



SURVEY

STATE TAX COMPLIANCE

2 0 1 6

GETAP

GRUPO DE ESTUDOS TRIBUTÁRIOS APLICADOS



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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.

Today, GETAP has 71 associated companies, all of them large-sized, subject to special follow-up by the Brazilian Federal Revenue Office, 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 meaningfully to simplify and rationalize the Brazilian tax system, always seeking to provide greater legal security in the relationship between tax authorities and taxpayers.

In this context and further to the federal tax compliance survey conducted in 2014, GETAP carried out this survey aimed at determining the impacts of performing tax liabilities on a State level, as well as their related activities, referred to as “tax compliance”. To that effect, the study measured time and number of people allocated to the different activities involved in the matter.

2 – Introduction

2.1 Context of Tax Compliance In Brazil

Today, the Brazilian tax scenario has been going through meaningful changes, especially with respect to tax administration and management issues, having been introduced as a substitution for other liabilities, many accessory liabilities whose purpose, among others, was that of providing federal, state and local tax authorities with greater control and quickness in the inspection process. We can mention, for example, the digital files established in the scope of 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) ICMS [*Value-Added Tax on Sales and Services*]-IPI [*Excise Tax*] and EFD Contributions and, more recently, Tax Accounting Entries [*Escrituração Contábil Fiscal*] (ECF), as well as others about to become effective, such as the Tax, Social Security and Labor Tax Accounting System in Digital Format [*Sistema de Escrituração Fiscal Digital das Obrigações Fiscais, Previdenciárias e Trabalhistas*] (eSocial) and Digital Tax Bookkeeping on Withholdings and Information on Social Security Contribution Replaced [*Escrituração Fiscal Digital das Retenções e Informações da Contribuição Previdenciária Substituída*] (EFD Reinf), both related to labor and social security information. Besides, it is worth indicating that tax documents have become increasingly digital in format; that is a well settled reality in companies, such as Electronic Bills of Sale [*Nota Fiscal Eletrônica*] (NF-e) and Bill of Lading [*Conhecimento de Transporte Eletrônico*] (CT-e), and others that are now under implementation such as Electronic Invoice [*Nota Fiscal de Consumidor Eletrônica*] (NFC-e) and Electronic Service Invoice [*Nota Fiscal de Serviços Eletrônica*] (NFS-e). The fact is that SPED, which exists since 2007, has been increasingly consolidating as a relevant change in the way tax authorities and taxpayers coexist, in line with digital technology innovation and data transfer among different entities involved, a trend seemingly irreversible.

However, this paradigm shift undergoes a long period of transition. In spite of the effective implementation of its various modules, one of the most significant negative effects of this transition to SPED is the overlapping of accessory liabilities and information required from taxpayers, inasmuch as the substitution of existing accessory liabilities for their respective module SPED often does not occur automatically. Consequently, the taxpayer is forced to live with distinct accessory liabilities, but which have exactly the same objective or deal with the same level of information. If, at the federal level, this framework has been mitigated in recent years - with the gradual elimination of federal accessory obligations in favor of SPED -, at the state level this movement is still very incipient.

In this regard, taxpayers have been making major efforts in preparation activities for accessory liabilities required by tax authorities. This implies allocation of human resources in specific adaptation and customization projects in taxpayers' information systems, actually demanding the hiring of specialized service providers.

In addition to performance (preparation and sending of files) of accessory liabilities themselves, there is also major efforts on the part of taxpayers with respect to tax calculation and collection activities. Additionally, the procedures for achievement of Debt Clearance Certificates [*Certidões Negativas de Débitos*] (CND) and administrative litigation management represent related activities arising from the companies' tax compliance.

Thus, this survey, which addresses the state tax compliance, comprises those activities previous, subsequent or concurrent with performance of accessory liabilities. That is, it comprises from determination and performance of accessory liabilities themselves, to the attainment of the CND, the performance of inspections, as well as administrative litigation management.

2.2. Purpose of the Work

In view of the scenario presented above, GETAP carried out the survey among its associates, aimed at assessing the average requirements for taxpayers, in terms of number of hours per year and of human resources allocated, so that they can be in good standing with their "tax compliance" in state level. Moreover, this work intends to highlight the information overlapping existing between state accessory obligations and SPED, more specifically the EFD-/ICMS/IPI, with the purpose of identifying possible state accessory obligations that could be eliminated or at least submitted to a simplification process.

It is worth pointing out that no previous surveys with the same comprehensiveness has been found, inasmuch as, in this work, in addition to the time incurred in the preparation and filing of accessory liabilities, the number of hours incurred in the determination and collection of the taxes have also been measured, as well as related matters, namely, the attainment of Debt Clearance Certificates [*Certidões Negativas de Débitos*] and administrative litigation management.

To meet the proposed objective, GETAP made and forwarded to its associates a questionnaire, according to the methodology described next. To achieve the answers, the virtual platform "SurveyMonkey®", contained in the website www.surveymonkey.com was used.

3 – Methodology

For purposes of this survey, a questionnaire was prepared for each Federal Unit, structured into four blocks that represent major stages of state tax compliance, namely: (I) Information concerning *ICMS* [Value-Added Tax on Sales and Services] and *ICMS* under Tax Replacement (*ICMS-ST*); (II) Information concerning *ICMS* and *ICMS-ST* accrued credits; (III) Information concerning special regimes, tax incentives and industry-based controls; and (IV) information concerning own inspections and inspections of third parties, management of administrative litigation and attainment of State Debt Clearance Certificates (*CND*).

In blocks I, II and III, in a second level of information, the questionnaire was subdivided to obtain data on two stages of tax compliance, namely: (a) determination, management and control and (b) performance of accessory liabilities. Specifically regarding block II, which deals with *ICMS* and *ICMS-ST* accrued credits, in addition to the steps already mentioned, step (c) homologation and monetization was also included.

The quantitative questions of blocks I to IV request numerical responses regarding the amount of annual hours required to fulfill a given activity and the number of people involved in it, without exclusive dedication, that is, the concept of Full Time Equivalent (*FTE*) was not adopted. Moreover, blocks I, II and III feature open questions intended to identify, through the opinion and the point of view of the respondent, the level of comprehensiveness of each ancillary obligation and what information of each of them have not yet covered by the *EFD-ICMS/IPI*. Block II also features open questions to identify if companies have been able to homologate their accrued credits, and what reasons prevent such approval. Lastly, the last question of each of the blocks present seven hypotheses that represent the main causes that hinder the compliance process addressed in the respective block, and the respondent is asked to classify these causes, from first to seventh place. To compile this rank, the respondent should assign scores from 1 to 7, being “7” for the first place, “6” for the second place, and so on, and, finally, grade “1” is awarded to the seventh place. The result of this question is used for the elaboration of a final rank with the classification obtained by each hypothesis based on its weighted average (scale between 1 and 7).

In order to corroborate the opinion of the respondents, it was carried out a comparative study of the fields and records of some of the main state accessory obligations in relation to the *EFD-ICMS/IPI*, in order to verify the level of compliance of such accessory obligations to the *EFD-ICMS/IPI*, as well as identifying duplication of information. When the need of deepening or clarification of some answers obtained in the questionnaire was determined, interviews with the respondents were carried out.

The companies were asked to respond the questionnaire based on information from only one legal entity (parent or subsidiary), provided that it was suggested the use of establishments with greater operational complexity, although it was up to the respondent to determine the establishments submitted to the survey, both in terms of number of establishments and their operating level. All the results obtained represent the average demand of an establishment for the accomplishment of the several activities that compose the tax compliance at the state level.

The survey adopted the following definitions:

(A) **Determination:** corresponds, including the hiring of external consultants to carry

out said works, (i) survey, consultation, monitoring and interpretation of tax legislation, its implementation in a systemic environment and application in business and operations; (ii) calculation and review of the tax calculation, including the bookkeeping of tax documents; (iii) management of supporting controls;

(B) Performance of accessory liabilities: comprises generation of files, fulfillment, consistency analysis, validation, final review and transmission of accessory liabilities, including contracting of outsourced consulting services to carry out the aforementioned works;

(C) Approval and monetization: comprises all the procedures for approval and effective use of accrued credits, such as: preparation, consistency analysis, validation, final review and filing of petitions for approval, sale, transfer, compensation or reimbursement of accrued credits, whether in print or through electronic means.

The questionnaire was applied during between the months of July and December of 2015.

3.1 Scope Limitations

The survey carried out had as scope only an analysis of the “tax compliance” of the main state tax - *ICMS* -, consequently excluding those concerning federal and municipal taxes.

Notwithstanding the scope limitation, it is possible that the result of accessory liabilities shared, as in the case of the *EFD-ICMS/IPI*, may have been influenced by taxes not comprised by the survey, inasmuch as the records of the federal taxes cannot be dissociated from those of state taxes.

With respect to the results of the analyzes, we would like to further point out the following considerations and limitations:

(i) To avoid information overlapping, some agglutinated findings have taken into consideration only the annual hours incurred, but not the number of people allocated, considering that, in some situations, the same person can work in performance of more than one activity.

(ii) Although the information requested in the questionnaire is based on the demand required for the compliance of a single establishment of the company, and the results are presented based on such premise, it should be considered that the corporate structure of the companies surveyed does not always allow to obtain the information in the level of detail requested by the survey, since many of them perform such activities through centralized departments, such as shared service centers, among other forms. Therefore, one shall recognize that the answers may often have been obtained by means of estimates, the criteria of which cannot be assessed. Likewise, one shall recognize that, in some cases, the premise of being considered as a single establishment of the company may not have been observed, and possible responses may have been obtained considering the demand necessary to meet the compliance of a Federation Unit, regardless of the number of establishments located therein;

(iii) To improve quality of the sample, to reduce any information discrepancies and distortions on calculation on average hours and human resources, data was submitted to statistical analysis by Statistical software “R-Project®”, to eliminate data from sample considered discrepant (“Outliers”). The variable used for analysis of outliers was that of “Number of Hours”, that is, upon determination of an outlier, the relevant data of the variable “Number of People”

linked to such outlier was likewise eliminated from the sample. The assessment of discrepant figures was performed with basis on construction of a Boxplot chart. This chart is formed by the first quartile (25%), third quartile (75) as well as by the median. The lower and upper stems stretch, respectively, from the lower quartile as far as the lowest figure, not lower than the “the lower limit” and from the upper limit as far as the greatest figure, not higher than the “upper limit”. The limits are calculated as follows:

Lower limit: $Q_3 - 1,5(Q_3 - Q_1)$

Upper limit: $Q_3 + 1,5(Q_3 - Q_1)$

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

The points located outside these limits are regarded as discrepant figures (“Outliers”) for the purposes of the sample analyzed, and are disregarded for calculation of averages.

(iv) For the purpose of average calculation, the questions left unanswered or answered with zero have not been considered. The rationale applied for such disregard is to avoid distortions in the calculation of the average, caused by a respondent who does not perform a certain kind of activity comprised by the survey. As an example, we should mention the fact of a given company exploiting a non-industrial activity and, therefore, neither calculate nor collect the ICMS-ST, or the fact that a certain ancillary obligation does not apply to the taxpayer at issue;

(v) Considering the structure used in the questionnaire, which seeks to attain information on hours and human resources allocated in each activity related to each tax, in an analytical manner, and considering the implications brought by the methodology used in items (i), (ii), (iii) and (iv), the amount of data of the sample in each variable analyzed may be changed, in such a way that “the summation of the averages” does not correspond to the “summations average”. For this reason, to achieve summarized findings and of global findings, that is, the total of annual hours allocated to: (a) the total compliance of each block; (b) determination; (c) the performance of all accessory liabilities; and (d) the global compliance – we used the methodology of “summations average”, by rearranging the data in order to sum arithmetically the hours allocated in each activity and, based on this new consolidated sample, find average of the desired result, using the same methodology described in the previous items.

(vi) Notwithstanding that the survey was applied nationwide, covering 26 States and the Federal District, it was not possible to obtain individual samples from each Federal Unit considered statistically sufficient for the disclosure of all the results by Federal Unit. Therefore, in terms of quantitative results, in addition to results at the national level, only the results of the following States will be disclosed: Bahia, Goiás, Minas Gerais, Pernambuco, Paraná, Rio de Janeiro, Rio Grande do Sul and São Paulo. Moreover, in those States only the results considered statistically adequate according to the sample obtained in each response are provided. The data obtained related to the other Federative Units make up the national results, as well as the analysis and dissemination of qualitative results, when considered relevant to the business activity;

(vii) In relation to block II (which addressed ICMS and ICMS-ST accrued credits) and to block III (which addresses special regimes, tax incentives and industry-based controls), which were structured to obtain data segregated by activities or natures that compose them, for the same reason stated in the previous item, they will have their results arranged, when possible, but in an agglutinated way;

(viii) For the purposes of disclosure of the findings of the survey, notwithstanding use of the methodology described in item (v), some summarized and global findings are shown in an approximate manner, by adopting the “summation of averages”.

3.2 Sample Characterization

The survey proposed by GETAP was submitted to its 70 associates and had the participation of 47 companies, which represents participation of little more than 65% of the associated companies' universe. The questionnaire submitted was made for individual achievement of information by company, rather than by economic group, as already mentioned in item 3. Responses were obtained from 339 establishments distributed among the Brazilian states, as depicted on Illustration 1.

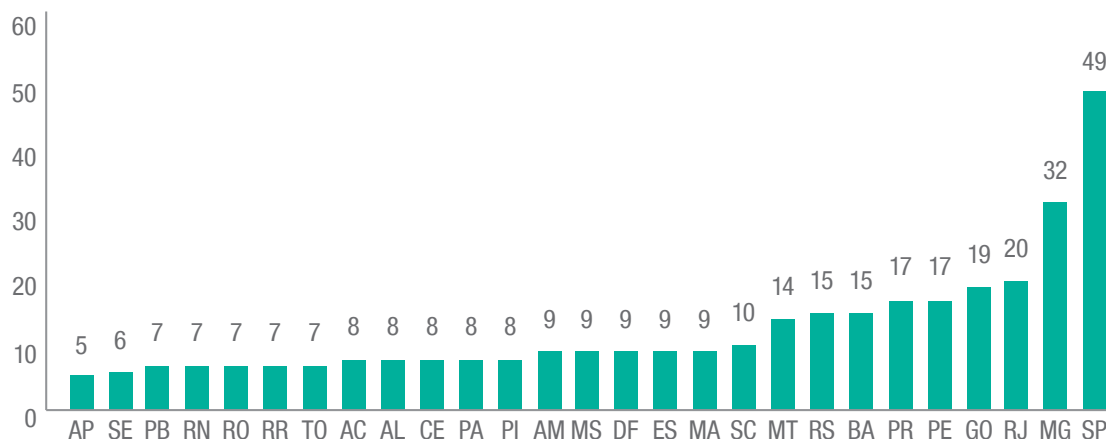


Illustration 1 - Sampling: establishments by State

The business groups that answered the questionnaire represent several segments of the economy, with predominance of the industrial segment, as shown in Illustration 2

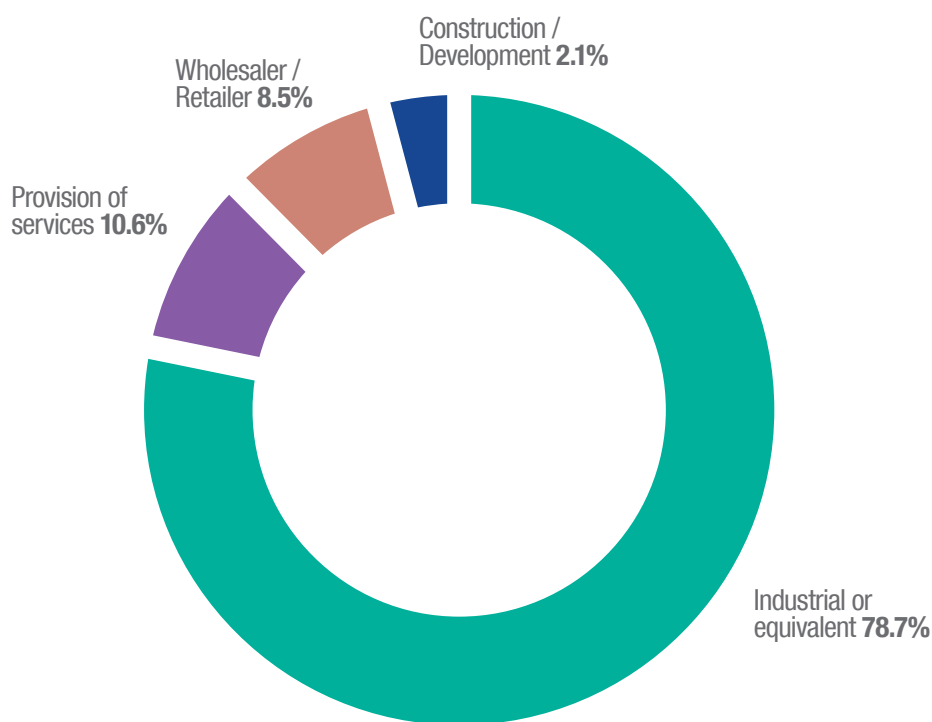


Illustration 2 - Economic segment of the surveyed business groups

It is also important to point out that all the companies that participated in the survey are subject to taxation through the taxable profit determination system, in that most of them have gross annual income over R\$ 1 billion and are subject to special follow-up by the Brazilian Federal Revenue Office. In illustrations 2, 3 and 4, we have the distribution of the companies by their gross revenue, number of facilities and number of employees, respectively.

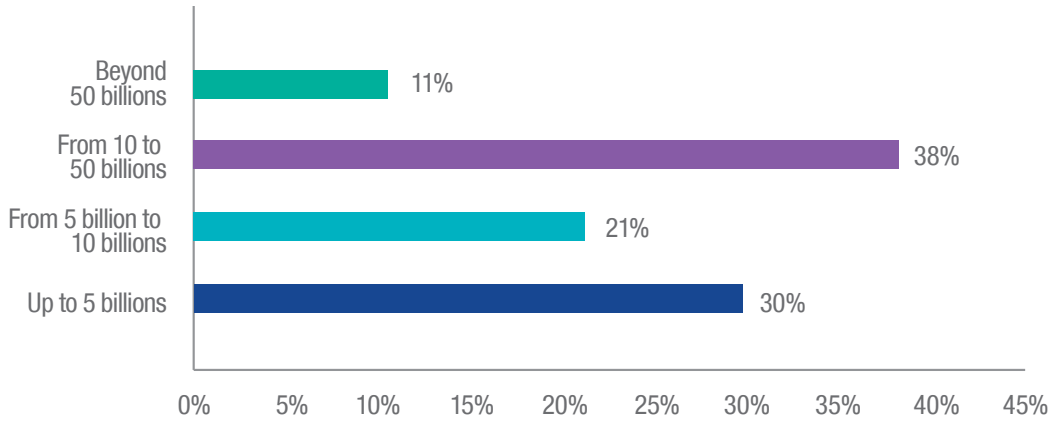


Illustration 3 - Gross annual income of the companies surveyed (R\$).

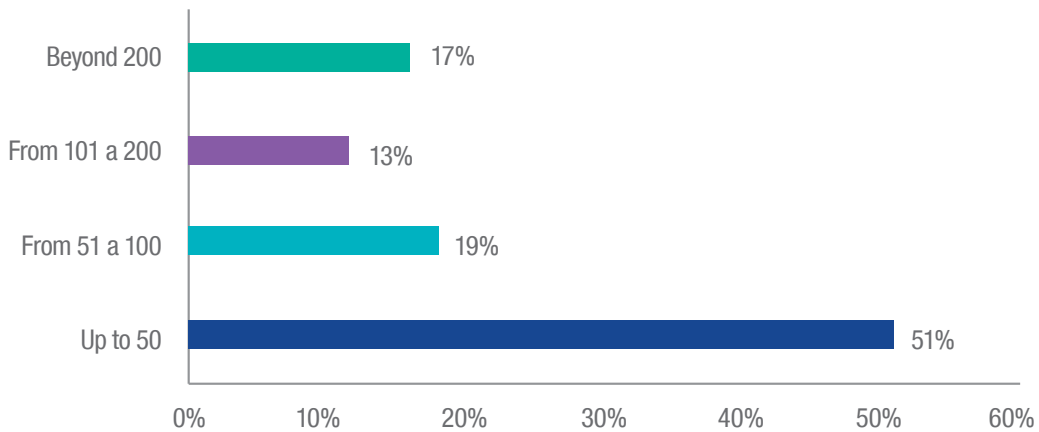


Illustration 4 - Number of Subsidiaries/Places of Business of the companies surveyed.

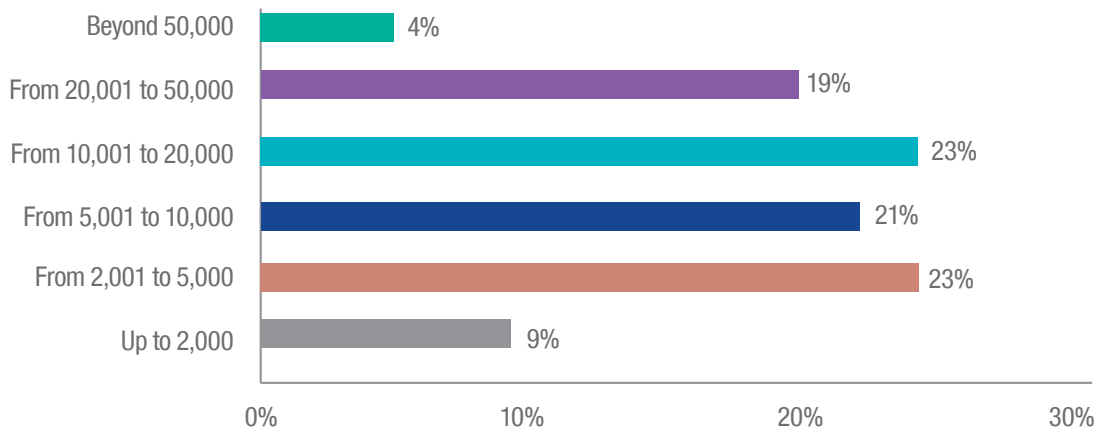


Illustration 5 - Number of employees of the companies surveyed.

With respect to human resources allocated in the tax field, we found that, on average, they represent 9.5% of all the employees of the administrative staff (Selling, General and Administrative - SG&A), and 0.5% of all the employees of the companies surveyed.

With basis on the answers of the companies surveyed and considering the methodology applied in the survey for calculation of averages, we found the following “hypothetical average company” shown in Table 1, whereby we would hypothetically apply the average number of annual hours and human resources allocated found and which will be analyzed and discussed next.

Average Economic Group under Survey	
Gross annual income (in millions of R\$)	16,261
Number of employees	12,045
Number of employees in SG&A	563
Number of employees in the tax division	49
Number of legal entities	9
Number of establishments	54
Average Legal Entity under Survey	
Gross annual income (in millions of R\$)	1,760
Number of employees	1,304
Number of employees in SG&A	61
Number of employees in the tax division	5
Number of establishments	6

Table 1 – Hypothetical average company with basis on the answers of the companies surveyed.

4 – Review And Discussion Of The Findings

4.1. Findings on National Level

4.1.1. General Findings

The companies surveyed have, on average, 49 people in their tax divisions, comprising all the spheres, namely, federal, state and municipal taxes. For performance of all the state tax compliance, there is an average incurrence of approximately 4.7 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, collection of taxes, attainment of CND and administrative litigation management of federal taxes.

