obligations	
E-Social	2.8
DCTFWeb	1.5
LTCAT / PPRA or PCMSO	6.4
PPP	4.2
Collection	1.8
E-Social Implementation	8.8

In conclusion, with regard to social security and labor obligations, the survey shows that the time spent by companies to meet ancillary obligations and standards concerning occupational health and safety is high. The large number of rules and the complexity of its service, vis a vis the challenges of adapting internal systems and controls are the major obstacles observed.

*Table 11 - Social Security Contributions / Labor Obligations: Average number of people allocated by activity.*

### 4.4.6. Debt Clearance Certificate – CND

The companies surveyed spend, on average, approximately 600 hours per year to obtain (issuing, maintaining and renewing) debt clearance certificates. Of this total, an average of 486 hours refers to obtaining Joint RFB CND, and 115 hours refer to the Certificate of Good Standing with FGTS, as shown in Illustrations 30 and 31.

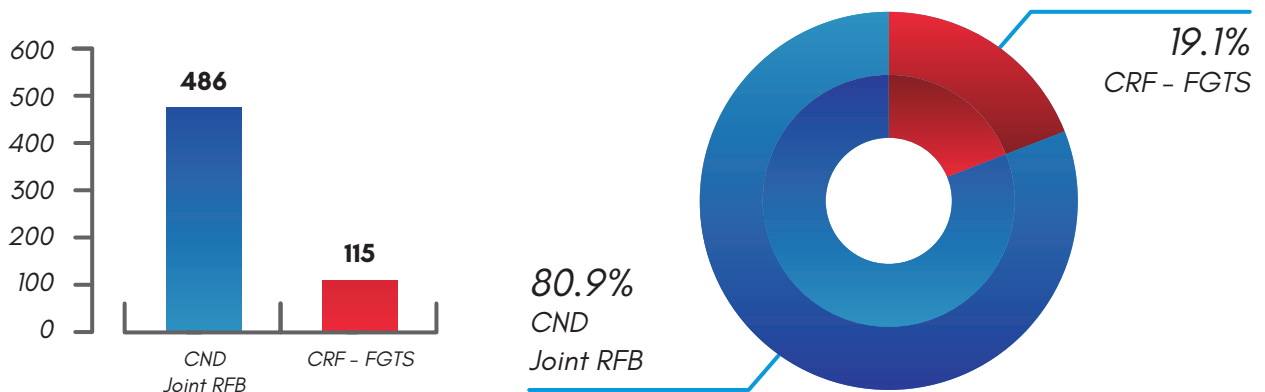


Illustration 30 – Average annual hours per CND.

Illustration 31 – Average percentage distribution of annual hours per CND.

The main reasons that can be pointed out regarding the time required to obtain the RFB Joint CND are: (i) the amount of taxes covered up for their issuance, including social security, which may represent a higher number of inconsistencies; (ii) the current account system with daily entry of companies’ debts, inconsistencies and outstanding taxes before the tax authorities, arising from divergences in relation to ancillary obligations or non-ratified compensations; (iii) difficulty recognition of causes to annul tax credits the enforceability of tax credits in ongoing lawsuits (for instance, deposits in court and tax installment programs) and the guarantees offered, in addition to the delay in updating the debt situation in the RFB and PGFN systems.

Moreover, depending on the situation, the company needs to resort to the Judiciary Power to obtain the annulment of the enforceability and consequent issuance of the Certificate, which increases the number of hours spent to obtain it.

We can point out as a reason to justify the number of hours spent to obtain the CRF-FGTS the fact it is valid for 30 days and, consequently, it is subject to monthly renewal.

CND	People allocated
CND Joint RFB	2.8
CRF - FGTS	1.6

Finally, Table 12 shows the average number of people allocated for the management (issuance, maintenance and renewal) of the CND's covered in the survey.

Table 12 – Average number of people allocated by CND.

## 4.4.7. Other information

### Management of Administrative Litigation

The companies surveyed spend, on average, 3,884 hours per year for the management of administrative litigation (objections to tax assessments and appeals). In total, 5.4 people are allocated to management activities (proceeding follow-up, evidence discovery and management of service providers, among others).

Among the many causes of administrative litigation, the following are pointed out: (I) drafting tax assessments related to the calculation of taxes and divergences related to the cross-checking of information on ancillary obligations; (II) different interpretations arising from the complexity of the legislation and; (III) non-approval of the compensation declared by the companies, which, in most cases, derive from the conflicting information provided in the ancillary obligations.

### Ancillary Obligations

Finally, Table 13 shows the ancillary obligations considered more complex and laborious and which should be simplified, according to the companies surveyed:

References	%
ECF	30
EFD - Contributions	21
E-Social	13
ECD	12
EFD-ICMS/IPI	7
EFD-REINF	5
DCTF	3
PER/DCOMP	3
GIA	2
Siscoserv	2
Covenant 115/03 (State Obligation)	1
Covenant 39/01 (State Obligation)	1
DMED	1
Total answers	100%

Table 13 - Ancillary Obligations mentioned by the surveyed companies.

## 5. Findings compared to the ones from the previous Survey (2014)

The following is a comparative overview of the results already analyzed and discussed in this survey with the results obtained in the previous research conducted in 2014. It should be noted that, for purposes of comparison, an approximate equivalence was made between the Ancillary Obligations in force in 2019 and those that were extinguished, but which were in force at the time of the previous research.

### 5.1. General Findings and by Stage

Activity	2014 Hours/year	2019 Hours/year	Variation	
Federal Tax Compliance	<b>18.6 k</b>	<b>18.9 k</b>	<b>2%</b>	
Determination	<b>8,897</b>	<b>6,911</b>	<b>-22%</b>	
Ancillary Obligations				
Current in 2014	<b>5,604</b>	Current in 2019	<b>7,078</b>	<b>26%</b>
DIPJ, LALUR and FCONT	<b>594</b>	ECF	<b>476</b>	<b>-20%</b>
ECD	<b>304</b>	ECD	<b>278</b>	<b>-9%</b>
EFD - Contributions	<b>976</b>	EFD - Contributions	<b>657</b>	<b>-33%</b>
EFD - ICMS/IPI	<b>1,724</b>	EFD - ICMS/IPI	<b>1,388</b>	<b>-19%</b>
SEFIP/GFIP and DIRF	<b>547</b>	E-Social* and EFD-Reinf*	<b>2,564</b>	<b>369%</b>
LTCAT/PPRA or PCMSO	<b>1,070</b>	LTCAT/PPRA or PCMSO	<b>651</b>	<b>-39%</b>
PPP	<b>812</b>	PPP	<b>624</b>	<b>-23%</b>
DCTF	<b>181</b>	DCTF and DCTFWeb*	<b>440</b>	<b>143%</b>
Collection	<b>991</b>		<b>456</b>	<b>-54%</b>
Debt Clearance Certificate CND				
Current in 2014	<b>576</b>	Current in 2019	<b>600</b>	<b>4%</b>
CND Joint RFB/PGFN and CND INSS	<b>497</b>	CND Joint RFB/PGFN/INSS	<b>486</b>	<b>-2%</b>
CRF - FGTS	<b>79</b>	CRF - FGTS	<b>115</b>	<b>46%</b>
Administrative Litigation	<b>2,514</b>		<b>3,884</b>	<b>54%</b>

(\*) Projection of hours required for preparation and deliveries in one year.

Table 14 - Comparative Table: Average annual hours of Federal Tax Compliance activities.

Activity	2014 People	2019 People	Variation	
Debt Clearance Certificate CND				
Current in 2014		Current in 2019		
CND Joint RFB/PGFN	<b>3.1</b>	CND Joint RFB/PGFN/INSS	<b>2.8</b>	<b>-10%</b>
CND INSS	<b>2.3</b>		<b>N/A</b>	
CRF - FGTS	<b>1.5</b>	CRF - FGTS	<b>1.6</b>	<b>7%</b>
Administrative Litigation	<b>4.7</b>		<b>5.4</b>	<b>15%</b>

Table 15 - Comparative Table: Average of people allocated to CND and Administrative Litigation activities.

Based on the inference from Table 14, a reduction can be observed, when compared to the previous survey, in the number of hours spent in the determination stages (22% reduction) and payment / offsetting (54% reduction). Regarding the ancillary obligations, the number of hours spent on obligations that have been in force for over a year has been reduced, particularly EFD-Contributions (33% reduction) and ECF, when compared to DIPJ, LALUR and FCONT. (20% reduction).