4.1.2. General Findings Per Stage

An establishment of the business companies surveyed incur on average, 2,385 hours per year to determine taxes, 292 hours to prepare and perform ancillary liabilities, 552 hours to carry out own inspections, 459 hours to carry out third party inspections, 536 for the management of administrative litigation and, 453 hours to attain CND, as shown in illustrations 6 and 7:

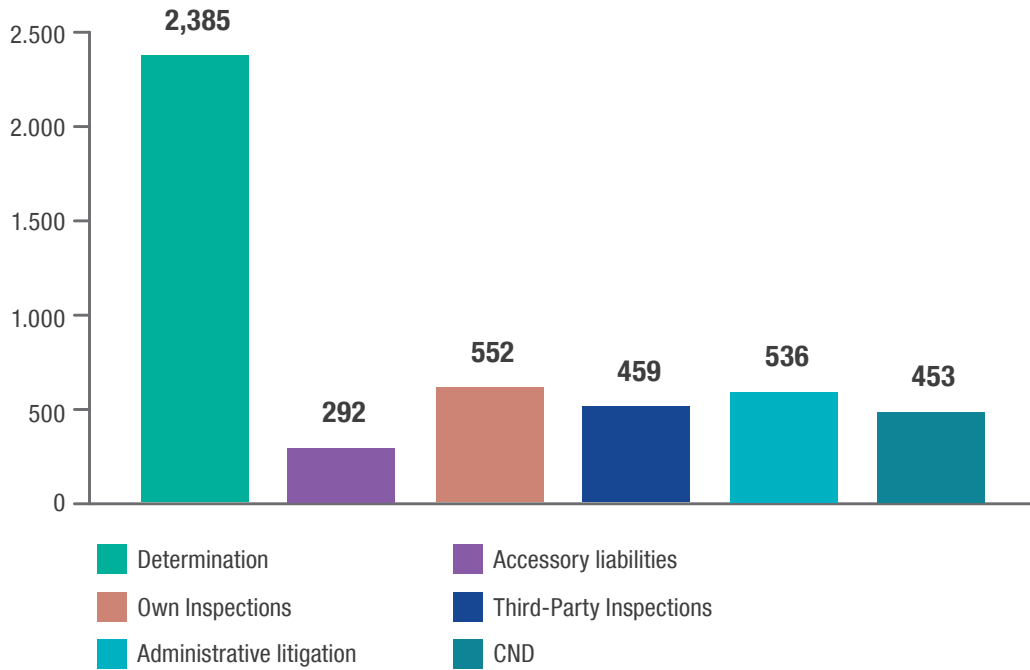


Illustration 6 - Average annual hours by stage.

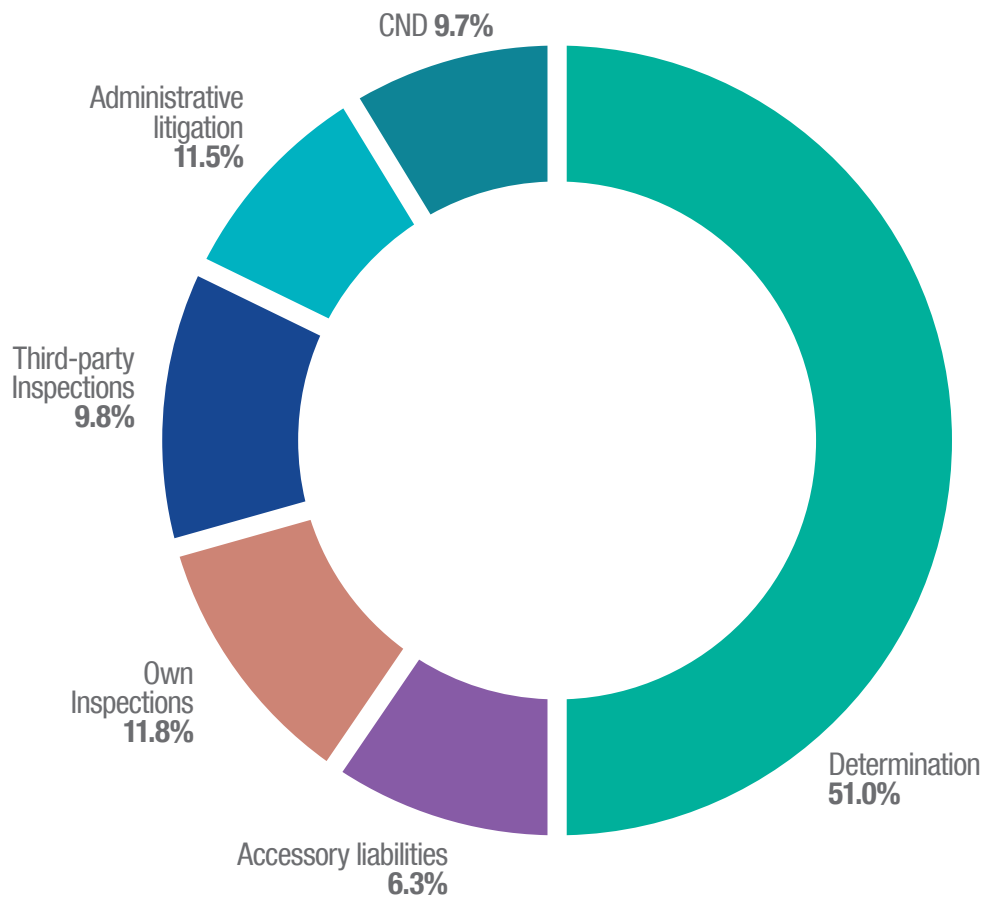


Illustration 7 - Average percentage distribution of the annual hours by stage.

Based on the findings above, we can conclude that the stage that demands most time from the companies surveyed is that of determination of taxes, followed by own inspections and of administrative litigation management.

The significant number of hours spent in third party inspections can be attributed to the fact that, although accessory liabilities present a high level of information provided substantially electronically, an additional effort is still required to comply with supplementary requests (Information, calculation logs, reconciliations, specific statements etc.) required on-site by tax agents.

With regard to administrative litigation, the high number of hours presented reflects the complexity of the management of the infraction notices, which ranges from hiring law firms, to the preparation of technical reports, auxiliary controls, attachment of tax documents and all subsidies required to support the administrative defense.

Table 2 shows the average number of people involved, without exclusive dedication, by establishment, in the activities intended to carry out own and third-party inspections, management of administrative litigation and obtaining CND, at the national level:

Activity	People involved
Own Inspections	3.4
Third-Party Inspections	2.8
Administrative litigation	2.8
CND	2.3

Table 2 - Average number of people involved in the activities intended to carry out own and third-party inspections, management of administrative litigation and obtaining CND.

4.1.3. ICMS AND ICMS-ST

The companies surveyed incurred, on average, per year, per establishment, in approximately 1.7 thousand hours for ICMS and ICMS-ST “tax compliance”. Of this total of hours, on average, 1.5 thousand hours are applied for determination procedures, provided that 938 hours determination of ICMS and 563 for determination of ICMS-ST, and 235 hours for the performance of accessory liabilities as shown in illustration 8:

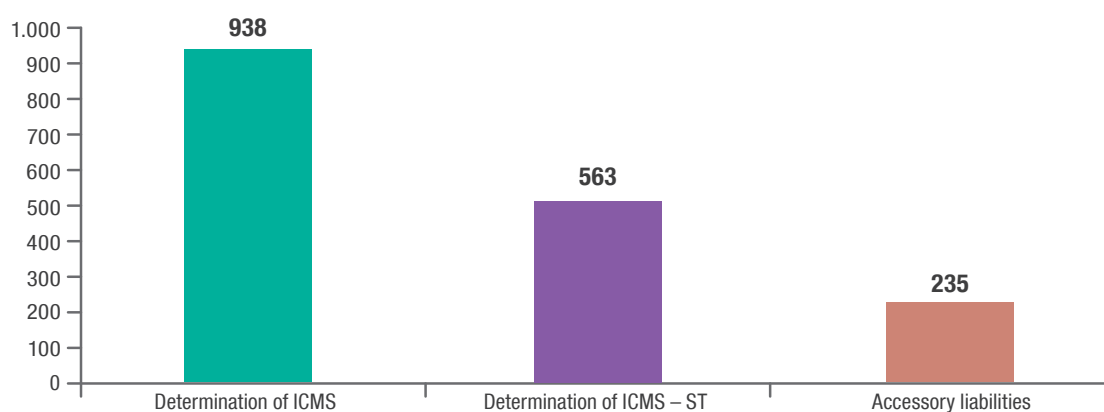
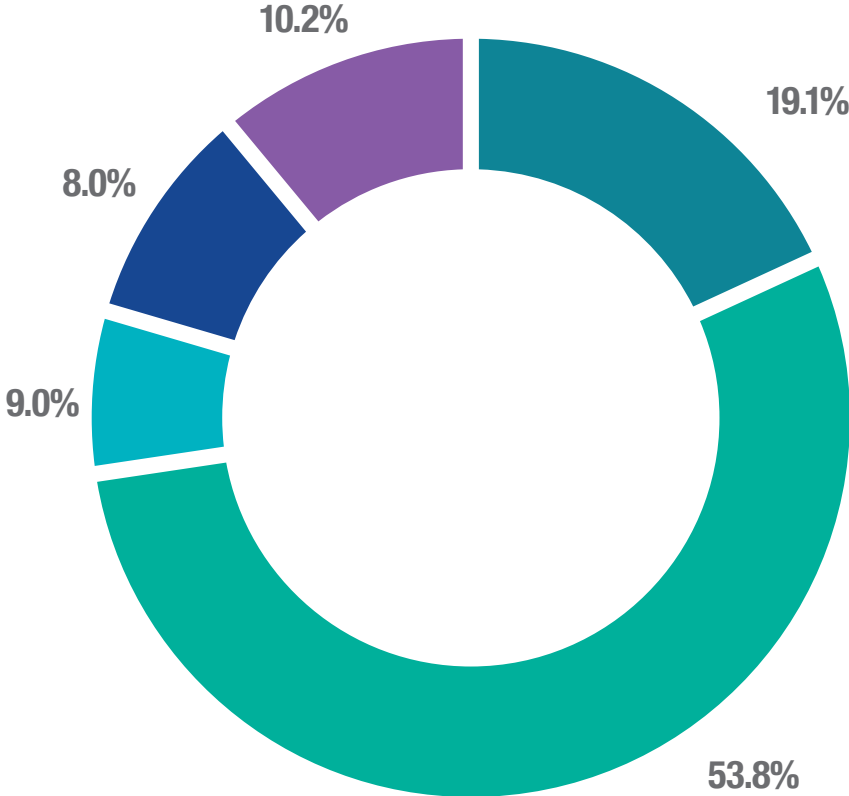


Illustration 8 - ICMS and ICMS-ST: Average annual hours by stage.

This result achieved confirms that the stage of determination for *ICMS* demands more from companies than other tax compliance activities related to such taxes.

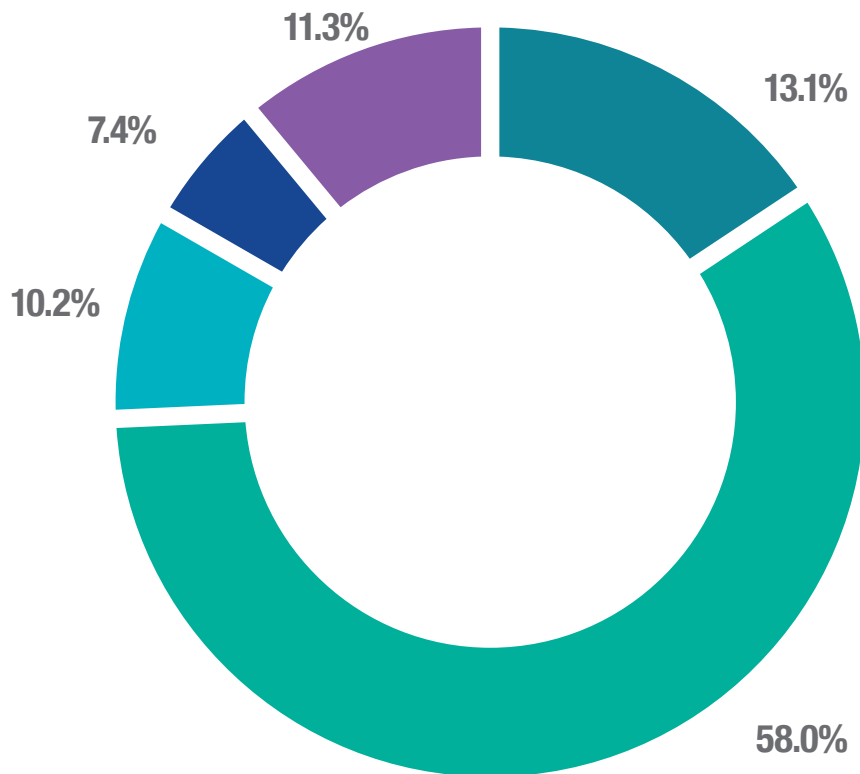
Determination

The high amount of time demanded from companies for the *ICMS* determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents (Nota Fiscal [Invoice] - NF, Nota Fiscal Eletrônica [e-Invoice]- NF-e, in Extensible Markup Language - XML [“.xml”]), management of auxiliary controls (e.g., Permanent Asset Credit Control - CIAP , In the case of *ICMS*, and National Form for Collection of State Taxes - GNRE and *ICMS*-ST in advance, in the case of *ICMS*-ST), among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, obtaining the data that can be observed in Illustrations 9 and 10.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: GNRE, ICMS-ST in advance)
- Other determination-related activities.

Illustration 9 - *ICMS*: Average percentage distribution of the annual hours for determination.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: GNRE, ICMS-ST in advance)
- Other determination-related activities.

Illustration 10 – ICMS-ST Average percentage distribution of the annual hours for determination.

Illustrations 9 and 10 show that the share related to the calculation and determination of the tax represented 53.8% (*ICMS*) and 58.0% (*ICMS-ST*) of the total time of the calculation process. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; book-keeping; *ICMS* and *ICMS-ST* calculation; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments in graphic account, such as distinguished tax rates, chargebacks, etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and assessment of impact on business, such as the inclusion or removal of products from the *ICMS* tax substitution regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 19.1% (*ICMS*) and 13.1% (*ICMS-ST*) of the total hours incurred.

In addition to the activities mentioned above, the survey showed that the amount of

time spent with the management of auxiliary controls (CIAP [G-Block of EFD-ICMS/IPI], GNRE, ICMS-ST in advance, among others) is also relevant. This is due to the fact that these tax controls require from the companies peculiar rules of determination, which require a greater amount of data and documentation to be captured for the calculation to be carried out, and further require, for the operation thereof, a greater degree of specialization of the professionals involved.

Accessory Liabilities

Regarding the preparation and performance of the ICMS and ICMS-ST accessory liabilities, according to the answers available, the companies surveyed devote, on average, 235 hours per year. Illustration 11 shows the average number of hours dedicated, nationwide, to the accessory state liabilities that are applicable in all Federative Units, namely, EFD-ICMS/IPI, National Tax Information and ICMS Tax Determination Guide - Tax Replacement (GIA- ST) and Import Content Sheet (FCI).

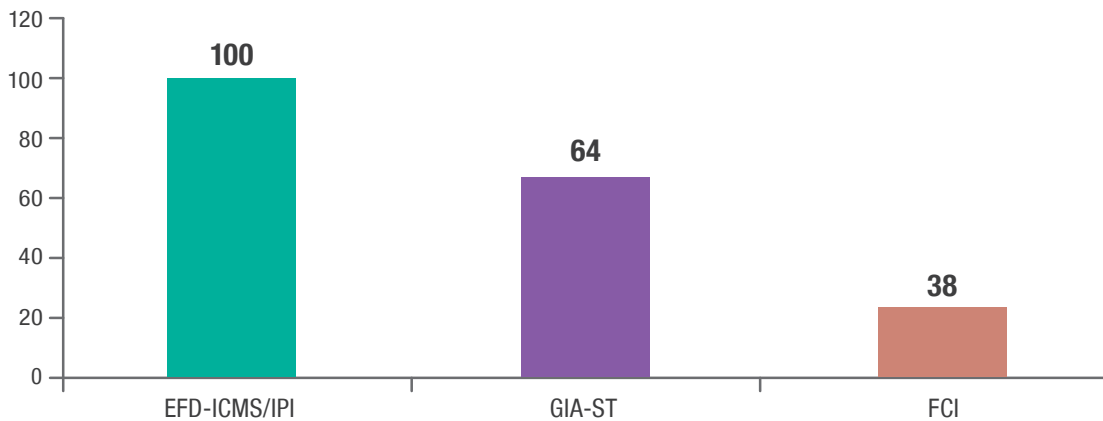


Illustration 11 - ICMS and ICMS-ST: Average annual hours per accessory liability applicable in all Federative Units.

According to our analyzes, 98% of the information contained in GIA-ST and 83% of the information contained in the FCI are already included in the EFD-ICMS/IPI records.

Information systems adequacy seems to be the major obstacle faced by companies, to the extent that many of the systems used (such as SAP, for example) must be customized and adapted to the Brazilian tax rules, which implies high costs. The amount and detail of records required in EFD-ICMS/IPI and other accessory state liabilities make system adaptation way too complex and expensive.

Moreover, it is well known that the tax legislation pertinent to ICMS is subject to constant changes, mainly disciplined by means of non-statutory acts, such as Normative Instructions, Ordinances, Protocols, among others, acts edited in great quantity and covering various topics, which requires monitoring and assimilation of its content and, often, raises questions about its application.

Number of People Involved

Table 3 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to ICMS and ICMS-ST, nationwide.

Activity	People involved
<i>Determination</i>	
ICMS	3.6
ICMS-ST	2.1
<i>Accessory liabilities</i>	
EFD-ICMS/IPI	1.4
GIA-ST	1.1
FCI	1.3

Table 3 - ICMS and ICMS-ST: Average number of people involved per activity

4.1.4. ICMS and ICMS-ST Accrued Credits

The companies surveyed incurred, on average, per year, per establishment, 1.8 thousand hours for 2.5 people for ICMS and ICMS-ST accrued credits tax compliance. As can be seen in Illustration 12, this total is distributed among the activities for determination of accrued credits, elaboration and delivery of accessory liabilities for accrued credits, homologation and monetization of credits.

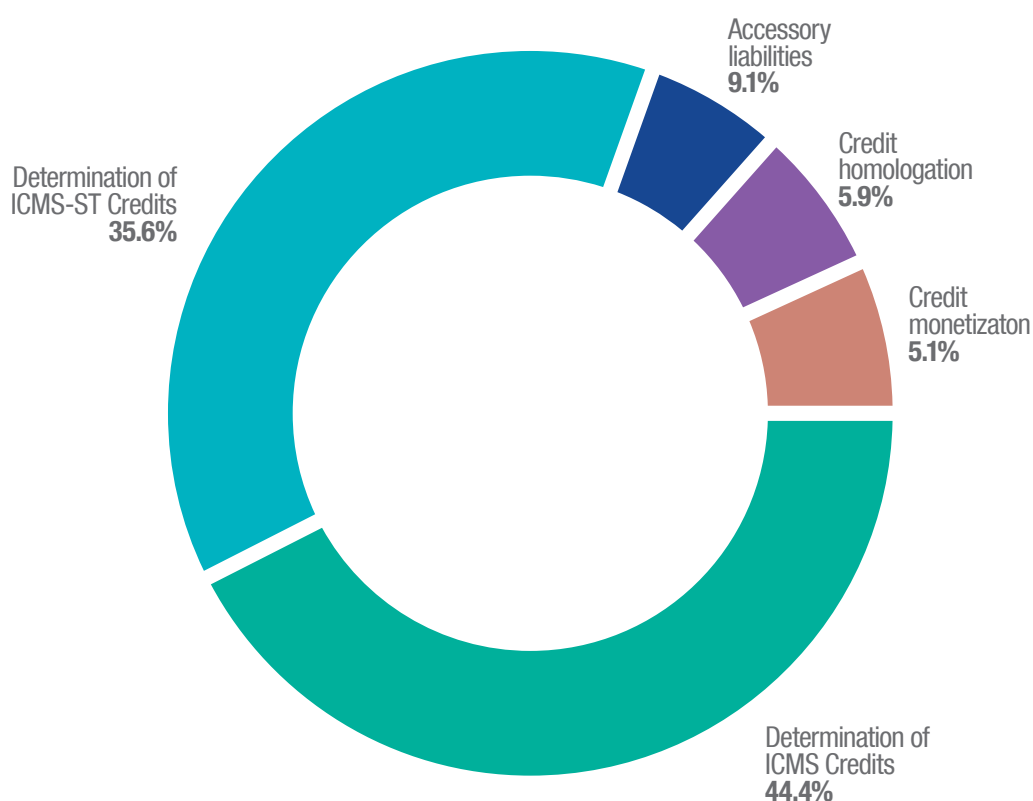


Illustration 12 - ICMS and ICMS-ST accrued credits: Average percentage distribution of the annual hours for determination compliance activities.

With regard to ICMS and ICMS-ST accrued credits, one shall consider the existence of several particularities, such as: a) Segregation between credit balance and accrued credit, which concept may vary from State to State; b) ICMS-ST credit controls by State of destination; c) elaboration and performance of accessory liabilities specific of each State, provided that, many times, there is no

structured process; d) total absence of standardization of procedures among States, combined with the high capillarity of local legislation; among others. All this entails greater detailing of the information provided and difficulty in obtaining the effective return of the credit. This is what can be perceived due to the fact that less than half (44%) of the establishments surveyed that declared they own *ICMS* and *ICMS-ST* accrued credits are able to homologate them and monetize them, which represents 10.9% of the total of establishments that responded the survey.

4.1.5. Special Regimes, Tax Incentives and Industry-Based Controls

The companies surveyed dedicate, on average, per year, per establishment, 900 hours to compliance activities attributed to special regimes, tax incentives and *ICMS* industry-based controls. Of this total of hours, on average, 232 hours are applied for determination procedures, management and control, and 671 hours for the performance of accessory liabilities, as summarized in Illustration 13:

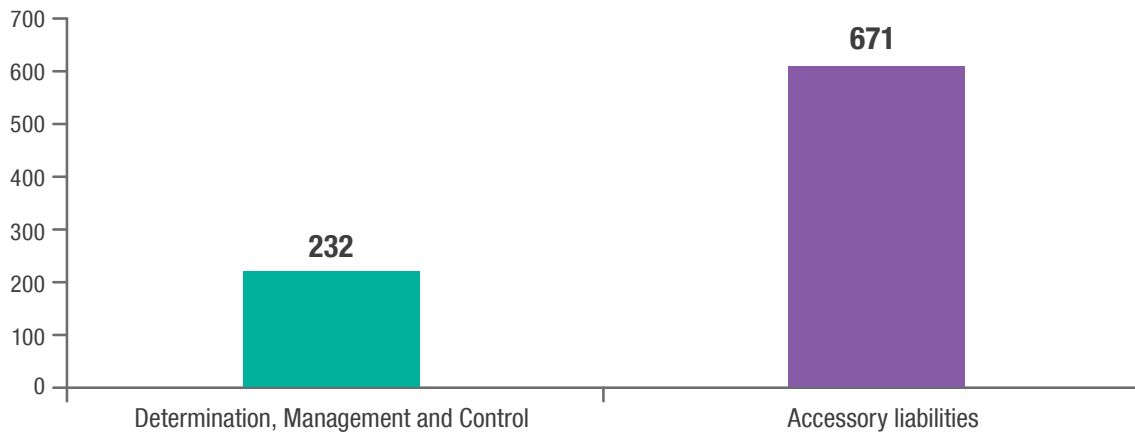


Illustration 13 - Special regimes, tax incentives and *ICMS* industry-based controls: Average annual hours per stage.

Table 4 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to special regimes, tax incentives and *ICMS* industry-based controls, nationwide.

Activity	People involved
Determination, management and control	1.6
Accessory liabilities	1.6

Table 4 - Special regimes, tax incentives and *ICMS* industry-based controls: Average number of people involved per activity.

To allow for a better operation efficiency of enterprises, a number of special regimes shall be obtain, in order to promote greater compliance among certain operations and legislation. These special regimes include the issuance and booking of tax documents, as well as the granting of deferrals, incentives and tax benefits, different forms and terms of collection of the main *ICMS* obligations, among others. Moreover, most special regimes require additional information and controls that go beyond the tax calculation, which may explain the increased demand observed for compliance with related accessory liabilities.