Factors that may have contributed to the variations observed are: (I) more advanced learning curve for better settled ancillary obligations, which may have brought efficiency gains; (II) investments in automation, seeking greater efficiency with standardized ERP platforms, BPO and other process improvements and internal controls; (III) the reduction in economic activity observed in recent years. These factors may explain the decrease in the number of hours in the determination and payment / compensation stages, as well as the reduction in the number of professionals involved in various activities, partly due to the cost reduction that affected companies in general, especially between 2015 and 2017, as it will be shown later.

On the other hand, there was an increase in the number of hours required for filing, review and delivery of the Ancillary Obligations and management of administrative litigation. Table 15 also shows an increase in the contingent involved in this stage. With regard to Ancillary Obligations, there is a significant increase in the number of hours required for newly implemented obligations, in force for less than one year (E-Social, EFD-REINF and DCTFWeb). Although such obligations have been developed, discussed and implemented over the last years, getting such obligations in place still requires a more intense dedication, considering that the learning curve is at an early stage. One expected that, after the end of entire implementation process, which involves since the reorganization of processes and internal controls, training and adequacy of systems, it is possible efficiency improvements can be observed. It should also be pointed out that the E-Social replaces a number of other essentially labor-related ancillary obligations<sup>2</sup>, which do not involve tax information and which, therefore, were not part of the scope of the previous survey.

Regarding the management of the Administrative Litigation, the variation in the number of hours indicated can be attributed to the increase of tax efficiency in their inspections, either in quantity, made possible by the high level of information cross-checking made possible by SPED, and in quality, which has required more time from companies to prepare their defenses and manage litigation, especially regarding the analysis of compensation claims. On the other hand, despite the adoption of the digital process for sending documents aiming at complying with inspections and protocols of defenses and appeals, taxpayers have faced operational obstacles in the use of this tool. Finally, it also reflects the difficulty of interpretation and enforcement of the tax legislation.

The CND delivery stage was relatively stable, which can show that the unification of the Social Security and Other Federal Tax Certificates failed to show efficiency gains, despite the slight reduction in the contingent involved in this stage, as seen in Table 15.

As a result, the total of hours spent for Federal Tax Compliance remained relatively stable when compared to the previous survey.

<sup>2</sup> According to the E-Social website (<http://portal.esocial.gov.br/institucional/conheca-o>), accessed 11/Jun/2019, 15 separate obligations will be fulfilled in a single manner by this new statement, namely:

- GFIP - FGTS remittance form and Social Security Information Guide
- CAGED - General Register of Employees and the Unemployed to control employee hires and dismissals under the Brazilian Labor Regulations (CLT) regime
- RAIS - Annual Listing of Social Information.
- LRE - Employee Registration Book
- CAT - Work-Related Accident Report
- CD - Dismissal Communication
- CTPS - Labor and Social Security Card
- PPP - Occupational Health and Safety Risk Assessment
- DIRF - Declaration of Withholding Taxes
- DCTF - Declaration of Debts and Tax Credits of Federal Social Security
- QHT - Working Timesheet
- MANAD - Normative Guide of Digital Files
- Payroll
- GRF - FGTS remittance form
- GPS - Social Security remittance form

Of these, only GFIP / SEFIP, CAT, PPP, DIRF and DCTF involve tax information and were measured in the previous survey, provided that other obligations are essentially labor related for the purpose of allowing the Labor Department of the Ministry of Economy to obtain social security information.

The result obtained by E-Social was compared along with the result obtained by EFD-REINF, only in relation to GFIP/SEFIP and DIRF (obligations considered equivalent in 2014), since, at the time of this survey, the other ancillary obligations involving tax information of social security nature or affecting their determination (CAT and PPP) were still in force (more details can be found item 4.4.5). Finally, the DCTF, in turn, was not excluded. Only the social security information contained in this statement have migrated to the new Ancillary Obligation named DCTFWeb. The preparation and delivery of the DCTF remains mandatory with respect to other federal taxes.

## 5.2. Findings by Tax

### 5.2.1. Corporate Income Taxes – IRPJ and CSLL

Tables 16 and 17 show the comparative results of average hours demanded and personnel allocated, respectively, required to meet the IRPJ and CSLL compliance activities.