4.2. Findings on State Level

4.2.1. Bahia

4.2.1.1. Sample Characterization

In the State of Bahia, responses were obtained from 15 establishments, which are distributed among the economic segments as shown in Illustration 14.

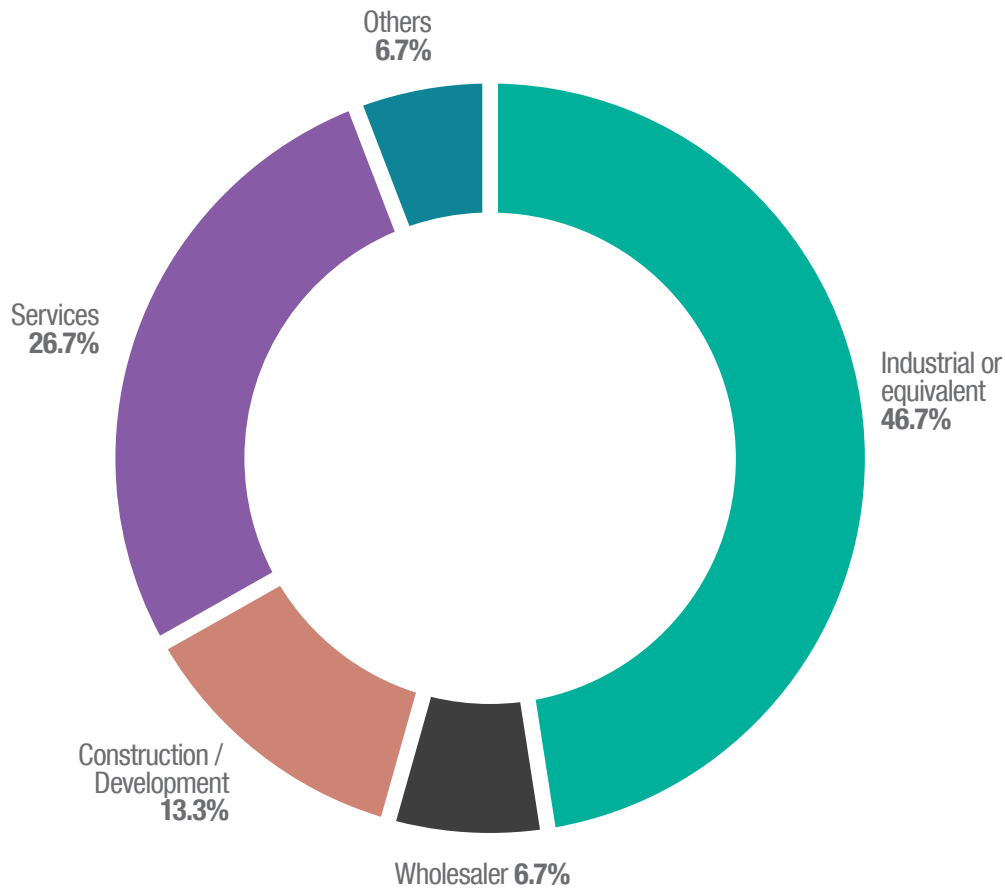


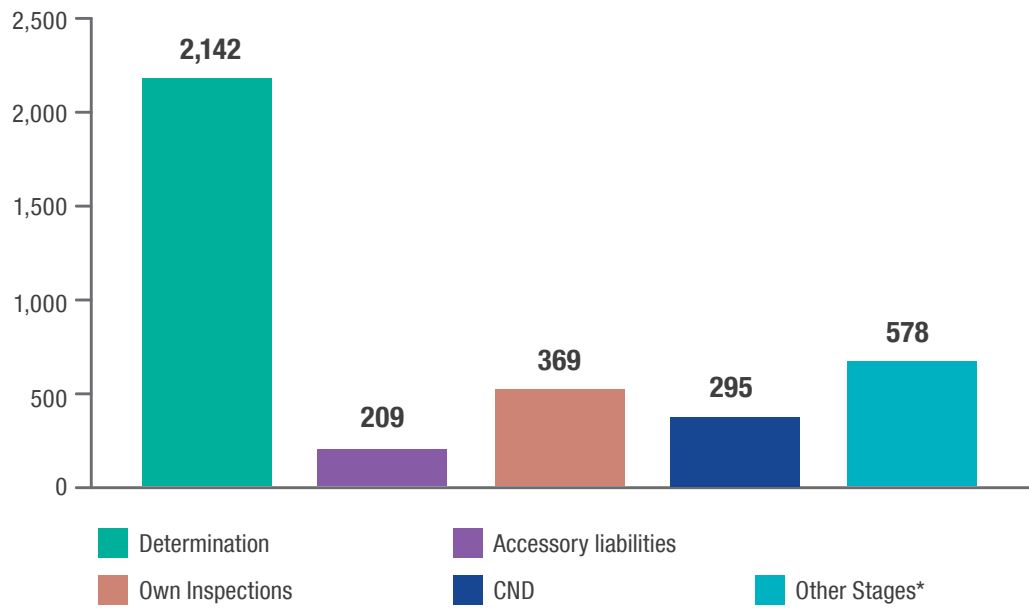
Illustration 14 - Bahia: Economic segments of the establishments surveyed.

4.2.1.2. General Findings

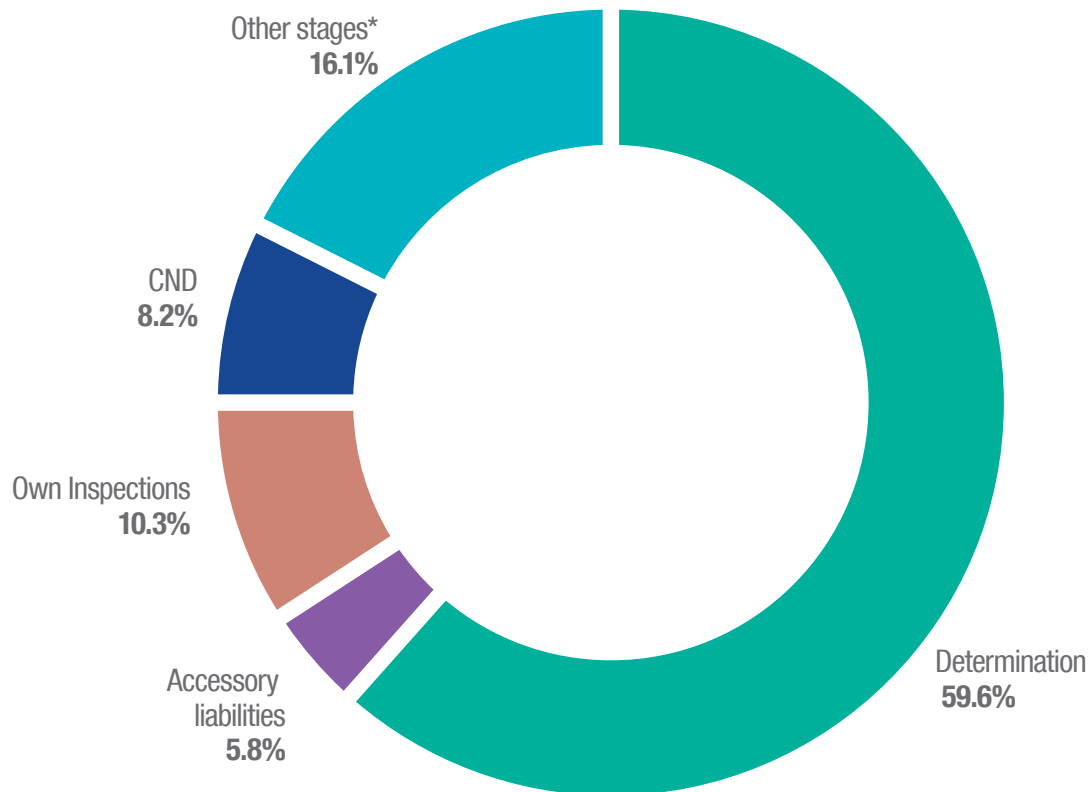
For performance of all tax compliance in the state of Bahia, an establishment of the companies surveyed dedicates, on average, approximately 3.6 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, attainment of CND, compliance with inspections and management of administrative litigation related to state taxes.

4.2.1.3. General Findings per Stage

In the State of Bahia, an establishment of the business groups surveyed incurs, on average, 2,142 hours per year to determine taxes, 209 hours to prepare and perform ancillary liabilities, 369 hours to carry out own inspections, 295 hours to attain CND, as shown in illustrations 15 and 16.



*It includes the steps of third party inspection and administrative litigation
 Illustration 15 - Bahia: Average annual hours per stage.



*It includes the steps of third party inspection and administrative litigation
 Illustration 16 - Bahia: Average percentage distribution of the annual hours by stage.

Based on the findings above, we can conclude that, in the State of Bahia, the stage

that demands most time from the companies surveyed is that of determination of taxes, followed by own inspections.

The significant number of hours spent in own inspections can be attributed to the fact that, although accessory liabilities present a high level of information provided substantially electronically, an additional effort is still required to comply with supplementary requests (Information, calculation logs, reconciliations, specific statements etc.) required on-site by tax agents.

As regards attainment of CND, the result indicates potential absence of information integration between the State Treasury Attorney and the Treasury Department, requirement of additional effort on the part of the taxpayers to prove the tax regularity or also presentation of guarantees for the suspension of the tax credit requirement.

Table 5 shows the average number of people involved, without exclusive dedication, in the activities of performance of inspections and attainment of CND, in the State of Bahia.

Activity	People involved
Own inspections	1.8
CND	1.4

Table 5 - Bahia: Average number of people involved in the activities to carry out own inspections and obtaining CND.

4.2.1.4. ICMS and ICMS-ST

In the State of Bahia, the companies surveyed incurred, on average, per year, per establishment, approximately 1.5 thousand hours for ICMS and ICMS-ST tax compliance. Of this total of hours, on average, 1.2 thousand hours are applied for determination procedures, provided that 1,095 hours are dedicated to the determination of ICMS and 204 hours for the performance of accessory liabilities as shown in illustration 17:

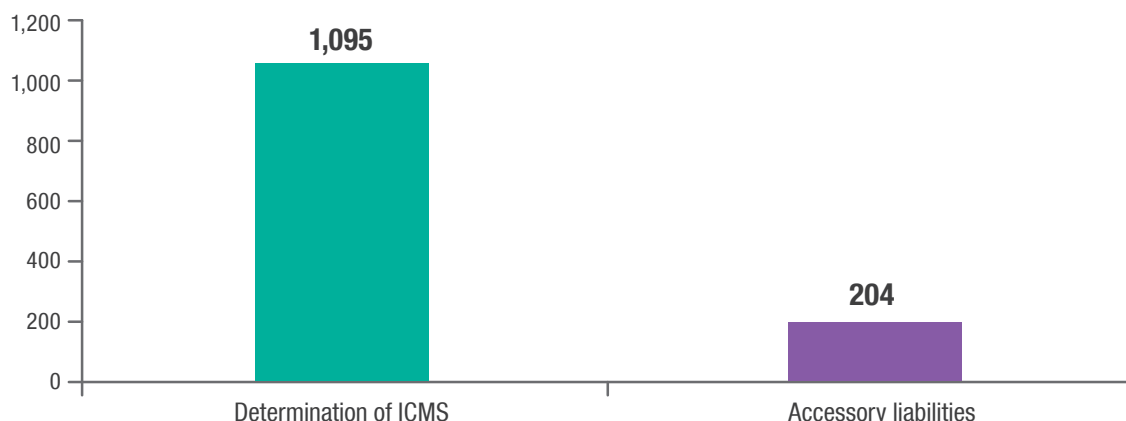
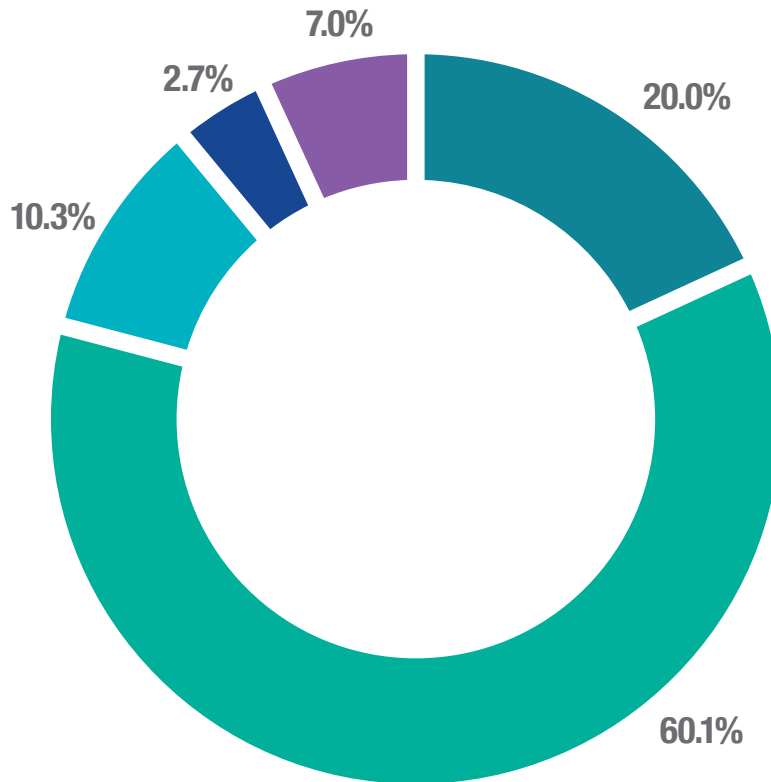


Illustration 17 - ICMS and ICMS-ST: Average annual hours per stage.

This result shows that, in the State of Bahia, the ICMS determination stage requires more time from companies than other compliance activities related to state taxes.

Determination

The high amount of time demanded from companies for the *ICMS* determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents management of auxiliary controls, among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, obtaining the data that can be observed in Illustration 18.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: CIAP).
- Other determination-related activities.

Illustration 18 - Bahia – ICMS: Average percentage distribution of the annual hours for determination.

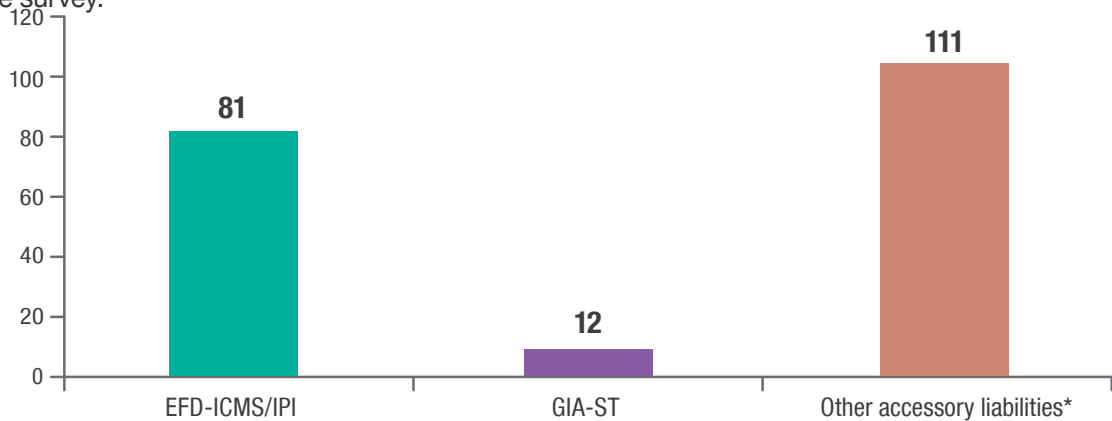
Illustration 18 shows that the share related to the calculation and determination of the tax represented 60.1% (*ICMS*) of the total time of the process of determination of own *ICMS* tax. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; bookkeeping; *ICMS* calculation; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments using form or in graphic account, such as distinguished tax rates, chargebacks, advanced *ICMS* etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and assessment of impact on business, such as the inclusion or removal of products from the *ICMS* tax substitution

regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 20% of the total hours incurred.

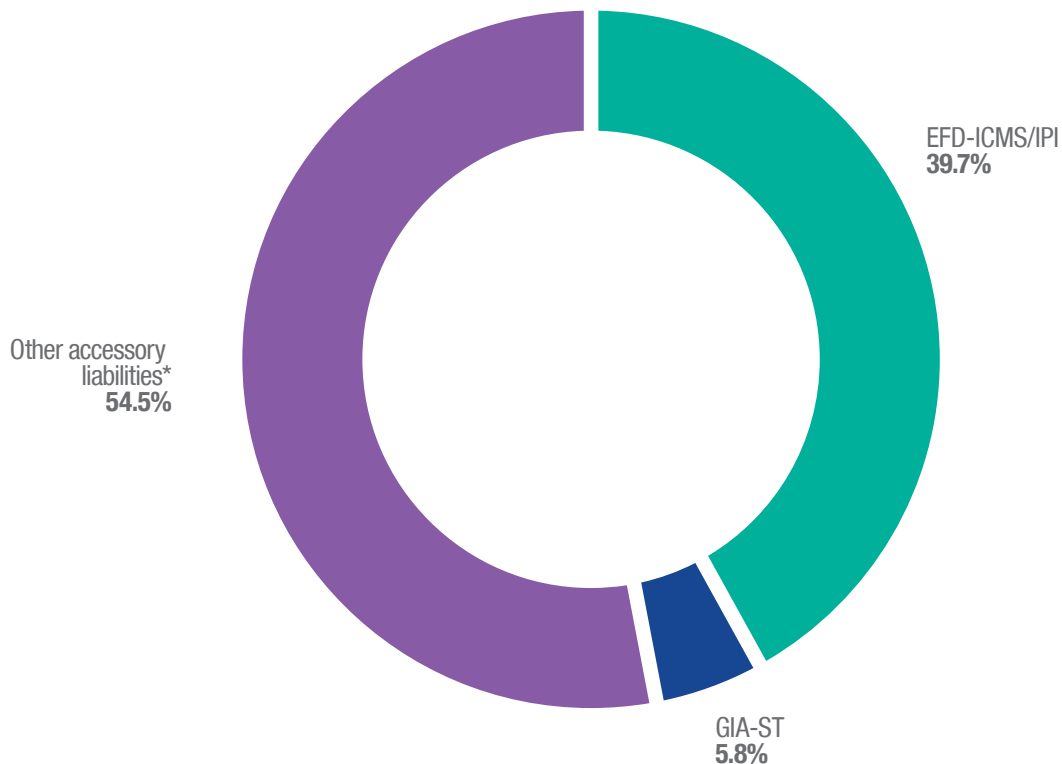
Accessory liabilities

Regarding preparation and performance of the *ICMS* and *ICMS-ST* accessory liabilities in the State of Bahia, according to the answers available, the companies surveyed devote, on average, 204 hours per year. Illustrations 19 and 20 show the average amount of annual hours incurred by each accessory liability applicable in the State of Bahia and which was the subject matter of the survey.



* Monthly Statement and Determination of *ICMS* (DMA), DMA Supplemental Certificate (CS-DMA), FCI and Declaration of the Movement of Products with Deferred *ICMS* (DMD).

Illustration 19 - *ICMS* and *ICMS-ST*: Average annual hours per accessory liability.



* DMA, CS-DMA, FCI and DMD.

Illustration 20 - Bahia: Average annual percentage distribution of hours per accessory liability.

Notwithstanding the fact that the State of Bahia has a high level of diversification of industrial activities, the results presented are slightly below the national average.

With regard to the EFD-ICMS/IPI, it was evidenced that an establishment of the companies surveyed dedicates, on average, 81 hours to its preparation, which shows less time spent compared to the other accessory liabilities of the State. Even so, according to our survey, 99% of the information contained in the DMA and 81% of the information contained in the DMD are already included in the EFD-ICMS/IPI records.

Information on the level of compliance of GIA-ST and FCI to EFD-ICMS/IPI is provided in section 4.1.3 of this survey.

Causes

According to the respondents, the main difficulties faced by taxpayers in the entire compliance process related to ICMS and ICMS-ST in the State of Bahia are the obstacles to the adaptation and adequacy of systems, as well as the great volume of information of accessory liabilities, as shown in the table below.

Ranking	Causes	Average Classification*
1 st	Adaptation and adequacy of systems	5.27
2 nd	Liabilities with large volume of information	5.20
3 rd	Complexity of accessory liabilities	4.47
4 th	Complexity of internal procedures and controls	3.67
5 th	Complexity of legislation	3.53
6 th	Large number of returns with a same submission date	3.00
7 th	Short time frame between preparation and submission	2.87

*Scale of difficulty from 1 to 7.

Table 6 - ICMS and ICMS-ST: Main causes that hinder the compliance process.

Number of people involved

Table 7 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to ICMS and ICMS-ST, in the State of Bahia.

Activity	People involved
<i>Determination</i>	
ICMS	6.9
<i>Accessory liabilities</i>	
EFD-ICMS/IPI	1.5

Table 7 - ICMS and ICMS-ST: Average number of people involved per activity.

4.2.1.5. ICMS and ICMS-ST Accrued Credits

As regards the *ICMS* and *ICMS-ST* credits accrued in the State of Bahia, it is possible to infer that, from preparation of information to actual monetization, the process is limited, mostly because of lack of a structured procedure and the need to provide information and deliver documentation upon request of tax authorities.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to *ICMS* and *ICMS-ST* accrued credits in the State of Bahia are the obstacles for adaptation and adequacy of systems, followed by the complexity and large volume of information of the accessory liabilities, as shown in Table 8.

Ranking	Causes	Average Classification*
1 st	Adaptation and adequacy of systems	4.60
2 nd	Complexity of accessory liabilities Liabilities with large volume of information	4.40 4.40
3 rd	Complexity of legislation Complexity of internal procedures and controls	4.00 4.00
4 th	Large number of returns with a same submission date	3.40
5 th	Short time frame between preparation and submission	3.20

*Scale of difficulty from 1 to 7.

Table 8 - *ICMS* and *ICMS-ST* accrued credits: Main causes that hinder the compliance process.

4.2.1.6. Special Regimes, Tax Incentives and Industry-Based Controls

Concerning the special regimes, tax incentives and industrial-based controls in the State of Bahia, it is possible to infer that, in order to allow for a better operating efficiency of the companies, it is usually necessary to obtain a variety of special regimes, in order to promote greater compliance among certain operations and the legislation, which include issuance and bookkeeping of tax documents, granting deferrals, incentives and tax benefits, different forms and terms of collection of the main *ICMS* obligations, among others. Moreover, most special regimes require additional information and additional controls that go beyond the tax determination.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to *ICMS* regimes, tax incentives and industry-based controls in the State of Bahia are the large volume of information of the accessory liabilities, the complexity of the legislation and the complexity of internal procedures and controls, as shown in Table 9.

Ranking	Causes	Average Classification*
1 st	Liabilities with large volume of information	4.80
2 nd	Complexity of legislation	4.50
3 rd	Complexity of internal procedures and controls	4.40
4 th	Adaptation and adjustment of systems	4.10
5 th	Complexity of accessory liabilities	3.70
6 th	Short time frame between preparation and submission	3.40
7 th	Large number of returns with a same submission date	3.10

*Scale of difficulty from 1 to 7.

Table 9 - Special regimes, tax incentives and *ICMS* industry-based controls: Main causes that hinder the compliance process.

4.2.1.7. General Remarks and Possible Opportunities

From the comparative analysis, it was verified that almost all the indicators of the State of Bahia are within or slightly below the national average.

With regard to the opportunities identified, one can highlight: As regards DMA and DMD, the high level of compliance to EFD-ICMS/IPI (99% and 81%, respectively) suggests that such accessory liabilities can be discontinued. As for the process of monetization of accrued credits, considering that, from the preparation of information to the effective conclusion thereof, the process is restrictive, there is a window of opportunity for the process to be simplified and start to use the information existing in the EFD-ICMS/IPI.

4.2.2. Goiás

4.2.2.1. Sample Characterization

In the State of Goiás, responses were obtained from 19 establishments, which are distributed among the economic segments as shown in Illustration 21.

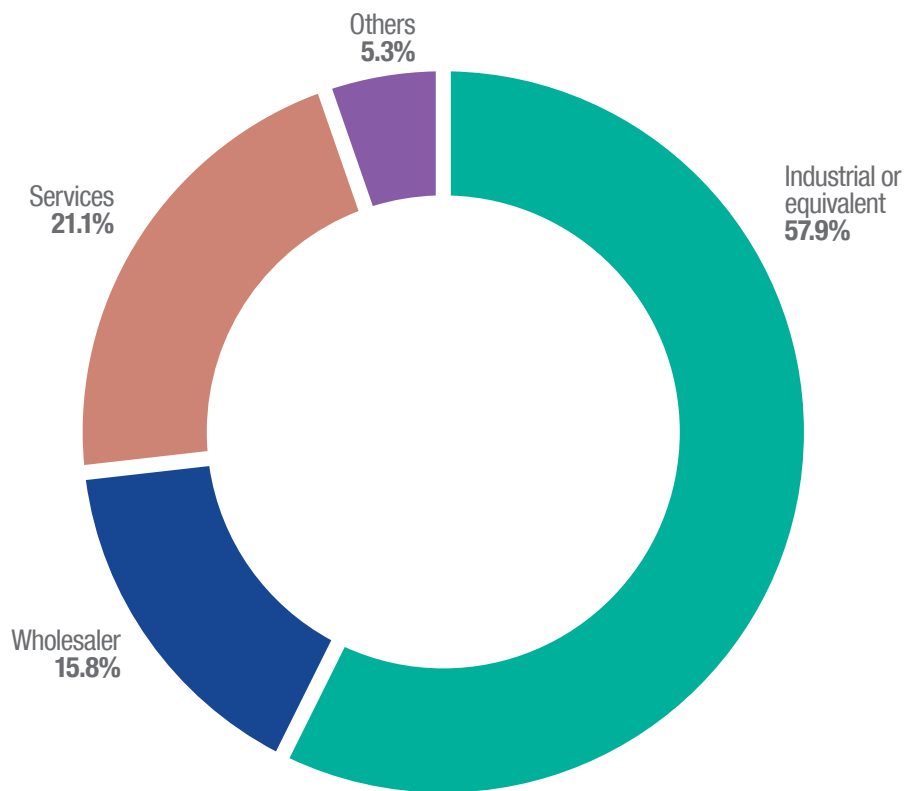


Illustration 21 - Goiás: Economic segments of the establishments surveyed.

4.2.2.2. General Findings

For performance of all tax compliance in the state of Goiás, an establishment of the companies surveyed dedicates, on average, approximately 2.7 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, attainment of CND, compliance with inspections and management of administrative litigation related to state taxes.

4.2.2.3. General Findings per Stage

In the State of Goiás, an establishment of the business companies surveyed incur on average, 1,507 hours per year to determine taxes, 318 hours for preparation and performance of accessory liabilities, 345 hours to carry out own inspections, 181 hours to carry out third party inspections, 135 for the management of administrative litigation and, 233 hours to attain CND, as shown in illustrations 22 and 23:

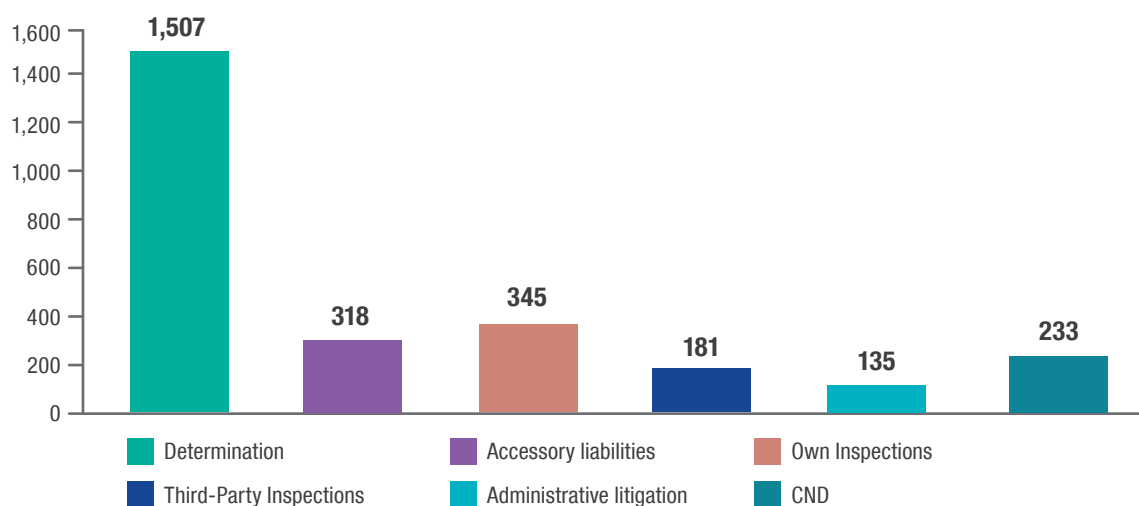


Illustration 22 - Goiás: Average annual hours per stage.

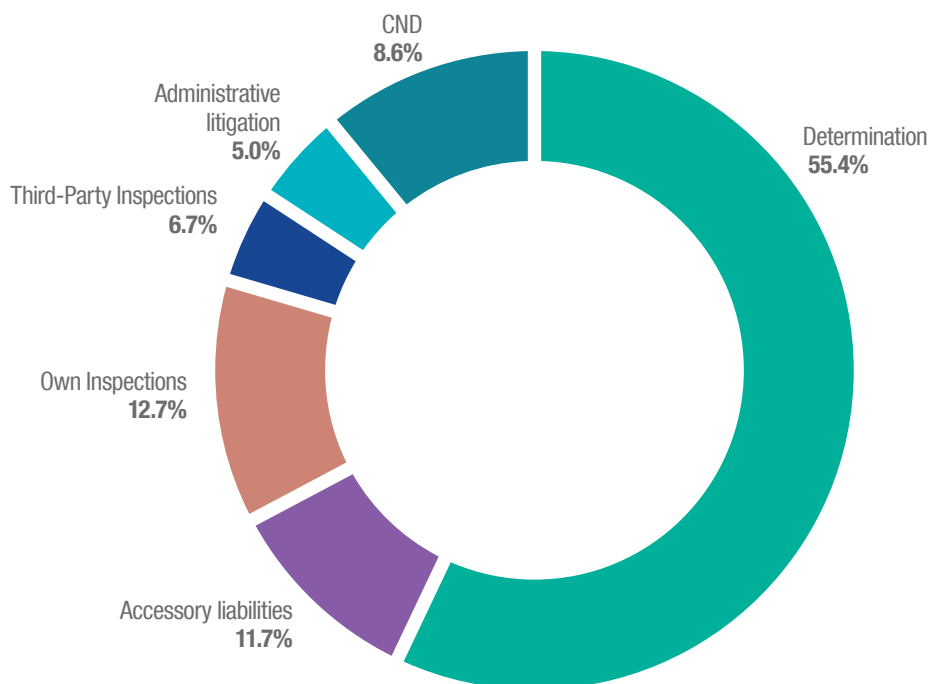


Illustration 23 - Goiás: Average percentage distribution of the annual hours by stage.

Based on the findings above, we can conclude that, in the State of Goiás, the stage that demands most time from the companies surveyed is that of determination of taxes, followed by own inspections and the preparation of accessory liabilities.

The significant number of hours spent in own inspections can be attributed to the fact that, although accessory liabilities present a high level of information provided substantially electronically, an additional effort is still required to comply with supplementary requests (information, calculation logs, reconciliations, specific statements etc.) required on-site by tax agents.

With regard to administrative litigation, the high number of hours presented reflects the complexity of the management of the infraction notices, which ranges from hiring law firms, to the preparation of technical reports, auxiliary controls, attachment of tax documents and all subsidies required to support the administrative defense.

As regards obtaining the CND, the result indicates a potential improvement in the information integration process between the State Treasury Attorney and the Treasury Department. Nonetheless, an additional effort is still required on the part of taxpayers to prove tax regularity or provide guarantees for the suspension of tax liability.

Table 10 shows the average number of people involved, without exclusive dedication, by establishment, in the activities intended to carry out own and third-party inspections, management of administrative litigation and obtaining CND, in the State of Goiás:

Activity	People involved
Own Inspections	2.8
Third-Party Inspections	2.6
Administrative litigation	2.6
CND	2.1

Table 10 - Goiás: Average number of people involved in the activities intended to carry out own and third-party inspections, management of administrative litigation and obtaining CND.

4.2.2.4. ICMS and ICMS-ST

In the State of Goiás, the companies surveyed incurred, on average, per year, per establishment, approximately 1.4 thousand hours for ICMS and ICMS-ST tax compliance. Of this total of hours, on average, 1.1 thousand hours are applied for determination procedures, provided that 886 hours are dedicated to the determination of ICMS and 161 hours for the performance of accessory liabilities as shown in illustration 24:

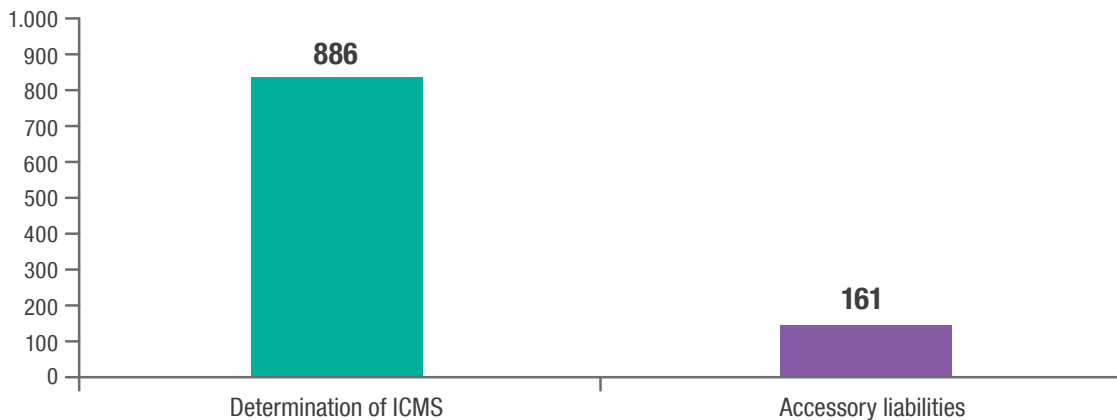
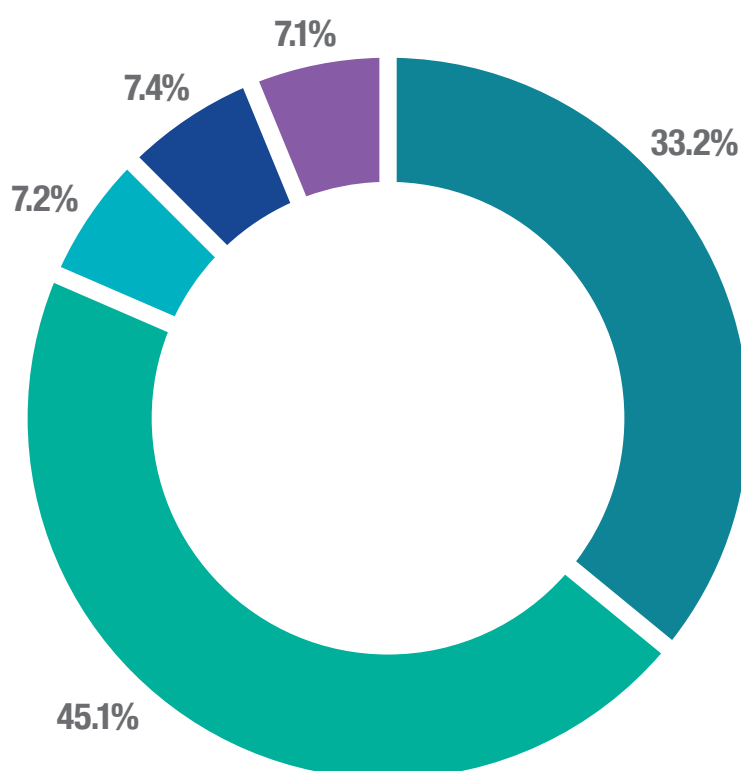


Illustration 24 - ICMS and ICMS-ST: Average annual hours per stage.

This result shows that, in the State of Goiás, the *ICMS* determination stage requires more time from companies than other compliance activities related to state taxes.

Determination

The high amount of time demanded from companies for the *ICMS* determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents management of auxiliary controls, among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, obtaining the data that can be observed in Illustration 25.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: CIAP).
- Other determination-related activities.

Illustration 25 – Goiás – *ICMS*: Average percentage distribution of the annual hours for determination.

Illustration 25 shows that the share related to the calculation and determination of the tax represented 45.1% of the total time of the process of *ICMS* determination. It

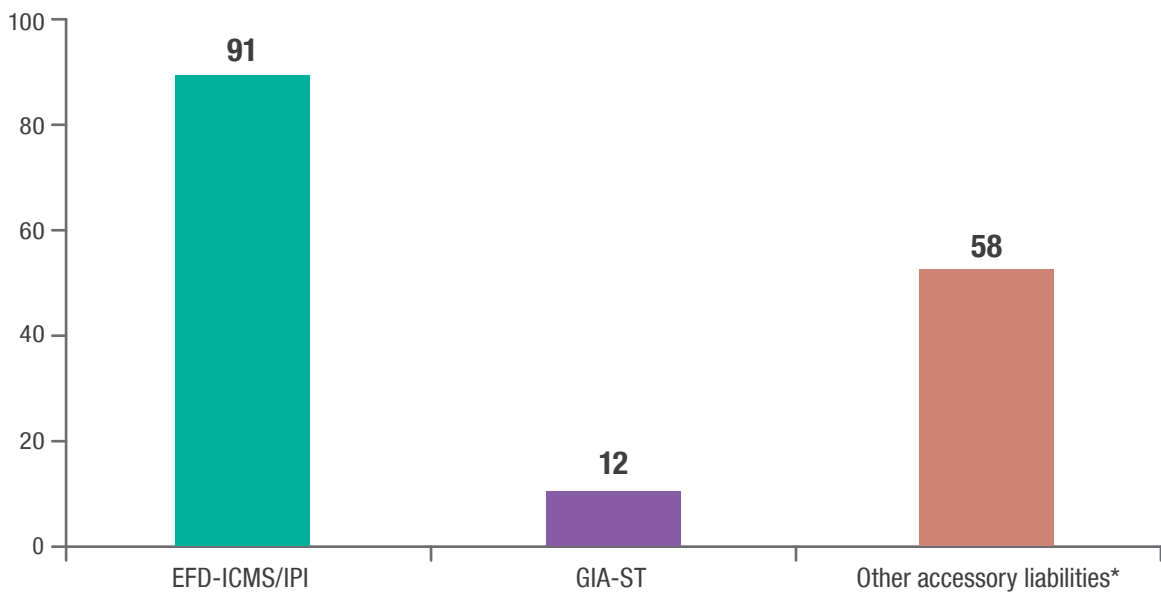
is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; bookkeeping; *ICMS* calculation; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments in graphic account, such as distinguished tax rates, chargebacks, etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and assessment of impact on business, such as the inclusion or removal of products from the *ICMS* tax substitution regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 33.2% (*ICMS*) of the total hours incurred.

In addition to the activities mentioned above, the survey showed that the amount of time spent with the management of auxiliary controls (CIAP [G-Block of EFD-*ICMS*/IPI], GNRE, *ICMS* in advance, among others) is also relevant. This is due to the fact that these tax controls require from the companies peculiar rules of determination, which require a greater amount of data and documentation to be captured for the calculation to be carried out, and further require, for the operation thereof, a greater degree of specialization of the professionals involved.

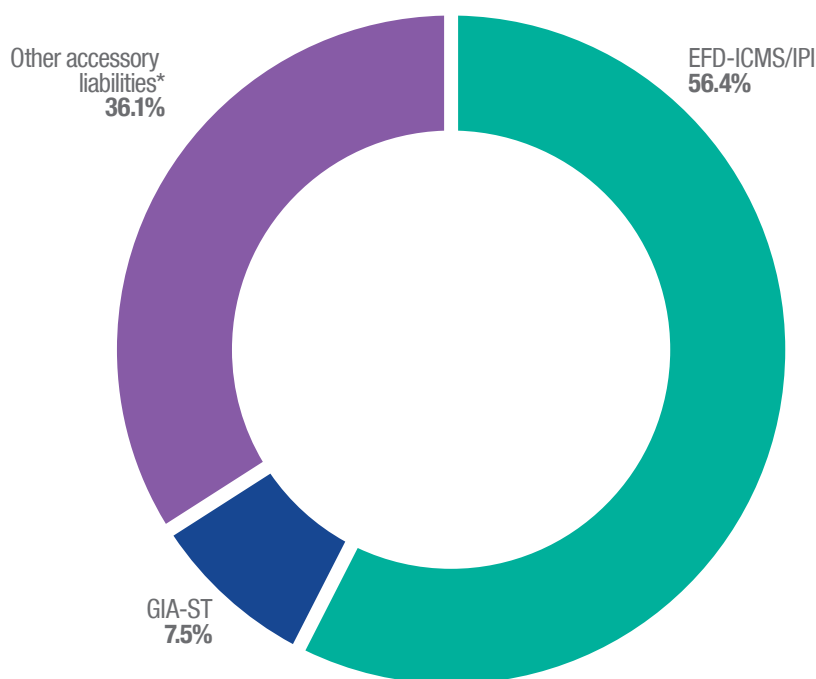
Accessory liabilities

Regarding the preparation and performance of the *ICMS* and *ICMS*-ST accessory liabilities in the State of Goiás, according to the answers available, the companies surveyed devote, on average, 161 hours per year. Illustrations 26 and 27 show the average amount of annual hours incurred by each accessory liability applicable in the State of Goiás and which was the subject matter of the survey.



* FCI, Information Guide on Interstate Operations and Services (GI/*ICMS*).

Illustration 26 – Goiás - *ICMS* and *ICMS*-ST: Average annual hours per accessory liability.



* FCI, GI//ICMS.

Illustration 27 - Goiás: Average annual percentage distribution of hours per accessory liability

Notwithstanding the fact that the State of Goiás has a high level of diversification of industrial activities, the results presented are slightly below the national average.

The justification for the greater number of hours incurred in completing the EFD-ICMS/IPI, when compared to the other accessory liabilities of the State, is that EFD-ICMS/IPI requires a much greater level of details of the information. This can be observed by confirming that, according to our analyzes, 100% of the information contained in the GI/ICMS is already included in the EFD-ICMS/IPI records, and the State of Goiás has revoked the Declaration of Periodic Information (DPI) since 2011.

Information on the level of compliance of GIA-ST and FCI to EFD-ICMS/IPI is provided in section 4.1.3 of this survey.

Causes

According to the respondents, the main difficulties faced by taxpayers in the entire compliance process with relation to ICMS and ICMS-ST in the State of Goiás are the large volume of information required in accessory liabilities and the obstacles to the adaptation and adequacy of systems, as shown in the table below.

Ranking	Causes	Average Classification*
1 st	Liabilities with large volume of information	4.58
2 nd	Adaptation and adequacy of systems	4.32
3 rd	Complexity of accessory liabilities	4.00
4 st	Short time frame between preparation and submission	3.89
5 st	Complexity of legislation	3.79
6 st	Complexity of internal procedures and controls	3.74
7 st	Large number of returns with a same submission date	3.68

*Scale of difficulty from 1 to 7.

Table 11 – Goiás - ICMS and ICMS-ST: Main causes that hinder the compliance process.

Number of people involved

Table 12 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to *ICMS* and *ICMS-ST*, in the State of Goiás.

Activity	People involved
<i>Determination</i>	
ICMS	3.4
<i>Accessory liabilities</i>	
EFD-ICMS/IPI	1.4

Table 12 – Goiás - *ICMS* and *ICMS-ST*: Average number of people involved per activity.

4.2.2.5. *ICMS* and *ICMS-ST* Accrued Credits

As regards the *ICMS* and *ICMS-ST* credits accrued in the State of Goiás, it is possible to infer that, from preparation of information to actual monetization, the process is limited, mostly because of lack of a structured procedure and the need to provide information and deliver documentation upon request of tax authorities.

Causes

According to the respondents, the causes that most complicate the compliance process in relation to *ICMS* and *ICMS-ST* accrued credits in the State of Goiás are the complexity of accessory liabilities and the obstacles for adaptation and adequacy of systems, followed by the complexity of the legislation, as shown in Table 13.

Ranking	Causes	Average Classification*
1 st	Complexity of accessory liabilities	4.37
	Adaptation and adequacy of systems	4.37
2 nd	Complexity of legislation	4.16
3 rd	Short time frame between preparation and submission	3.89
4 st	Liabilities with large volume of information	3.79
5 st	Complexity of internal procedures and controls	3.74
6 st	Large number of returns with a same submission date	3.68

*Scale of difficulty from 1 to 7.

Table 13 – Goiás - *ICMS* and *ICMS-ST* accrued credits: Main causes that hinder the compliance process.

4.2.2.6. Special Regimes, Tax Incentives and Industry-Based Controls

Concerning the special regimes, tax incentives and industry-based controls in the State of Goiás, it is possible to infer that, in order to allow for a better operating efficiency of the companies, it is usually necessary to obtain a variety of special regimes, in order to promote greater compliance among certain operations and the legislation, which include issuance and bookkeeping of tax documents, granting deferrals, incentives and tax benefits, different forms and terms of

collection of the main *ICMS* obligations, among others. Moreover, most special regimes require additional information and additional controls that go beyond the tax determination.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to *ICMS* regimes, tax incentives and industry-based controls in the State of Goiás are the difficulties for adaptation and adequacy of systems and the legislation complexity, as shown in Table 14.

Ranking	Causes	Average Classification*
1 st	Adaptation and adequacy of systems	5.17
2 nd	Complexity of legislation	4.75
3 rd	Liabilities with large volume of information	4.08
4 st	Complexity of internal procedures and controls	3.92
5 st	Short time frame between preparation and submission	3.83
6 st	Large number of returns with a same submission date	3.33
7 st	Complexity of accessory liabilities	2.92

*Scale of difficulty from 1 to 7.

Table 14 – Goiás - Special regimes, tax incentives and *ICMS* industry-based controls: Main causes that hinder the compliance process.

4.2.2.7. General Remarks and Possible Opportunities

From the comparative analysis, it was verified that almost all the indicators of the State of Goiás are within or slightly below the national average.

With regard to the opportunities identified, one can highlight:

- As regards *GI/ICMS*, the high level of compliance to *EFD-ICMS/IPI* (100%) suggests that such accessory liability can be discontinued, similar to what has happened to *DPI* since 2011.
- In comparison with the other States, one notes that the short period between the preparation and delivery of the accessory liabilities had a higher incidence of notes as a cause of difficulty in the compliance process. Thus, the opportunity arises to reassess the reasonableness of the deadlines currently established by the State.
- As for the process of monetization of accrued credits, considering that, from the preparation of information to the effective conclusion thereof, the process is restrictive, there is a window of opportunity for the process to be simplified and start to use the information existing in the *EFD-ICMS/IPI*.

4.2.3. Minas Gerais

4.2.3.1. Sample Characterization

In the State of Minas Gerais, responses were obtained from 32 establishments, which are distributed among the economic segments as shown in Illustration 28.