Activity	2014 Hours/year		2019 Hours/year		Variation
IRPJ and CSLL Compliance	<b>4.3 k</b>		<b>2.5 k</b>		<b>-42%</b>
Determination	<b>3,419</b>		<b>1,713</b>		<b>-50%</b>
Ancillary Obligations	Current in 2014	<b>806</b>	Current in 2019	<b>746</b>	<b>-7%</b>
	DIPJ, LALUR and FCONT	<b>485</b>	ECF	<b>438</b>	<b>-10%</b>
	DCTF	<b>17</b>	DCTF	<b>30</b>	<b>76%</b>
	ECD	<b>304</b>	ECD	<b>278</b>	<b>-9%</b>
Collection	<b>68</b>		<b>51</b>		<b>-25%</b>

Table 16 – Comparative Table: Average annual hours of IRPJ and CSLL Compliance activities.

Activity	2014 People		2019 People		Variation
Determination	<b>4.3</b>		<b>3.8</b>		<b>-12%</b>
Ancillary Obligations	Current in 2014		Current in 2019		
	DIPJ	<b>3.0</b>	ECF	<b>3.9</b>	<b>30%</b>
	LALUR	<b>1.9</b>			<b>N/A</b>
	FCONT	<b>1.9</b>			<b>N/A</b>
	DCTF	<b>1.7</b>	DCTF	<b>1.9</b>	<b>12%</b>
ECD	<b>2.4</b>	ECD	<b>3.1</b>	<b>29%</b>	
Collection	<b>2.4</b>		<b>2.0</b>		<b>-17%</b>

Table 17 – Comparative Table: Average of people allocated to the activities to IRPJ and CSLL activities.

### 5.2.2. Social Contribution Taxes on Gross Revenue – PIS and COFINS

Tables 18 and 19 show the comparative results of average hours demanded and personnel allocated, respectively, required to meet the PIS and COFINS compliance activities.

Activity	2014 Hours/year		2019 Hours/year		Variation
PIS and COFINS Compliance	<b>2 k</b>		<b>1.7 k</b>		<b>-13%</b>
Determination	<b>973</b>		<b>982</b>		<b>1%</b>
Ancillary Obligations	Current in 2014	<b>960</b>	Current in 2019	<b>682</b>	<b>-29%</b>
	EFD – Contributions	<b>929</b>	EFD – Contributions	<b>657</b>	<b>-29%</b>
	DCTF	<b>31</b>	DCTF	<b>25</b>	<b>-19%</b>
Collection	<b>56</b>		<b>59</b>		<b>5%</b>

Table 18 – Comparative Table: Average annual hours of PIS and COFINS Compliance activities.

Activity	2014 People	2019 People	Variation
Determination	<b>3.3</b>	<b>2.7</b>	<b>-18%</b>
Ancillary Obligations	Current in 2014	Current in 2019	
	EFD - Contributions	EFD - Contributions	<b>-9%</b>
	DCTF	DCTF	<b>13%</b>
Collection	<b>1.9</b>	<b>2.1</b>	<b>11%</b>

Table 19 - Comparative Table: Average of people allocated to the activities to PIS and COFINS activities.

### 5.2.3. Excise Tax - IPI

Tables 20 and 21 show the comparative results of average hours demanded and personnel allocated, respectively, required to meet the IPI compliance activities.

Activity	2014 Hours/year	2019 Hours/year	Variation
IPI Compliance	<b>3 k</b>	<b>2.3 k</b>	<b>-23%</b>
Determination	<b>1,079</b>	<b>781</b>	<b>-28%</b>
Ancillary Obligations	Current in 2014	Current in 2019	
	EFD - ICMS/IPI	EFD - ICMS/IPI	<b>-19%</b>
	DCTF	DCTF	<b>10%</b>
	DIPJ - IPI Forms		<b>-100%</b>
Collection	<b>55</b>	<b>61</b>	<b>11%</b>

Table 20 - Comparative Table: Average annual hours of IPI Compliance activities.

Activity	2014 People	2019 People	Variation
Determination	<b>4.6</b>	<b>6.5</b>	<b>41%</b>
Ancillary Obligations	Current in 2014	Current in 2019	
	EFD - ICMS/IPI	EFD - ICMS/IPI	<b>-4%</b>
	DCTF	DCTF	<b>33%</b>
	DIPJ - IPI Forms		<b>N/A</b>
Collection	<b>1.9</b>	<b>2.4</b>	<b>26%</b>

Table 21 - Comparative Table: Average of people allocated to the activities to IPI Compliance activities.