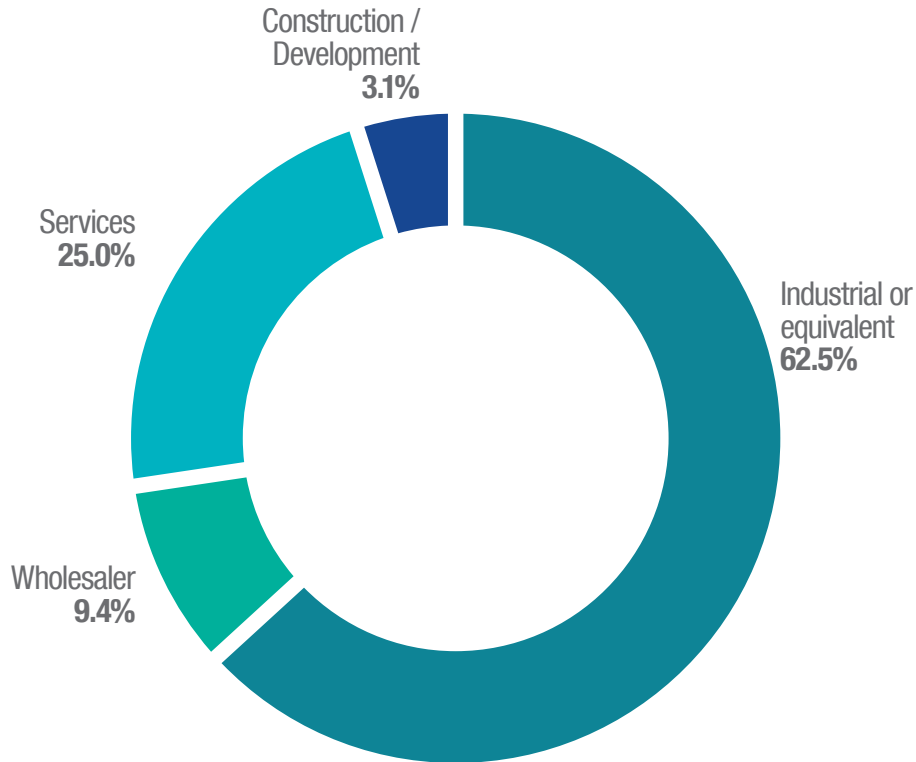


Illustration 28 - Minas Gerais: Economic segments of the establishments surveyed.

4.2.3.2. General Findings

For performance of all tax compliance in the state of Minas Gerais, an establishment of the companies surveyed dedicates, on average, approximately 4.8 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, attainment of CND, compliance with inspections and management of administrative litigation related to state taxes.

4.2.3.3. General Findings per Stage

In the State of Minas Gerais, an establishment of the business companies surveyed incur on average, 3,142 hours per year for the determination of taxes, 663 hours for preparation and performance of accessory liabilities, 374 hours to carry out own inspections, 151 hours to carry out third party inspections, 352 for the management of administrative litigation and, 124 hours to attain CND, as shown in illustrations 29 and 30:

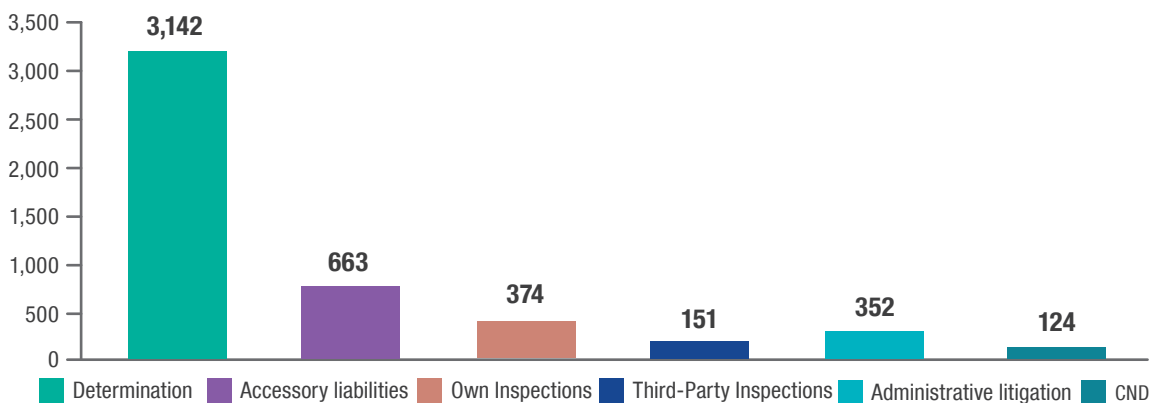


Illustration 29 - Minas Gerais: Average annual hours per stage

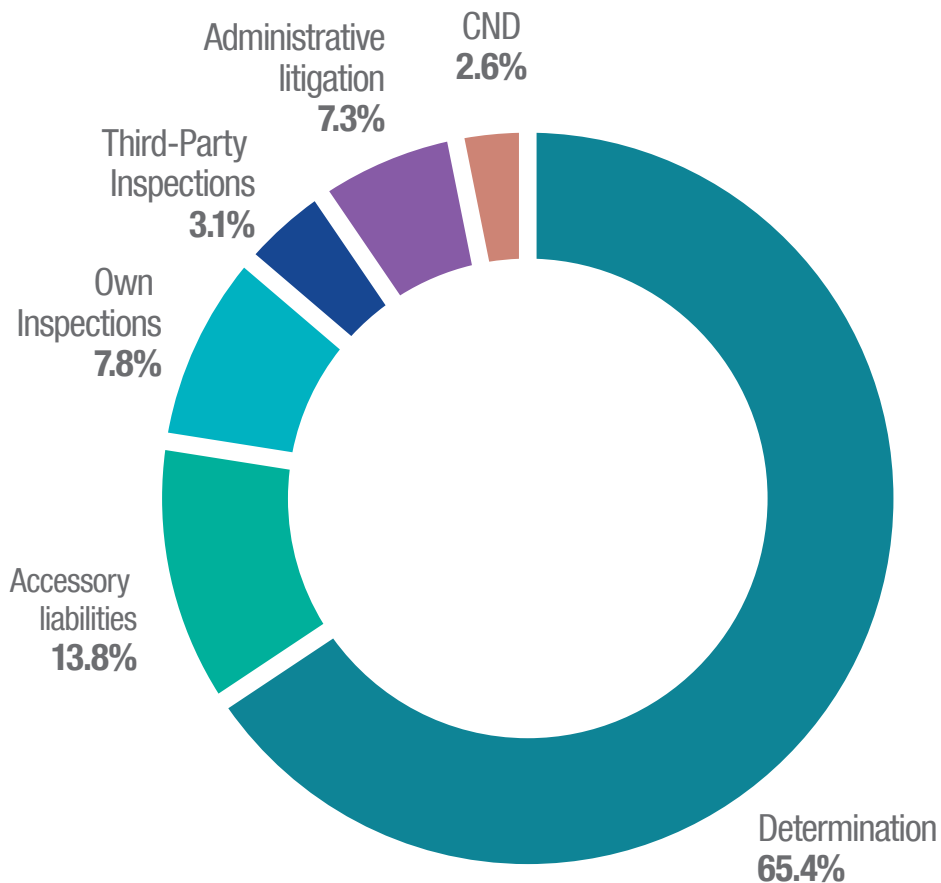


Illustration 30 - Minas Gerais: Average percentage distribution of the annual hours by stage.

Based on the findings above, we can conclude that, in the State of Minas Gerais, the stage that demands most time from the companies surveyed is that of determination, followed by the preparation of accessory liabilities.

The significant number of hours spent in inspections, both own and of third parties can be attributed to the fact that, although accessory liabilities present a high level of information provided substantially electronically, an additional effort is still required to comply with supplementary requests (information, calculation logs, reconciliations, specific statements etc.) required on-site by tax agents.

With regard to administrative litigation, the high number of hours presented reflects the complexity of the management of the infraction notices, which ranges from hiring law firms, to the preparation of technical reports, auxiliary controls, attachment of tax documents and all subsidies required to support the administrative defense.

As regards obtaining the CND, the result indicates a potential improvement in the information integration process between the State Treasury Attorney and the Treasury Department. Nonetheless, an additional effort is still required on the part of taxpayers concerning the proof of tax regularity or to provide guarantees for the suspension of the requirement of tax liability.

Table 15 shows the average number of people involved, without exclusive dedication, in the activities intended to carry out own and third-party inspections,

management of administrative litigation and obtaining CND, in the State of Minas Gerais:

Activity	People involved
Own Inspections	2.1
Third-Party Inspections	1.8
Administrative litigation	2.3
CND	1.8

Table 15 - Minas Gerais: Average number of people involved in the activities intended to carry out own and third-party inspections, management of administrative litigation and obtaining CND.

4.2.3.4. ICMS and ICMS-ST

In the State of Minas Gerais, the companies surveyed incurred, on average, per year, per establishment, approximately 2.3 thousand hours for *ICMS* and *ICMS-ST* tax compliance. Of this total of hours, on average, 1.9 thousand hours are applied for determination procedures, provided that 1,715 hours determination of *ICMS* and 252 for determination of *ICMS-ST*, and 428 hours for the performance of accessory liabilities as shown in illustration 31 below:

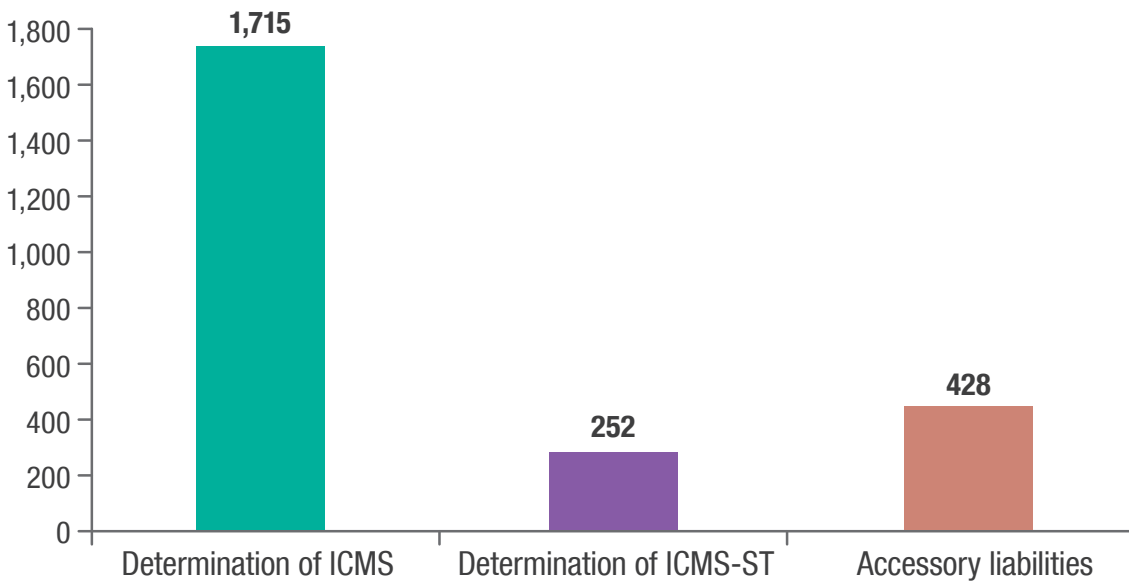
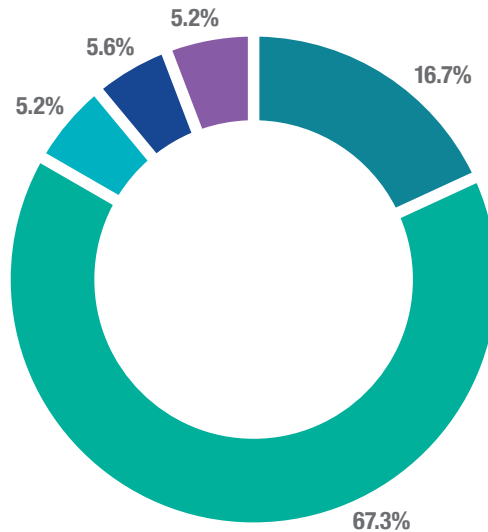


Illustration 31 – Minas Gerais - *ICMS* and *ICMS-ST*: Average annual hours per stage.

This result shows that, in the State of Minas Gerais, the *ICMS* determination stage requires more time from companies than other compliance activities related to state taxes.

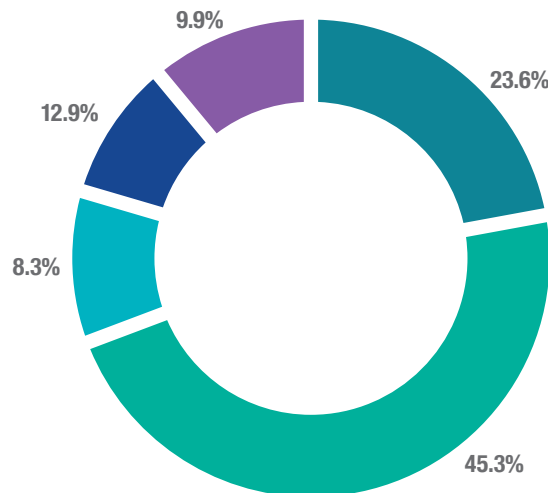
Determination

The high amount of time demanded from companies for the *ICMS* determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents management of auxiliary controls, among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, as can be observed in illustrations 32 and 33.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: CIAP).
- Other determination-related activities.

Illustration 32 - Minas Gerais – ICMS: Average percentage distribution of the annual hours for determination.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: GNRE, ICMS-ST in advance)
- Other determination-related activities.

Illustration 33 - Minas Gerais – ICMS-ST: Average percentage distribution of the annual hours for determination.

Illustrations 32 and 33 show that the share related to the calculation and determination of the tax represented 67.3% (*ICMS*) and 45.3% (*ICMS-ST*) of the total time of the calculation process. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; bookkeeping; *ICMS* calculation; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments in graphic account, such as distinguished tax rates, chargebacks, etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and assessment of impact on business, such as the inclusion or removal of products from the *ICMS* tax substitution regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 16.7% (*ICMS*) and 23.6% (*ICMS-ST*) of the total hours incurred. This significant difference found between the *ICMS* and the *ICMS-ST* is related to the high range of products included in the tax substitution regime in the State of Minas Gerais.

In addition to the activities mentioned above, the survey showed that the amount of time spent with the management of auxiliary controls (CIAP [G-Block of EFD-*ICMS*/IPI], GNRE, management of registrations as a tax substitute in other States, among others) is also relevant. This is due to the fact that these tax controls require from the companies peculiar rules of determination, which require a greater amount of data and documentation to be captured for the calculation to be carried out, and further require, for the operation thereof, a greater degree of specialization of the professionals involved.

Accessory liabilities

Regarding the preparation and performance of the *ICMS* and *ICMS-ST* accessory liabilities in the State of Minas Gerais, according to the answers available, the companies surveyed devote an average of 428 annual hours per year. Illustrations 34 and 35 show the average amount of annual hours incurred by each accessory liability applicable in the State of Minas Gerais that was the object of the survey - in addition to the EFD-*ICMS*/IPI, GIA-ST and FCI, as well as *ICMS* Statement of Determination and Information (DAPI) and the Annual Statement of the Fiscal Economic Movement/Fiscal Added Value (DAMEF-*VAF*).

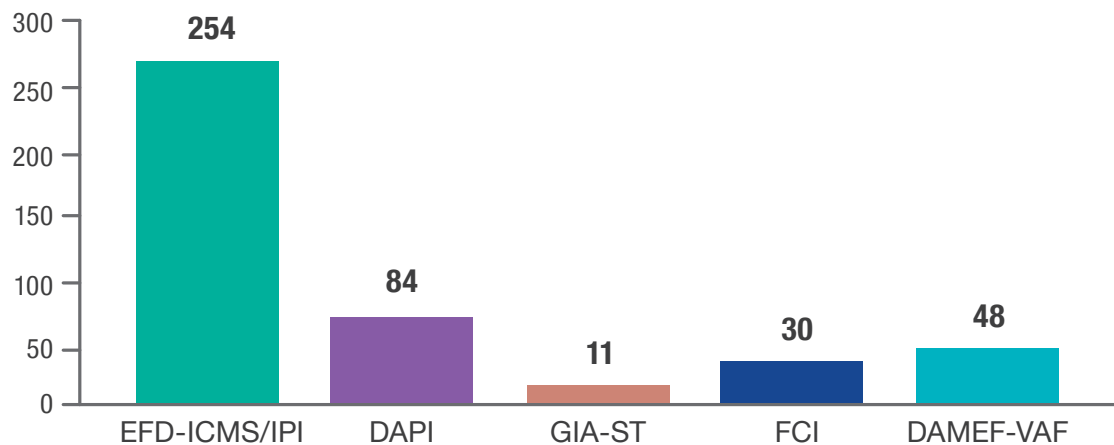


Illustration 34 - *ICMS* and *ICMS-ST*: Average annual hours per accessory liability.

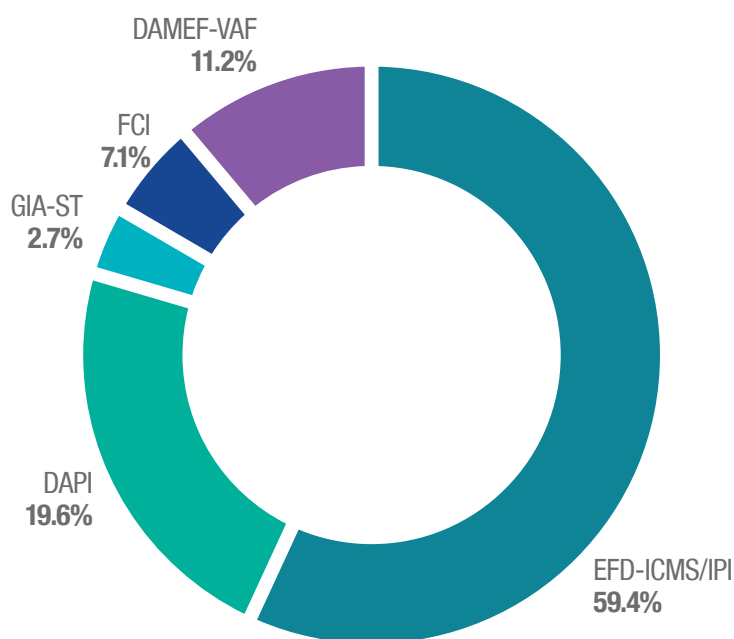


Illustration 35 - Minas Gerais: Average annual percentage distribution of hours per accessory liability.

The results obtained are above the national average. Considering that the State of Minas Gerais presents a high level of diversification of industrial activities, the size of the companies and the complexity of operations demand greater detailing of information to comply with the accessory liabilities, which justifies the amount of hours presented for EFD- ICMS/IPI. Also worth noting the high effort for preparation of DAMEF-VAF, which detailing of information is not usually required by other States.

The justification for the greater number of hours incurred in completing the EFD-ICMS/IPI, when compared to the DAPI, is that the first accessory liability requires a much greater level of details of the information than the second one. According to our analyzes, 88% of the information contained in the DAPI and 43% of the information contained in the DAMEF-VAF are already included in the EFD-ICMS/IPI records.

Information on the level of compliance of GIA-ST and FCI to EFD-ICMS/IPI is provided in section 4.1.3 of this survey.

Causes

According to the respondents, the main difficulties faced by taxpayers in the entire compliance process related to ICMS and ICMS-ST in the State of Minas Gerais are the complexity of accessory liabilities and the obstacles to the adaptation and adequacy of systems. Also noteworthy are the complexity of the legislation and the large volume of information required in the accessory liabilities.

Ranking	Causes	Average Classification*
1 st	Complexity of accessory liabilities	4.48
2 nd	Adaptation and adequacy of systems	4.45
3 rd	Complexity of legislation	4.29
4 st	Liabilities with large volume of information	4.26
5 st	Short time frame between preparation and submission	3.58
6 st	Complexity of internal procedures and controls	3.55
7 st	Large number of returns with a same submission date	3.39

*Scale of difficulty from 1 to 7.

Table 16 - Minas Gerais – ICMS and ICMS-ST: Main causes that hinder the compliance process.

Number of people involved

Table 17 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to *ICMS* and *ICMS-ST*, in the State of Minas Gerais.

Activity	People involved
<i>Determination</i>	
ICMS	4.9
ICMS-ST	1.8
<i>Accessory liabilities</i>	
EFD-ICMS/IPI	1.4
DAPI	1.3
FCI	1.1
DAMEF-VAF	1.3

Table 17 - Minas Gerais – *ICMS* and *ICMS-ST*: Average number of people involved per activity.

4.2.3.5. *ICMS* and *ICMS-ST* Accrued Credits

The companies surveyed incurred, on average, per year, per establishment, 949 hours and 1.6 people for the compliance related to *ICMS* and *ICMS-ST* accrued credits in the State of Minas Gerais. As can be seen in Illustration 36, this total is distributed among the activities of determination of accrued credits, preparation and delivery of accessory liabilities for accrued credits, homologation and monetization of credits.

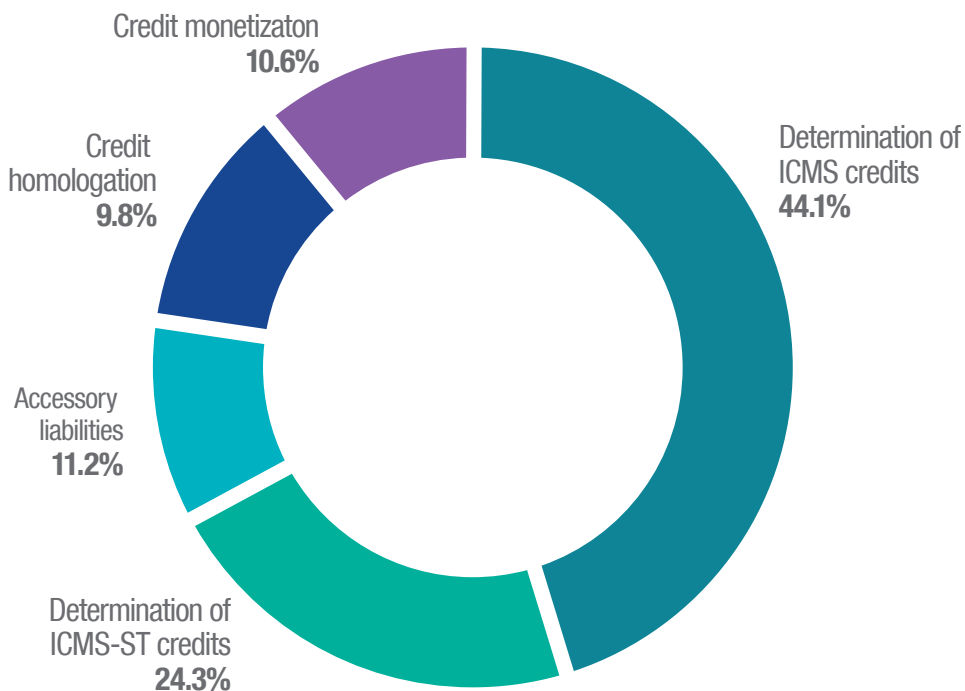


Illustration 36 - Minas Gerais - *ICMS* and *ICMS-ST* accrued credits: Average percentage distribution of the annual hours for compliance activities.

The analysis of the graph above shows that more than 60% of the time spent refers to the determination of *ICMS* or *ICMS-ST* credit balances to convert them into credits subject to monetization. Moreover, approximately 20% of the hours are dedicated to the generation of the controls and documentation required by the tax authorities, as well as the homologation by the tax authorities.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to *ICMS* and *ICMS-ST* accrued credits in the State of Minas Gerais are the obstacles for adaptation and adequacy of systems, followed by the large volume of information of the accessory liabilities, as shown in Table 18.

Ranking	Causes	Average Classification*
1 st	Adaptation and adequacy of systems	4.74
2 nd	Liabilities with large volume of information	4.65
3 rd	Complexity of internal procedures and controls	4.16
4 st	Complexity of accessory liabilities	4.03
5 st	Complexity of legislation	3.90
6 st	Short time frame between preparation and submission	3.58
7 st	Large number of returns with a same submission date	2.94

*Scale of difficulty from 1 to 7.

Table 18 - Minas Gerais - *ICMS* and *ICMS-ST* accrued credits: Main causes that hinder the compliance process.

Given the results presented, one concludes that, from the preparation of the information to the effective monetization thereof, the process is quite restrictive and demands a high effort of the professionals of the fiscal area to produce the information required. Such effort derives, mainly, from the absence of a structured procedure and the need to provide information and delivery of documentation upon demand of the tax authorities.

4.2.3.6. Special Regimes, Tax Incentives and Industry-Based Controls

The companies surveyed dedicate, on average, per year, per establishment, 330 hours to compliance activities attributed to special regimes, tax incentives and *ICMS* industry-based controls in the State of Minas Gerais. Of this total of hours, on average, 209 hours are applied for determination procedures, management and control, and 124 hours for the performance of accessory liabilities, as summarized in Illustration 37:

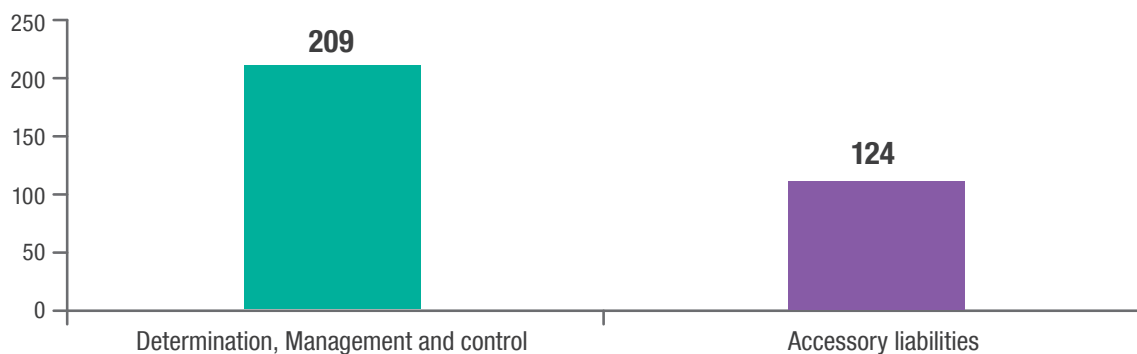


Illustration 37 - Minas Gerais – Special regimes, tax incentives and *ICMS* industry-based controls: Average annual hours per stage.

From the analysis of the graph above, one can infer that the compliance stages related to specific special regimes, tax incentives and industry-based controls require approximately 7% of the time incurred for all tax compliance in the State of Minas Gerais.

This effort may be related to the special regimes, which require additional information and controls for the fulfillment thereof, which go beyond the determination of the tax.

Causes

According to the respondents, the causes that most complicate the compliance process in relation to special regimes, tax incentives and *ICMS* industry-based controls in the State of Minas Gerais are the large volume of information required in the accessory liabilities, as well as the complexity thereof as shown in Table 19.

Ranking	Causes	Average Classification*
1 st	Liabilities with large volume of information	5.06
2 nd	Complexity of accessory liabilities	4.63
3 rd	Adaptation and adequacy of systems	4.13
4 st	Complexity of legislation	3.88
5 st	Short time frame between preparation and submission	3.88
6 st	Large number of returns with a same submission date	3.44
7 st	Complexity of internal procedures and controls	3.00

*Scale of difficulty from 1 to 7.

Table 19 - Minas Gerais – Special regimes, tax incentives and *ICMS* industry-based controls: Main causes that hinder the compliance process.

Number of people involved

Table 20 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to special regimes, tax incentives and *ICMS* industry-based controls, in the State of Minas Gerais.

Activity	People involved
Determination, management and control	1.5
Accessory liabilities	1.2

Table 20 - Minas Gerais – Special regimes, tax incentives and *ICMS* industry-based controls: Average number of people involved per activity.

4.2.3.7. General Remarks and Possible Opportunities

By comparative analysis of the averages of the State of Minas Gerais in relation to the national averages, it was verified that:

- The number of hours spent per year both for determination of *ICMS* and *ICMS-ST* (approximately 2 thousand hours) and for the preparation of accessory liabilities related to *ICMS* and *ICMS-ST* in the State of Minas Gerais (428 hours) is substantially higher than the national average (1,501 and 235 hours, respectively).
- The companies of Minas Gerais spend less hours per year on inspections, compared to the national average (525 hours among companies in Minas Gerais, against 1,011 in the national average).

- One can infer that the process for obtaining CND in the State of Minas Gerais was efficient, inasmuch as the annual load spent in this process (124 hours) is much lower than the national average (453 hours).

With regard to the opportunities identified, one can highlight:

- As regards DAPI, the high level of compliance to EFD-ICMS/IPI (88%) suggests that such accessory liability can be discontinued.
- The high effort involved to prepare the DAMEF-VAF is justified by the nature of the information, which is not usually required by the other States, which can be observed by the low level of compliance between the said obligation and the information required in the EFD-ICMS/IPI (43%). This result shows the need to reassess the maintenance of such accessory liability.
- As for the process of monetization of accrued credits, considering that, from the preparation of information to the effective conclusion thereof, the process is quite restrictive and demands high effort of the professionals of the fiscal area for the production of the required information, there is a window of opportunity for the process to be simplified and start to use the information existing in the EFD-ICMS/IPI.

4.2.4. Pernambuco

4.2.4.1 Sample Characterization

In the State of Pernambuco, responses were obtained from 17 establishments, which are distributed among the economic segments as shown in Illustration 38.

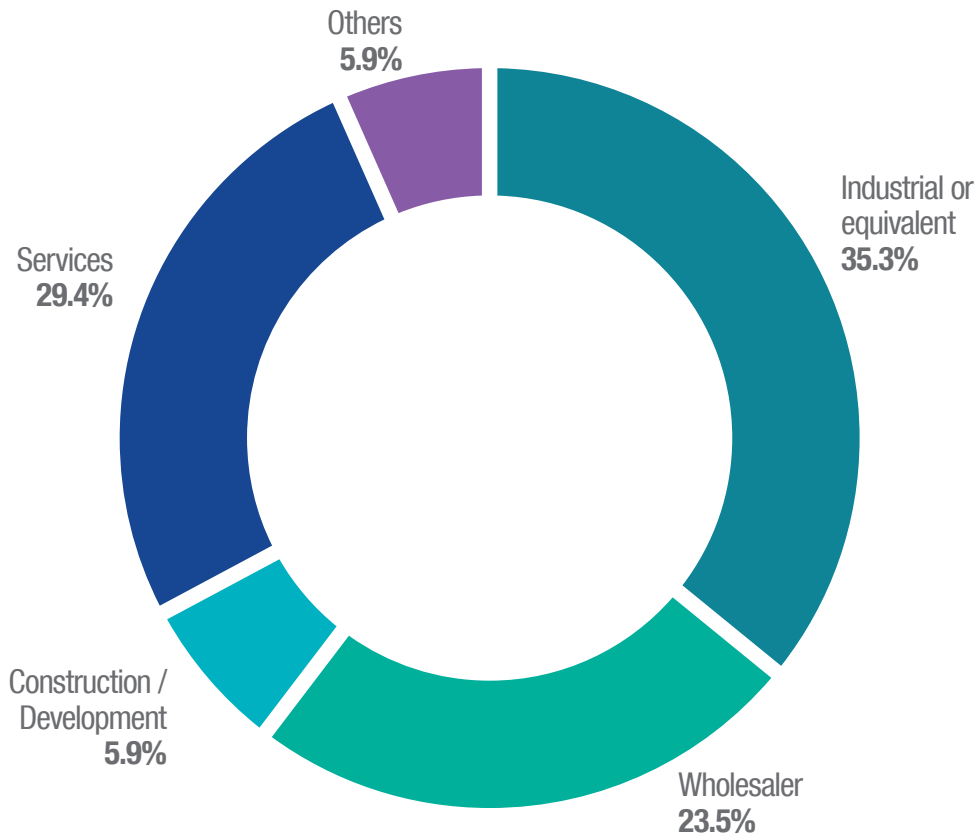


Illustration 38 - Pernambuco: Economic segments of the establishments surveyed.

4.2.4.2 General Findings

For performance of all tax compliance in the state of Pernambuco, an establishment of the companies surveyed dedicates, on average, approximately 3.2 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, attainment of CND, compliance with inspections and management of administrative litigation related to state taxes.

4.2.4.3 General Findings Per Stage

In the State of Pernambuco, an establishment of the business companies surveyed incur on average, 1,465 hours per year for the determination of taxes, 159 hours for preparation and performance of accessory liabilities, 655 hours to carry out own inspections, 626 hours for the management of administrative litigation and, 316 hours to attain CND, as shown in Illustrations 39 and 40:

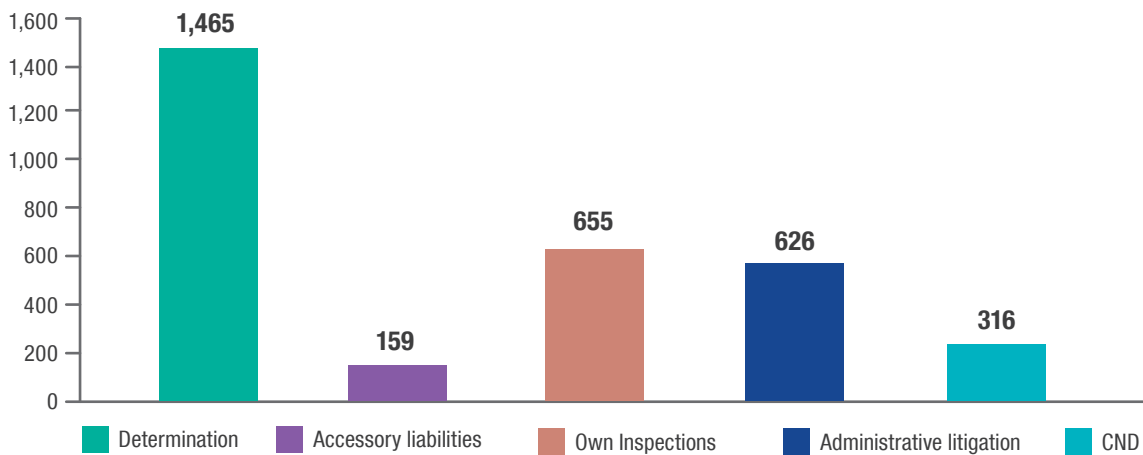


Illustration 39 - Pernambuco: Average annual hours per stage.

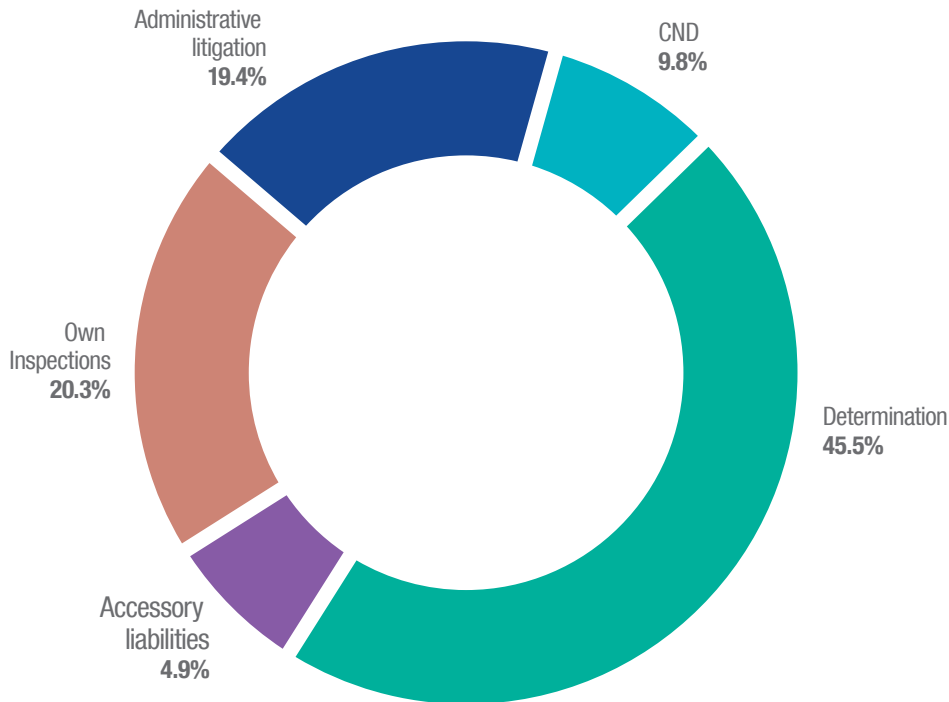


Illustration 40 - Pernambuco: Average percentage distribution of the annual hours by stage.

Based on the findings above, we can conclude that in the State of Pernambuco the stage that demands more time from the companies surveyed is that of determination of taxes, followed by performance of own inspection and administrative litigation.

The significant number of hours spent in own inspections can be attributed to the fact that, although accessory liabilities present a high level of information provided substantially electronically, an additional effort is still required to comply with supplementary requests (information, including those already provided in regular accessory liabilities, calculation logs, reconciliations, specific statements etc.) required on-site by tax agents.

With regard to administrative litigation, the high number of hours presented reflects the complexity of the management of the infraction notices, which ranges from hiring law firms, to the preparation of technical reports, auxiliary controls, attachment of tax documents and all subsidies required to support the administrative defense.

As regards the attainment of CND, the result indicates a potential absence of information integration between the State Treasury Attorney and the Treasury Department, requirement of additional effort on the part of the taxpayers to prove the tax regularity or also presentation of guarantees for the suspension of the tax credit requirement.

Table 21 shows the average number of people involved, without exclusive dedication, in the activities intended to carry out own inspections, management of administrative litigation and obtaining CND, in the State of Pernambuco:

Activity	People involved
Own Inspections	3.5
Administrative litigation	2.3
CND	2.0

Table 21 - Pernambuco: Average number of people involved in the activities intended to carry out own inspections, administrative litigation and obtaining CND.

4.2.4.4. ICMS and ICMS-ST

In the State of Pernambuco, the companies surveyed incurred, on average, per year, per establishment, approximately 944 hours for ICMS and ICMS-ST tax compliance activities. Of this total of hours, on average, 819 hours are applied for determination procedures, provided that 637 hours are for determination of ICMS and 182 for determination of ICMS-ST, and 123 hours for the performance of accessory liabilities as shown in illustration 41 below:

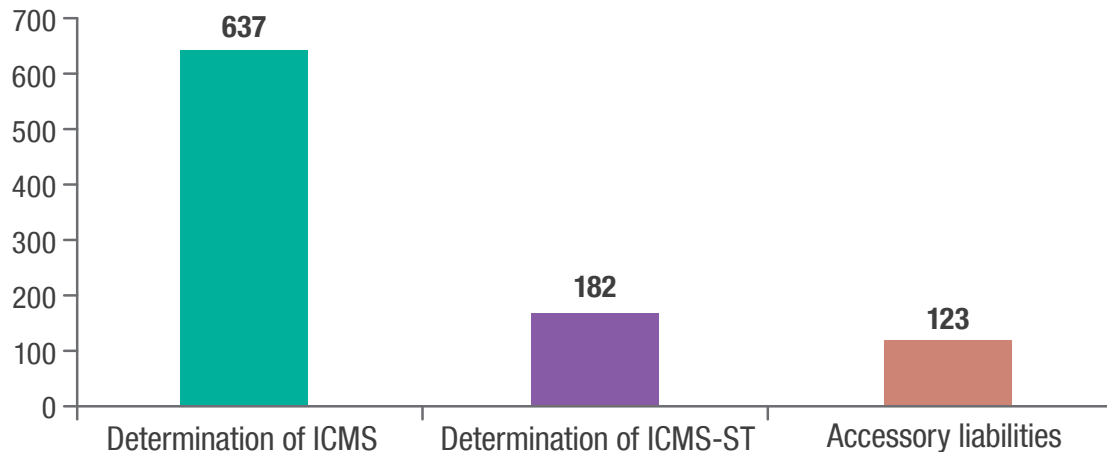
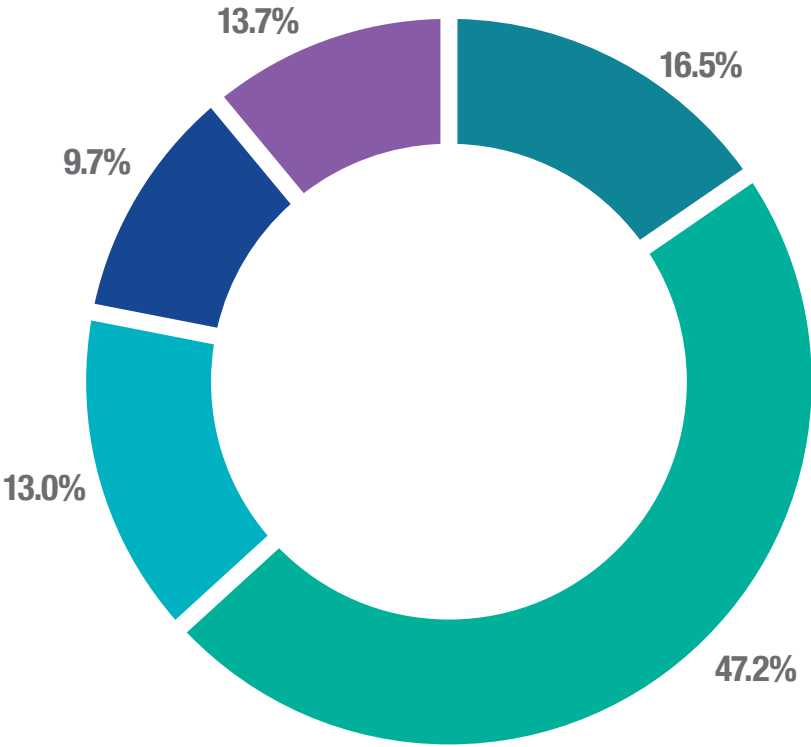


Illustration 41 - Pernambuco – ICMS and ICMS-ST: Average annual hours per stage.

This result shows that, in the State of Pernambuco, the *ICMS* determination stage requires more time from companies than other compliance activities related to state taxes.

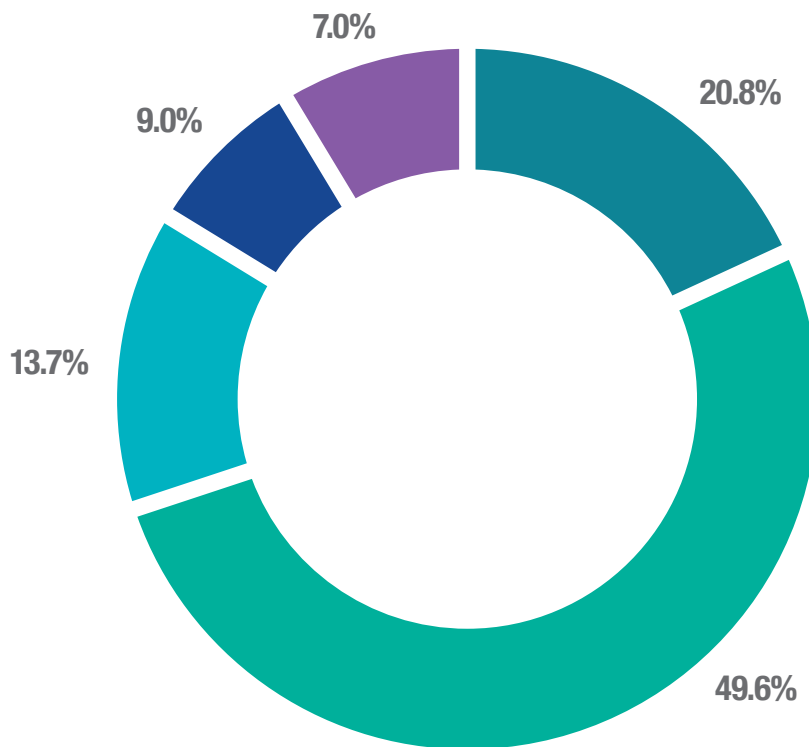
Determination

The high amount of time demanded from companies for the *ICMS* determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents management of auxiliary controls, among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, as can be observed in illustrations 42 and 43.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: CIAP).
- Other determination-related activities.

Illustration 42 - Pernambuco – *ICMS*: Average percentage distribution of the annual hours for determination.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: GNRE, ICMS-ST in advance).
- Other determination-related activities.

Illustration 43 - Pernambuco – ICMS-ST: Average percentage distribution of the annual hours for determination.

Illustrations 42 and 43 show that the share related to the calculation and determination of the tax represented 47.2% (*ICMS*) and 49.6% (*ICMS-ST*) of the total time of the calculation process. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; bookkeeping; *ICMS* calculation; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments using form or in graphic account, such as distinguished tax rates, chargebacks, advanced *ICMS* etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and assessment of impact on business, such as the inclusion or removal of products from the *ICMS* tax substitution regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 16.5% (*ICMS*) and 20.8% (*ICMS-ST*) of the total hours incurred.

In addition to the activities already mentioned, the survey showed that the amount of time spent with the management of auxiliary controls (CIAP [G-Block of EFD-*ICMS*/IPI], GNRE, *ICMS-ST* in advance, among others) is also relevant. This is due to the fact that these tax controls require from the companies peculiar rules of determination, which require a greater amount of data and documentation to be captured for the calculation to be carried out, and further require, for the operation thereof, a greater degree of specialization of the professionals involved.

Accessory liabilities

Regarding the preparation and performance of the *ICMS* and *ICMS-ST* accessory liabilities in the State of Pernambuco, according to the answers available, the companies surveyed dedicate an average of 123 annual hours per year. Illustrations 44 and 45 show the average amount of annual hours incurred by each accessory liability applicable in the State of Pernambuco that was the object of the survey - in addition to GIA-ST and FCI, also the Tax Bookkeeping System (SEF).

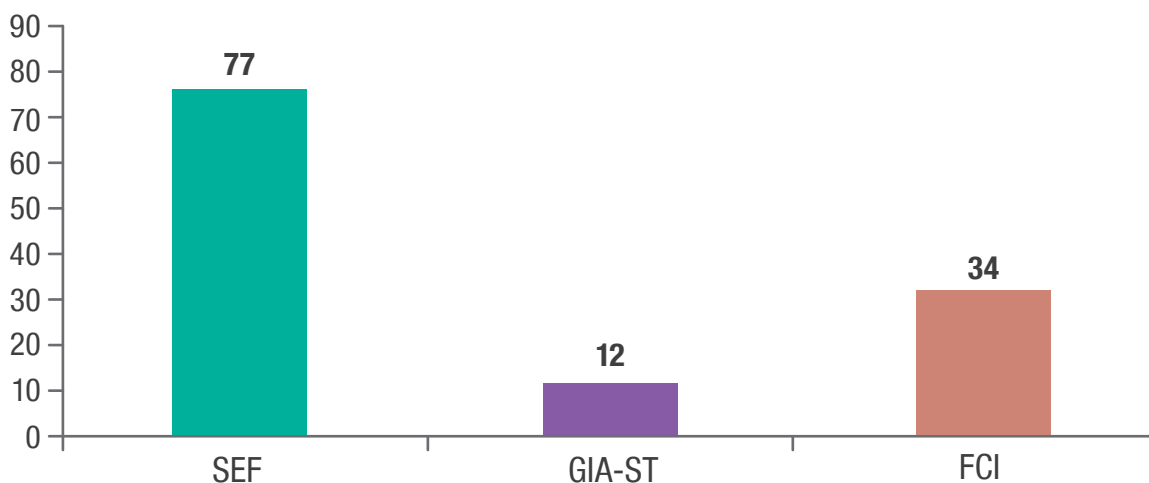


Illustration 44 - Pernambuco – *ICMS* and *ICMS-ST*: Average annual hours per accessory liability.