### 5.2.4. Withholding Taxes

Tables 22 and 23 show the comparative results of average hours demanded and personnel allocated, respectively, required to meet the Federal Withholding tax Compliance activities.

Activity	2014 Hours/year	2019 Hours/year	Variation	
Withholding Tax Compliance	<b>2.1 k</b>	<b>2 k</b>	<b>-3%</b>	
	<b>1,436</b>	<b>1,196</b>	<b>-17%</b>	
Determination				
Costumer	<b>1,242</b>	<b>995</b>	<b>-20%</b>	
Provider	<b>194</b>	<b>201</b>	<b>4%</b>	
Ancillary Obligations				
Current in 2014	<b>422</b>	Current in 2019	<b>755</b>	<b>79%</b>
DIRF	<b>309</b>	EFD - Reinf*	<b>581</b>	<b>88%</b>
DCTF	<b>88</b>	DCTF and DCTFWeb*	<b>148</b>	<b>68%</b>
DIPJ - Tax Withholding Forms	<b>25</b>	ECF - Tax Withholding Forms	<b>26</b>	<b>4%</b>
Collection	<b>228</b>	<b>80</b>	<b>-65%</b>	

(\*) Projection of hours required for preparation and deliveries in one year.

Table 22 - Comparative Table: Average annual hours of Federal Withholding Tax Compliance activities.

Activity	2014 People	2019 People	Variation	
Determination				
Costumer	<b>3.0</b>	<b>2.4</b>	<b>-20%</b>	
Provider	<b>1.7</b>	<b>1.3</b>	<b>-24%</b>	
Ancillary Obligations				
Current in 2014		Current in 2019		
DIRF	<b>3.2</b>	EFD - Reinf	<b>1.9</b>	<b>-41%</b>
DCTF	<b>1.5</b>	DCTF	<b>1.6</b>	<b>7%</b>
DIPJ - Tax Withholding Forms	<b>1.6</b>	ECF - Tax Withholding Forms*	-	<b>N/A</b>
		DCTFWeb	<b>1.5</b>	<b>N/A</b>
Collection	<b>2.2</b>	<b>2.2</b>	<b>0%</b>	

(\*) Not measured. Measuring of the number of People allocated considered ECF as a whole.

Table 23 - Comparative Table: Average personnel allocated to Federal Withholding Tax Compliance activities.

### 5.2.5. Social Security Contributions and Labor-related Obligations

Tables 24 and 25 show the comparative results of average hours required and personnel allocated, respectively, necessary to meet the Social Security Contributions and Labor Obligations activities.

Activity	2014 Hours/year	2019 Hours/year	Variation	
Social Security Contributions and Labor Obligations Compliance	<b>2.5 k</b>	<b>3.8 k</b>	<b>51%</b>	
Determination	<b>235</b>	<b>271</b>	<b>15%</b>	
Ancillary Obligations				
Current in 2014	<b>2,198</b>	Current in 2019	<b>3,436</b>	<b>56%</b>
SEFIP and EFD - Contributions	<b>298</b>	E-Social*	<b>1,983</b>	<b>565%</b>
DCTF	<b>18</b>	DCTFWeb*	<b>178</b>	<b>889%</b>
LTCAT/PPRA or PCMSO	<b>1,070</b>	LTCAT/PPRA or PCMSO	<b>651</b>	<b>-39%</b>
PPP	<b>812</b>	PPP	<b>624</b>	<b>-23%</b>
Collection	<b>117</b>	<b>138</b>	<b>18%</b>	

(\*) Projection of hours required for preparation and deliveries in one year.

Table 24 - Comparative Table: Average annual hours of Social Security Contributions and Labor Obligations Compliance activities.