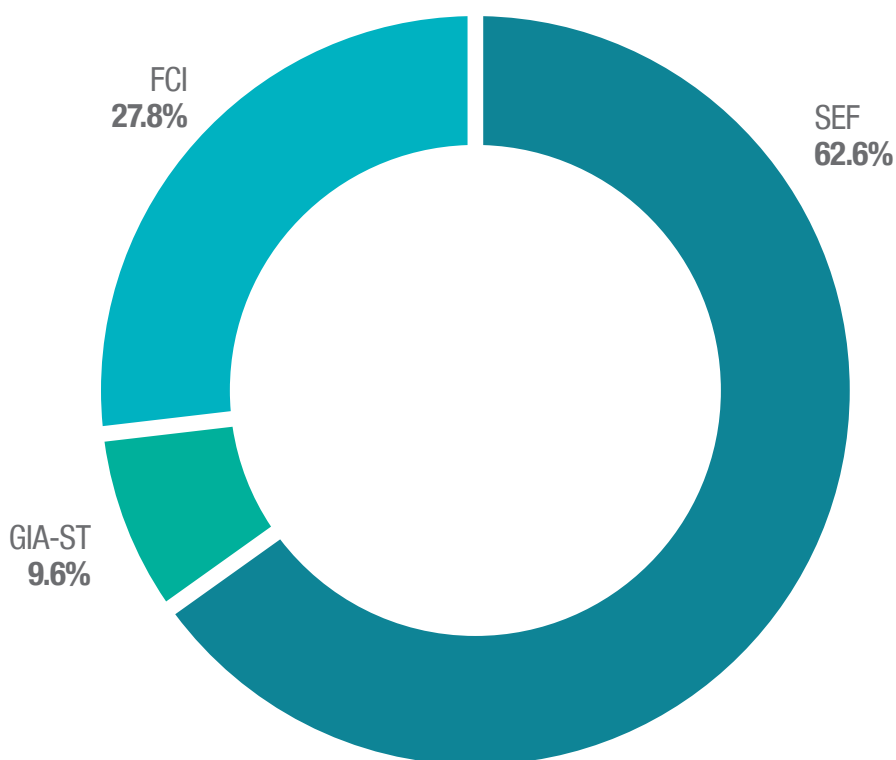


Illustration 45 - Pernambuco: Average annual percentage distribution of hours per accessory liability.

Notwithstanding the fact that the State of Pernambuco has a high level of diversification of industrial activities, the results presented are slightly below the national average.

Probably the justification for the number of hours dedicated to filling out the SEF being slightly lower than the national average for completing the EFD-ICMS/IPI is that the EFD-ICMS/IPI requires a higher level of detail of information than SEF, such as, for instance, IPI-related information. According to our analyzes, 73% of the information contained in the SEF are already included in the EFD-ICMS/IPI records.

Information on the level of compliance of GIA-ST and FCI to EFD-ICMS/IPI is provided in section 4.1.3 of this survey.

Causes

According to the respondents, the main difficulties faced by taxpayers in the entire compliance process related to ICMS and ICMS-ST in the State of Pernambuco are the complexity of the legislation and the complexity of accessory liabilities. Also noteworthy is the large volume of information required by the accessory liabilities, as can be seen in Table 22.

Ranking	Causes	Average Classification*
1 st	Complexity of legislation	5.24
2 nd	Complexity of accessory liabilities	4.59
3 rd	Liabilities with large volume of information	4.41
4 st	Adaptation and adequacy of systems	3.82
5 st	Complexity of internal procedures and controls	3.47
6 st	Short time frame between preparation and submission	3.29
7 st	Large number of returns with a same submission date	3.18

*Scale of difficulty from 1 to 7.

Table 22 - Pernambuco – ICMS and ICMS-ST: Main causes that hinder the compliance process.

Number of people involved

Table 23 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to ICMS and ICMS-ST, in the State of Pernambuco.

Activity	People involved
<i>Determination</i>	
ICMS	3.3
ICMS-ST	1.7
<i>Accessory liabilities</i>	
SEF	1.1
FCI	1.0

Table 23 - Pernambuco – ICMS and ICMS-ST: Average number of people involved per activity.

4.2.4.5. ICMS and ICMS-ST Accrued Credits

With regard to ICMS and ICMS-ST accrued credits in the State of Pernambuco, the survey showed that there is a structured process for determination of accrued credit, despite being restricted only to export operations. This process is part of the very SEF (Fiscal Documents Issuer System - eDoc).

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to ICMS and ICMS-ST accrued credits in the State of Pernambuco are the obstacles for adaptation and adequacy of systems, followed by the accumulation of declarations with the same delivery date and the short time between the preparation and delivery of the obligations, as shown in Table 24.

Ranking	Causes	Average Classification*
1 st	Adaptation and adequacy of systems	4.41
2 nd	Large number of returns with a same submission date	4.35
3 rd	Short time frame between preparation and submission	4.29
4 st	Complexity of accessory liabilities	4.12
5 st	Liabilities with large volume of information	4.06
6 st	Complexity of legislation	3.41
7 st	Complexity of internal procedures and controls	3.35

*Scale of difficulty from 1 to 7

Table 24 – Pernambuco - ICMS and ICMS-ST accrued credits: Main causes that hinder the compliance process.

4.2.4.6. Special Regimes, Tax Incentives And Industry-Based Controls

Concerning the special regimes, tax incentives and industrial-based controls in the State of Pernambuco, it is possible to infer that, in order to allow for a better operating efficiency of the companies, it is usually necessary to obtain a variety of special regimes, in order to promote greater compliance among certain operations and the legislation, which include issuance and bookkeeping of tax documents, granting deferrals, incentives and tax benefits, different forms and terms of collection of the main ICMS obligations, among others. Moreover, most special regimes require additional information and additional controls that go beyond the tax determination.

Causes

According to the respondents, several causes render the compliance process difficult in relation to special regimes, tax incentives and industry-based controls in the State of Pernambuco, including, mainly, the complexity of the accessory liabilities and the complexity of the legislation, as shown in Table 25.

Ranking	Causes	Average Classification*
1 st	Complexity of accessory liabilities	4.83
2 nd	Complexity of legislation	4.67
3 rd	Liabilities with large volume of information	4.50
	Large number of returns with a same submission date	4.50
4 st	Short time frame between preparation and submission	4.33
5 st	Adaptation and adequacy of systems	3.00
6 st	Complexity of internal procedures and controls	2.17

*Scale of difficulty from 1 to 7.

Table 25 - Pernambuco - Special regimes, tax incentives and ICMS industry-based controls: Main causes that hinder the compliance process.

4.2.4.7. General Remarks and Possible Opportunities

By comparative analysis of the averages of the State of Pernambuco in relation to the national averages, it was verified that:

- Pernambuco companies spend more annual hours in attending to their own inspections, compared to the national average (655 hours among companies in Pernambuco, compared to 552 hours in the national average). Moreover, the State also presented a significant amount of hours for administrative litigation management in relation to the national average (626 hours in the State of Pernambuco, compared to 536 hours in the national average). One can infer that the process of obtaining CND in the State of Pernambuco tends to be less efficient, since the annual load dedicated to it (316 hours) is close to the national average (453 hours), highlighting it among the eight States that presented individual results in this study.
- The number of annual hours spent to calculate the ICMS-ST (182 hours) in the State of Pernambuco is substantially lower than the national average (563 hours).

With regard to the opportunities identified, one can highlight:

- Regarding the SEF, the substantial level of compliance presented with relation to EFD-ICMS/IPI (73%) suggests that this ancillary obligation can be replaced by SPED. Moreover, for taxpayers subject to IPI, who are subject to the regular delivery of EFD-ICMS/IPI, such unification would avoid the duplication of similar obligations.
- The significant demand of hours to perform the inspections and management of administrative litigation indicates that there is room to reassess the complexity of the tax legislation and differentiated tax treatment.

4.2.5. Paraná

4.2.5.1. Sample Characterization

In the State of Paraná, responses were obtained from 17 establishments, which are distributed among the economic segments as shown in Illustration 46.

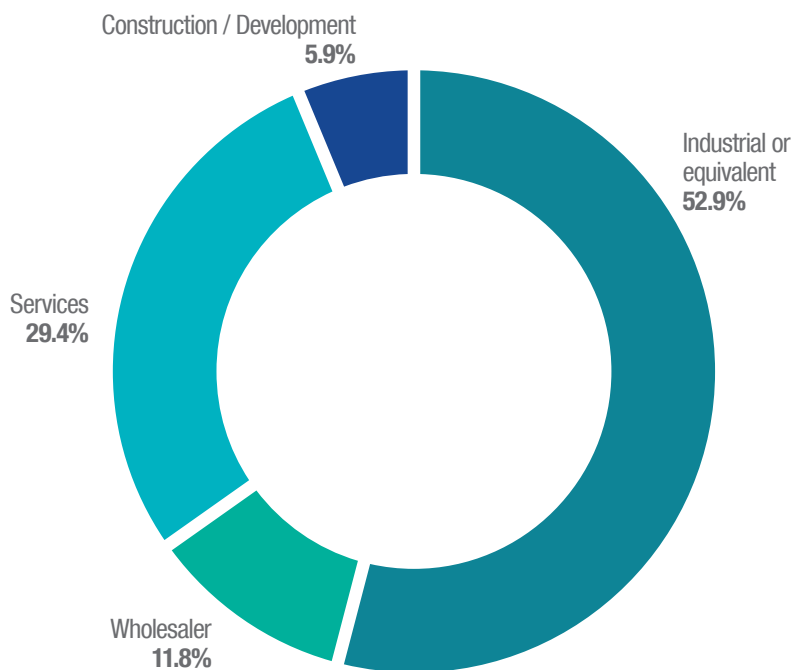


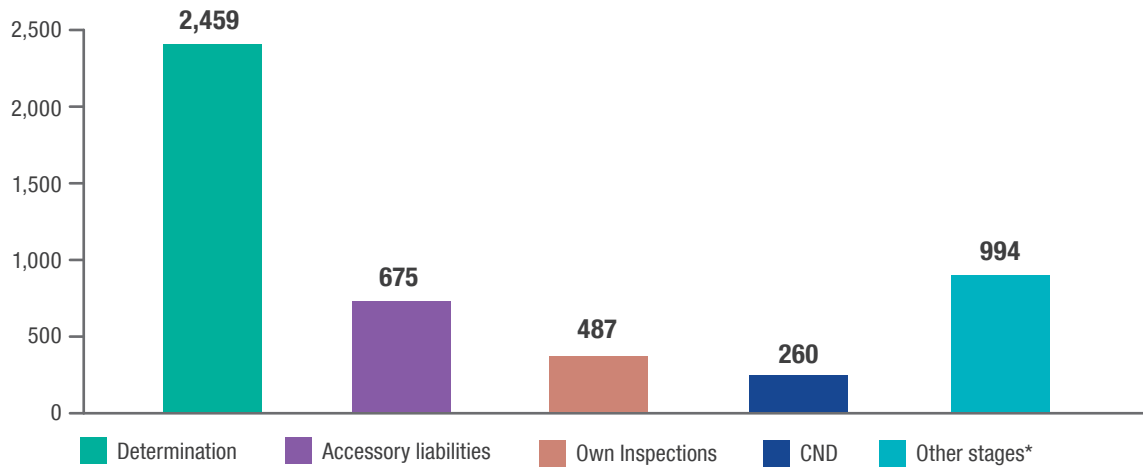
Illustration 46 - Paraná: Economic segments of the establishments surveyed.

4.2.5.2. General Findings

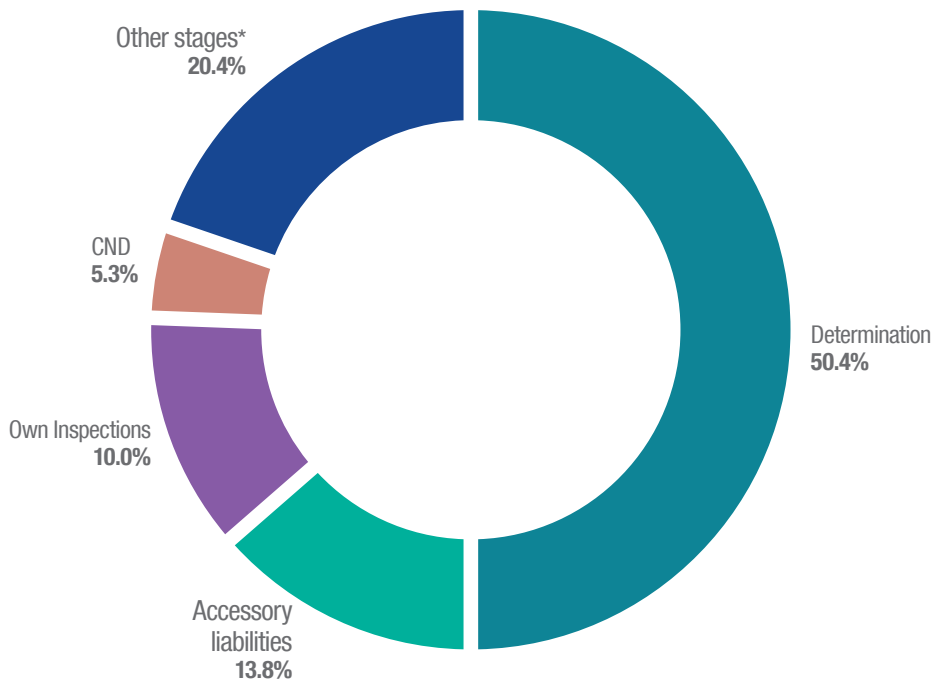
For performance of all tax compliance in the state of Paraná, an establishment of the companies surveyed dedicates, on average, approximately 4.9 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, attainment of CND, compliance with inspections and management of administrative litigation related to state taxes.

4.2.5.3. General Findings per Stage

In the State of Paraná, an establishment of the business groups surveyed incur, on average, 2,459 hours per year to determine taxes, 675 hours to prepare and perform ancillary liabilities, 487 hours for the attendance of own inspections, 260 hours to attain CND, as shown in illustrations 47 and 48.



*It includes the steps of third party inspection and administrative litigation
 Illustration 47 - Paraná: Average annual hours per stage.



*It includes the steps of third party inspection and administrative litigation
 Illustration 48 - Paraná: Average percentage distribution of the annual hours by stage.

Based on the findings above, we can conclude that, in the State of Paraná, the stage that demands most time from the companies surveyed is that of determination, followed by the preparation of accessory liabilities and the attendance of own inspections.

The significant number of hours spent in own inspections can be attributed to the fact that, although accessory liabilities present a high level of information provided substantially electronically, an additional effort is still required to comply with supplementary requests (information, calculation logs, reconciliations, specific statements etc.) required on-site by tax agents.

As regards obtaining the CND, the result indicates a potential improvement in the information integration process between the State Treasury Attorney and the Treasury Department. Nonetheless, an additional effort is still required on the part of taxpayers concerning the proof of tax regularity or to provide guarantees for the suspension of the requirement of tax liability.

Table 26 shows the average number of people involved, without exclusive dedication, in the activities of performance of own inspections and attainment of CND, in the State of Paraná.

Activity	People involved
Own Inspections	3.2
CND	1.8

Table 26 - Paraná: Average number of people involved in the activities to carry out own inspections and obtaining CND.

4.2.5.4. ICMS and ICMS-ST

In the State of Paraná, the companies surveyed incurred, on average, per year, per establishment, approximately 1.9 thousand hours for *ICMS* and *ICMS-ST* tax compliance. Of this total of hours, on average, 1.5 thousand hours are applied for determination procedures, provided that 1,312 hours are dedicated to the determination of *ICMS* and 399 hours for the performance of accessory liabilities as shown in illustration 49:

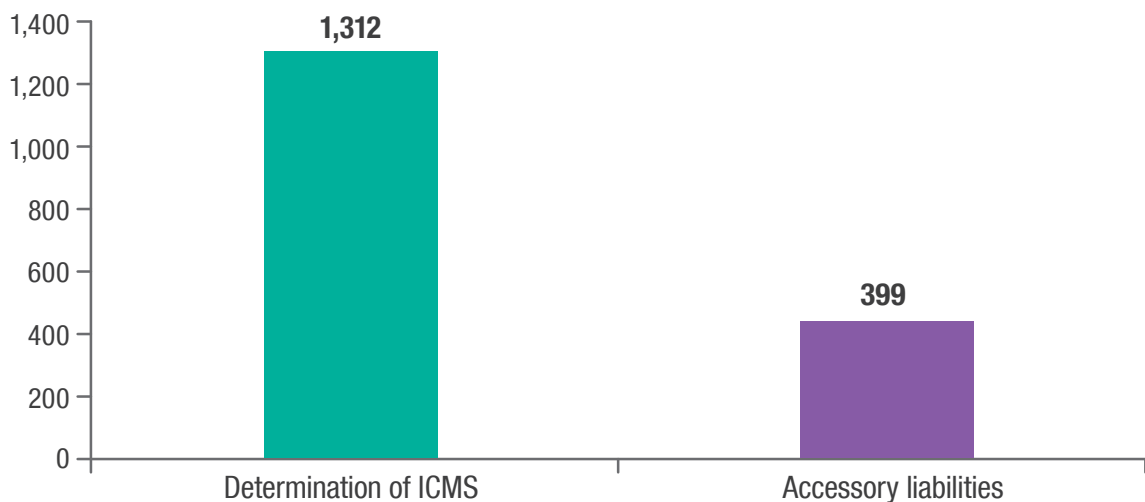
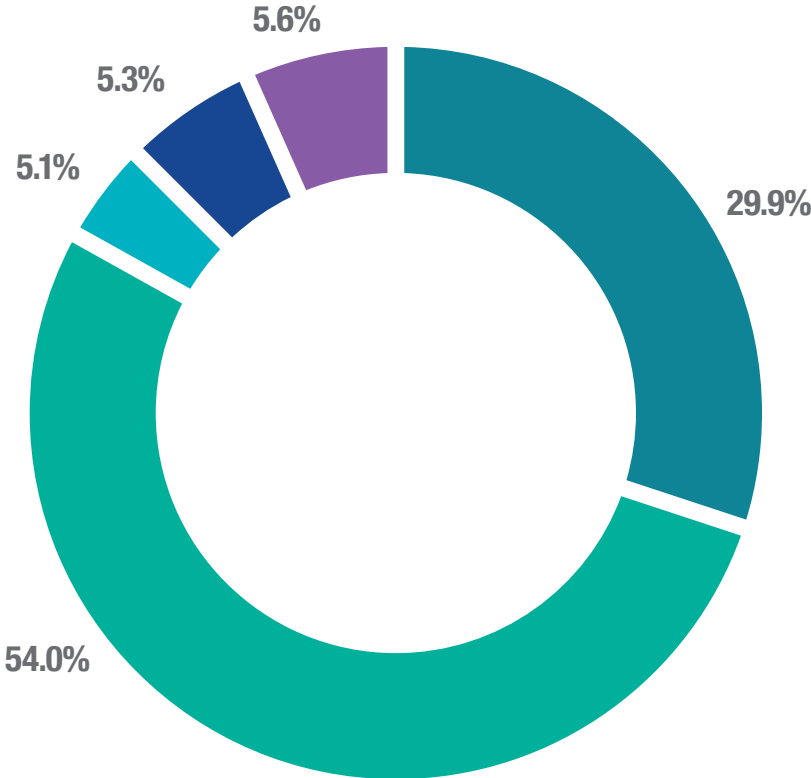


Illustration 49 - Paraná – *ICMS* and *ICMS-ST*: Average annual hours per stage.

This result shows that, in the State of Paraná, the *ICMS* determination stage requires more time from companies than other compliance activities related to state taxes.

Determination

The high amount of time demanded from companies for the *ICMS* determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents management of auxiliary controls, among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, as can be observed in Illustration 50.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: CIAP).
- Other determination-related activities.

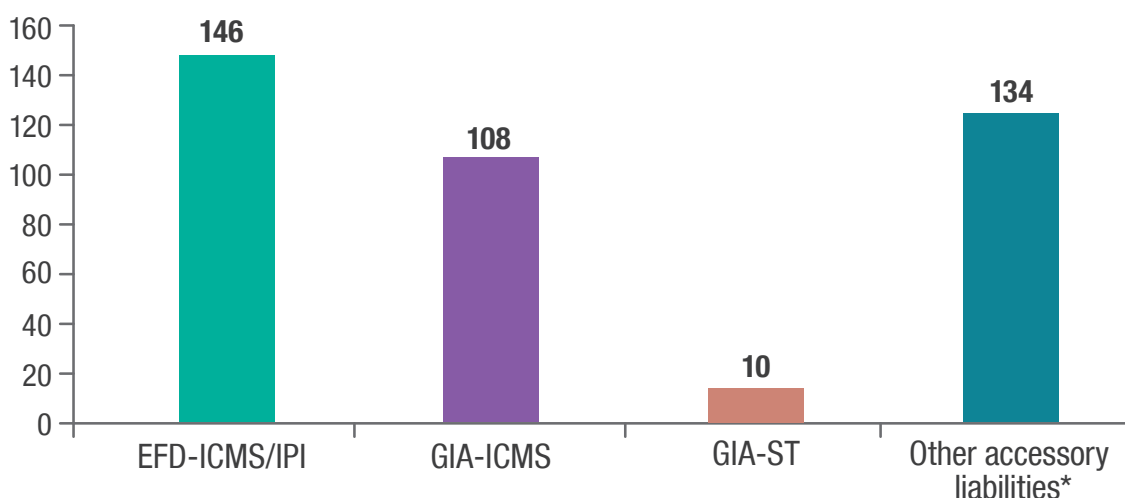
Illustration 50 – Goiás – *ICMS*: Average percentage distribution of the annual hours for determination.

Illustration 50 shows that the share related to the calculation and determination of the tax represented 54.0% of the total time of the process of *ICMS* determination. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; bookkeeping; calculation of *ICMS*; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments in graphic account, such as distinguished tax rates, chargebacks, etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and assessment of impact on business, such as the inclusion or removal of products from the *ICMS* tax substitution regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 29.9% of the total hours incurred.

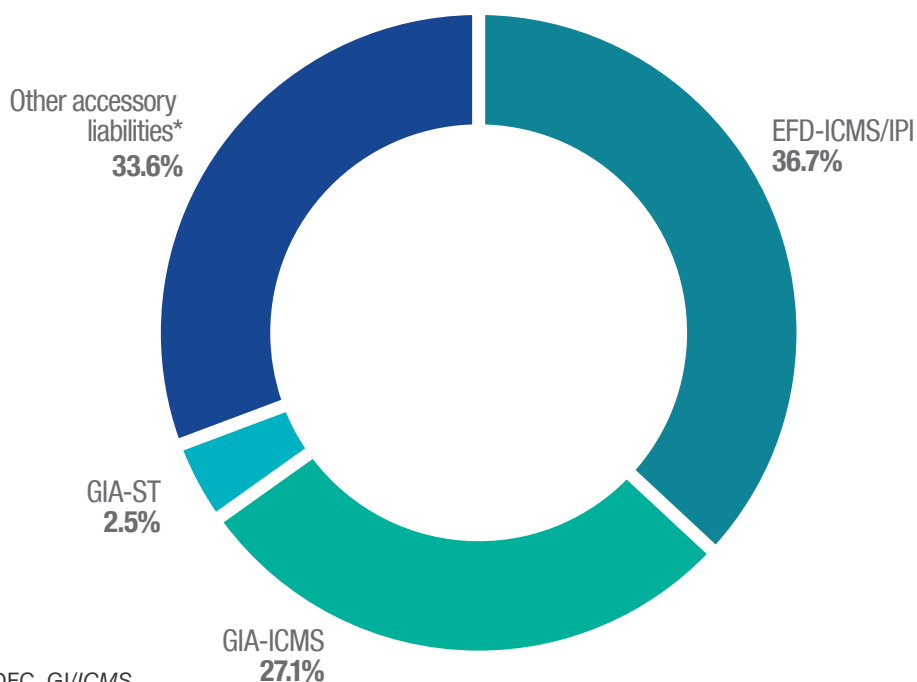
Accessory liabilities

Regarding the preparation and performance of the *ICMS* and *ICMS-ST* accessory liabilities in the State of Paraná, according to the answers available, the companies surveyed devote an average of 399 annual hours per year, per establishment. Illustrations 51 and 52 show the average amount of annual hours incurred by each accessory liability applicable in the State of Paraná that was the object of the survey - in addition to the EFD-*ICMS*/IPI, GIA-ST, the *ICMS* Information and Determination Form (GIA-*ICMS*) and others.