Activity	2014 People	2019 People	Variation
Determination	<b>1.8</b>	<b>1.8</b>	<b>0%</b>
	Current in 2014	Current in 2019	
Ancillary Obligations	SEFIP	E-Social	<b>47%</b>
	EFD - Contributions		<b>N/A</b>
	DCTF	DCTFWeb	<b>7%</b>
	LTCAT/PPRA or PCMSO	LTCAT/PPRA or PCMSO	<b>-57%</b>
	PPP	PPP	<b>24%</b>
Collection	<b>1.7</b>	<b>1.8</b>	<b>6%</b>

*Table 25 - Comparative Table: Average personnel allocated to Social Security Contributions and Labor Obligations Compliance activities.*

## 6. Conclusions

In the light of the foregoing, we can make the following inferences:

- I The completion, review and delivery of ancillary obligations proved to be the stage that demands most hours from the surveyed companies. Such result can be attributed mainly to the recent federal ancillary obligations implemented in the Brazilian tax-legal order, namely, EFD-Reinf, DCTFWeb and E-Social, which still require a high level of hours to comply with them, in view of their recent mandatoriness. One expects that, after the end of entire implementation process, which involves from the reorganization of processes and internal controls, to training and adequacy of systems, efficiency improvements can be observed. However, at this time, such efficiency gains have not yet been felt, given their complexity and level of learning by companies.
- II The tax determination stage follows, with regard to the demand in hours incurred, mainly due to the complexity of calculations related to tax assessments, followed by specific calculations and controls, such as: e-LALUR and e-LACS , in the case of IRPJ and CSLL, ratio between regimes for PIS and COFINS purposes and analysis of TIPI rates, in the case of IPI. What can be inferred from this result is that companies require many hours to understand and absorb tax law in general, in order to apply them to their operations;

- III In general, the main difficulty encountered in relation to ancillary obligations is the adaptation and adequacy of systems, which requires many hours for implementing, customizing and elaborating all tax returns, as one could be observe based on the average number of hours required for implementation of E-Social and EFD-Reinf.
- IV The tax withholding criteria are not uniform and generate great complexity of analysis and adequacy of internal controls and systems. The implementation of EFD-Reinf has not yet brought efficiency improvements in this regard. It is suggested, as a simplification measure, the unification of criteria for withholdings, either through the accrual or cash basis, as well as the reduction of their hypotheses. In addition, it is suggested, as a simplification measure for EFD-Reinf, the creation of fields for extemporaneous entries, without prejudice to the applicable penalties (late payment and interest). This solution would mainly avoid the high level of adjustments that are made for the simple reason that there is some extemporaneous entry.
- V The process of obtaining CND is complex and has demanded from companies the exclusive allocation of people in the constant monitoring of the "checking account" with the RFB and the CDAs managed by PGFN, in order to avoid problems with the issuance of certificates. In addition, in several situations the company needs to use legal files to obtain the certificate, which is mostly caused by differences between information provided in statements submitted to RFB. It is expected that, with the recent implementation of the Digital Dossier by the Federal Revenue Secretariat, efficiency gains can be observed in this process in the short term.
- VI The number of hours indicated for the management of administrative litigation indicates increased efficiency of the tax authorities in their inspections, either in quantity, made possible by the high cross-referencing of information provided by SPED, or in quality, which has required companies more time to elaborate their defenses and management of litigation, especially regarding the analysis of compensation claims, besides reflecting the difficulty of interpretation and the application of tax law in general by taxpayers;
- VII It is worth mentioning the still high number of ancillary obligations that require specific teams to support their demands, such as, for example, ECF, EFD-ICMS/IPI and E-Social.

- VIII Compared to the previous survey, overall, there have been significant efficiency improvements especially in the determination and payment/clearing stages, as well as a reduction in the number of hours related to ancillary obligations existing for over a year. The factors that may be indicated for this efficiency improvement are, mainly, the economy of scale in the companies generated by the learning curve, the investment in process automation, even caused by the mindset involved in the SPED project, and the reduction of economic activity due to the economic crisis observed in recent years.
- IX On the other hand, there has been increased demand for the hours required to comply with ancillary obligations and administrative litigation. This increase in the number of hours is directly related to the newly implemented Ancillary Obligations (E-Social, EFD-Reinf and DCTFWeb), as such obligations are still at an early stage in the learning curve for the companies. It is expected that, after the implementation process, efficiency gains can be observed. Regarding litigation, the increase is related to the factors mentioned in item (VI).
- X Considering the improvement and aggravation points observed, the average demand for total hours for Federal Tax Compliance, compared to the previous survey, remained practically stable, with a slight increase of 2%.



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