* FCI, Tax-Accounting Statement (DFC), GI/*ICMS*.

Illustration 51 - Paraná – *ICMS* and *ICMS-ST*: Average annual hours per accessory liability.



* FCI, DFC, GI/*ICMS*.

Illustration 52 - Paraná: Average annual percentage distribution of hours per accessory liability.

The results obtained are above the national average. Considering that the State of Paraná presents a high level of diversification of industrial activities, the size of the companies and the complexity of operations demand greater detailing of information to comply with the accessory liabilities, which justifies the amount of hours presented for EFD- ICMS/ IPI, as well as for GIA-ICMS.

The justification for the greater number of hours incurred in completing the EFD-ICMS/ IPI, when compared to the other accessory liabilities of the State, is that EFD-ICMS/ IPI requires a much greater level of details of the information. An example of this is in the finding, based on our analysis, that 88% of the information contained in the DFC is already included in the EFD-ICMS/IPI records, in addition to the fact that the State of Paraná has promoted the revocation of the GI/ICMS since January 2015, and of the GIA-ICMS since August 2015.

Information on the level of compliance of GIA-ST and FCI to EFD-ICMS/IPI is provided in section 4.1.3 of this survey.

Causes

According to the respondents, the main difficulties faced by taxpayers in the entire compliance process related to ICMS and ICMS-ST in the State of Paraná are the complexity of the legislation and the obstacles to the adaptation and adequacy of systems. Also noteworthy is the topic related to the complexity of the accessory liabilities, as shown in Table 27.

Ranking	Causes	Average Classification*
1 st	Complexity of legislation	4.82
2 nd	Adaptation and adequacy of systems	4.76
3 rd	Complexity of accessory liabilities	4.47
4 st	Liabilities with large volume of information	4.12
5 st	Complexity of internal procedures and controls	3.65
6 st	Short time frame between preparation and submission	3.18
7 st	Large number of returns with a same submission date	3.00

*Scale of difficulty from 1 to 7.

Table 27- Paraná - ICMS and ICMS-ST: Main causes that hinder the compliance process.

Number of people involved

Table 28 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to ICMS and ICMS-ST, in the State of Paraná.

Activity	People involved
<i>Determination</i>	
ICMS	5.2
<i>Accessory liabilities</i>	
EFD-ICMS/IPI	1.9
GIA-ICMS	1.8

Table 28- Paraná - ICMS and ICMS-ST: Average number of people involved per activity.

4.2.5.5. ICMS and ICMS-ST Accrued Credits

With regard to ICMS of ICMS-ST accrued credits in the State of Paraná, it is possible to affirm that there is a structured process for its determination, through a specific system called System of Control of Transfer and Use of Accrued credits (SISCRED). However, this process is rather inefficient.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to ICMS and ICMS-ST accrued credits in the State of Paraná is the complexity of legislation, followed by obstacles for adaptation and adequacy of systems, as shown in Table 29.

Ranking	Causes	Average Classification*
1 st	Complexity of legislation	4.94
2 nd	Adaptation and adequacy of systems	4.71
3 rd	Liabilities with large volume of information	4.18
4 st	Complexity of accessory liabilities	3.94
5 st	Complexity of internal procedures and controls	3.76
6 st	Short time frame between preparation and submission	3.35
7 st	Large number of returns with a same submission date	3.12

*Scale of difficulty from 1 to 7.

Table 29 – Paraná - ICMS and ICMS-ST accrued credits: Main causes that hinder the compliance process.

Therefore, there is room for improvements in this process to be evaluated, as, in addition to the causes listed above, our analysis reveals that 100% of the SISCRED information is already included in the EFD-ICMS/IPI records, which shows the bureaucratic nature of the process.

4.2.5.6. Special Regimes, tax Incentives and Industry-Based Controls

Concerning the special regimes, tax incentives and industrial-based controls in the State of Paraná, it is possible to infer that, in order to allow a better operating efficiency of the companies, it is usually necessary to obtain a variety of special regimes, in order to promote greater compliance among certain operations and the legislation, which include issuance and bookkeeping of tax documents, granting deferrals, incentives and tax benefits, different forms and terms of collection of the main ICMS obligations, among others. Moreover, most special regimes require additional information and additional controls that go beyond the tax determination.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to ICMS regimes, tax incentives and industry-based controls in the State of Paraná are the complexity of accessory liabilities and the complexity of the processes and internal controls, as shown in Table 30.

Position	Causes	Average Classification*
1 st	Complexity of accessory liabilities	5.43
2 nd	Complexity of internal procedures and controls	4.71
3 rd	Short time frame between preparation and submission	4.00
4 st	Complexity of legislation	3.86
5 st	Liabilities with large volume of information	3.43
6 st	Adaptation and adequacy of systems	3.29
	Large number of returns with a same submission date	3.29

*Scale of difficulty from 1 to 7.

Table 30 – Paraná - Special regimes, tax incentives and ICMS industry-based controls: Main causes that hinder the compliance process.

4.2.5.7. General Remarks and Possible Opportunities

By comparative analysis of the averages of the State of Paraná in relation to the national averages, it was verified that:

- The number of hours spent annually for the preparation of all accessory liabilities in the State of Paraná is substantially higher than the national average (675 hours, compared to 292 in the national average).
- Paraná companies spend fewer hours per year in attending to their own inspections, compared to the national average (487 hours among companies in Paraná, compared to 552 hours in the national average).
- One can infer that the process for obtaining CND in the State of Paraná tends to be more efficient, inasmuch as the annual load spent in this process (260 hours) is much lower than the national average (453 hours).

With regard to the opportunities identified, one can highlight:

- As regards DFC, the high level of compliance to EFD-ICMS/IPI (88%) suggests that such accessory liability can be discontinued, as has already occurred with GIA-ICMS and GI/ICMS.
- Although there is a structured process in the State of Paraná to determine and monetize accumulated credit, there is a window of opportunity for this process to be reassessed, as 100% of the information in SISCREC is already covered in the records of EFD-ICMS/IPI. It is noteworthy, therefore, the possibility of discontinuing SISCREC, provided that the process is exclusively incorporated by EFD-ICMS/IPI.

4.2.6. Rio de Janeiro

4.2.6.1. Sample Characterization

In the State of Rio de Janeiro, responses were obtained from 20 establishments, which are distributed among the economic segments as shown in Illustration 53.

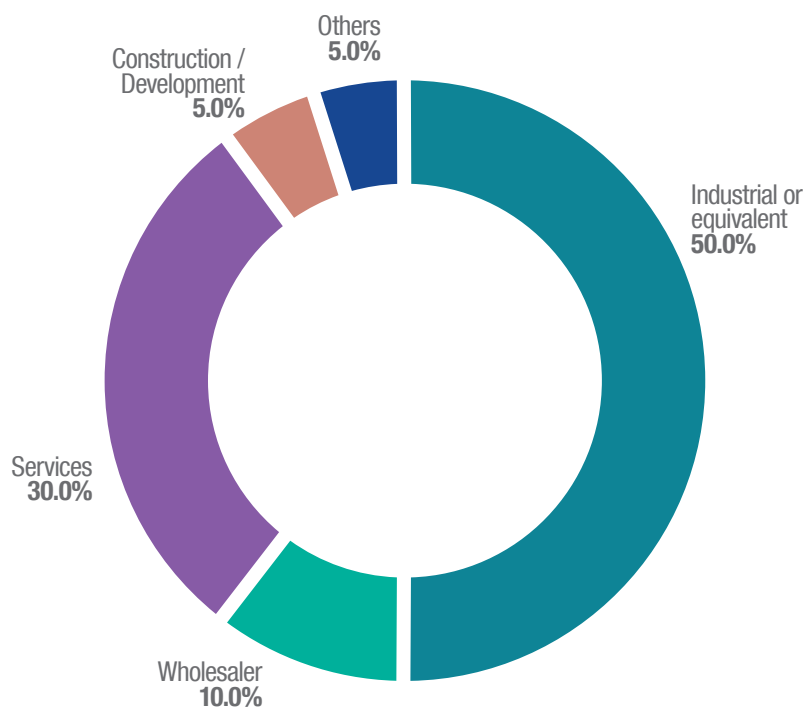


Illustration 53- Rio de Janeiro: Economic segments of the establishments surveyed.

4.2.6.2. General Findings

For performance of all tax compliance in the state of Rio de Janeiro, an establishment of the companies surveyed dedicates, on average, approximately 11.3 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, attainment of CND, compliance with inspections and management of administrative litigation related to state taxes.

4.2.6.3. General Findings Per Stage

In the State of Rio de Janeiro, an establishment of the business groups surveyed incur on average, 8,097 hours, per year, for the determination of taxes, 939 hours for preparation and performance of accessory liabilities, 641 hours to carry out own inspections, 434 hours to carry out third party inspections, 843 for the management of administrative litigation and, 348 hours to attain CND, as shown in illustrations 54 and 55:

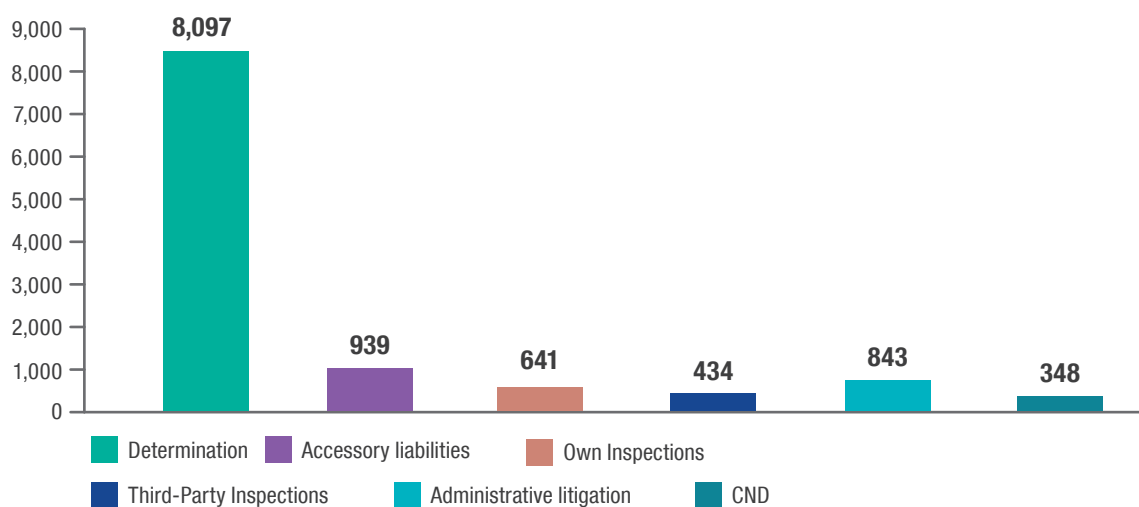


Illustration 54- Rio de Janeiro: Average annual hours per stage.

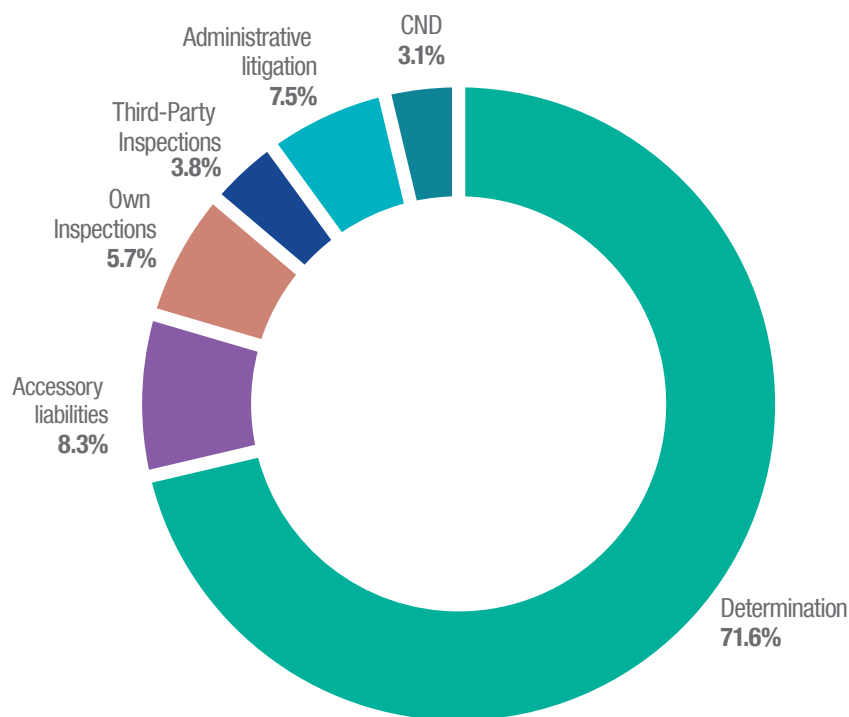


Illustration 55- Rio de Janeiro: Average percentage distribution of the annual hours by stage.

Based on the findings above, we can conclude that, in the State of Rio de Janeiro, the stage that demands most time from the companies surveyed is that of determination of taxes. This can be attributed to the characteristics of the legislation applied to the specific sectors prevailing in the State, such as Oil & Gas and Telecommunications.

The aforementioned legislative complexity, coupled with the characteristics of the industries located in Rio de Janeiro, also reflects the high number of hours determined to perform the inspections, both own and of third parties.

With regard to administrative litigation, the high number of hours presented reflects the complexity of the management of the infraction notices, which ranges from hiring law firms, to the preparation of technical reports, auxiliary controls, attachment of tax documents and all subsidies required to support the administrative defense.

As regards the attainment of CND, the result indicates a potential absence of information integration between the State Treasury Attorney and the Treasury Department, requirement of additional effort on the part of the taxpayers to prove the tax regularity or also presentation of guarantees for the suspension of the tax liability.

Table 31 shows the average number of people involved, without exclusive dedication, in the activities intended to carry out own and third-party inspections, management of administrative litigation and obtaining CND, in the State of Rio de Janeiro:

Activity	People involved
Own Inspections	3.1
Third-Party Inspections	2.3
Administrative litigation	3.2
CND	1.9

Table 31 - Rio de Janeiro – Average number of people involved in the activities intended to carry out own and third-party inspections, management of administrative litigation and obtaining CND.

4.2.6.4. ICMS and ICMS-ST

In the State of Rio de Janeiro, the companies surveyed incurred, on average, per year, per establishment, approximately 8 thousand hours for ICMS and ICMS-ST tax compliance. Of this total of hours, on average, 7.2 thousand hours are applied for determination, provided that 4,848 hours determination of ICMS and 2,418 for determination of ICMS-ST, and 691 hours for the performance of accessory liabilities as shown in illustration 56 below:

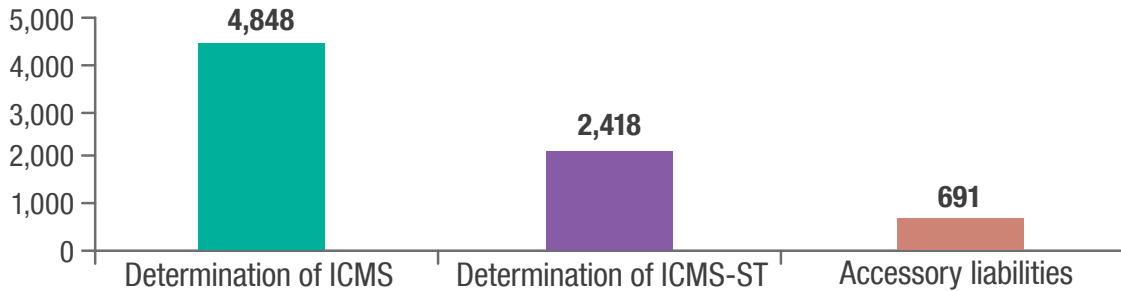
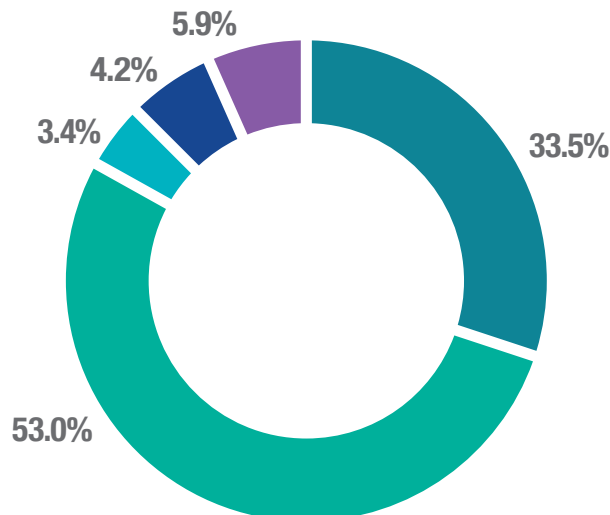


Illustration 56 - Rio de Janeiro – ICMS and ICMS-ST: Average annual hours per stage.

This result shows that, in the State of Rio de Janeiro, the ICMS determination stage requires more time from companies than other compliance activities related to state taxes.

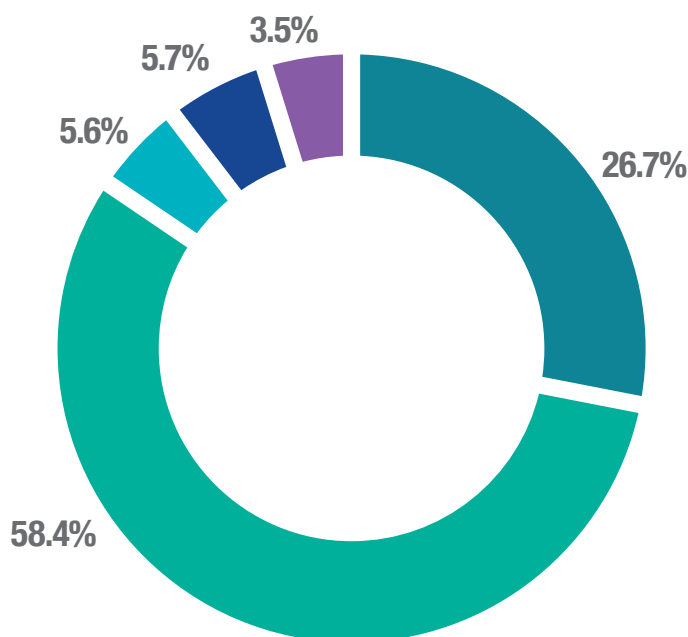
Determination

The high amount of time demanded from companies for the ICMS determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents management of auxiliary controls, among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, as can be observed in illustrations 57 and 58.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: CIAP).
- Other determination-related activities

Illustration 57 - Rio de Janeiro – ICMS: Average percentage distribution of the annual hours for determination.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: GNRE, ICMS-ST in advance).
- Other determination-related activities

Illustration 58 - Rio de Janeiro – ICMS-ST: Average percentage distribution of the annual hours for determination.

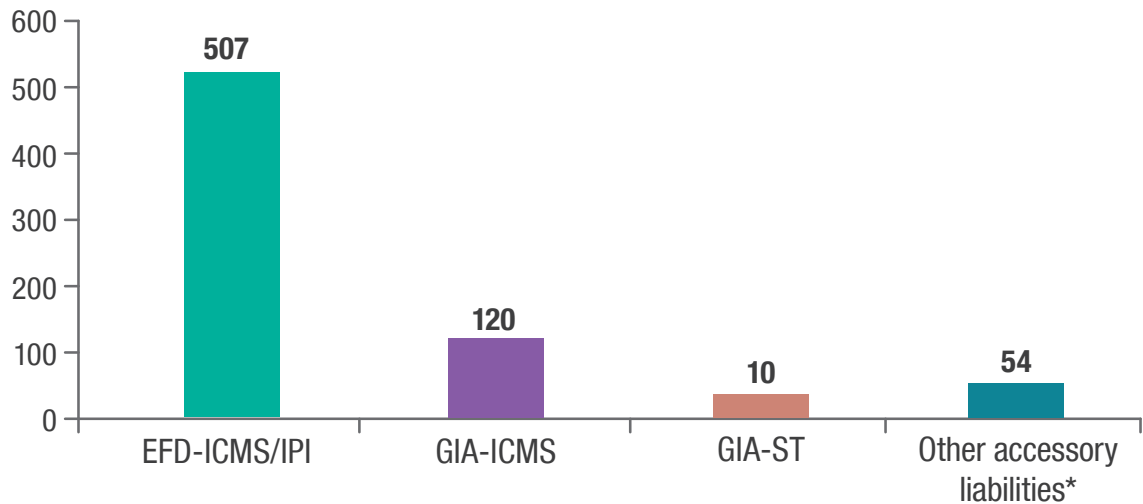
Illustrations 57 and 58 show that the share related to the calculation and determination of the tax represented 53.0% (*ICMS*) and 58.4% (*ICMS-ST*) of the total time of the calculation process. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; bookkeeping; calculation of *ICMS* and *ICMS-ST*; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments in graphic account, such as distinguished tax rates, chargebacks, etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and assessment of impact on business, such as the inclusion or removal of products from the *ICMS* tax substitution regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 33.5% (*ICMS*) and 26.7% (*ICMS-ST*) of the total hours incurred.

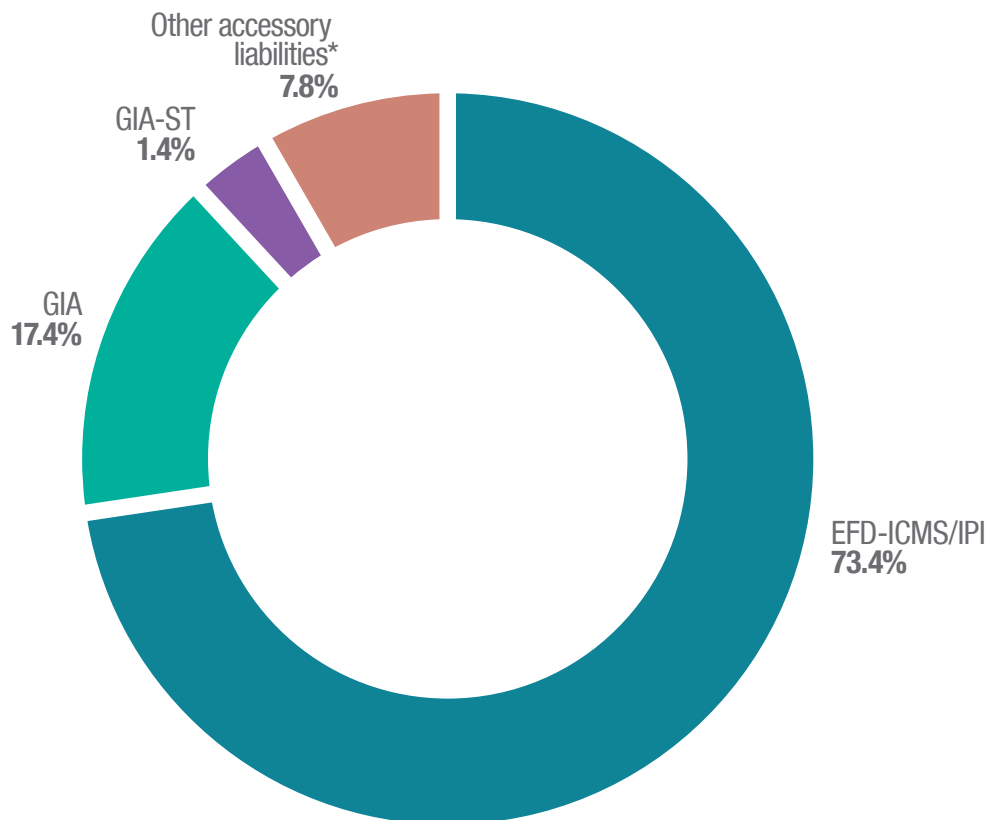
Such substantial demand presented, both for the calculation and determination of the tax and for the monitoring and observing of legislation, can be, again, supported by the profile of the segment of the main industries located in the region.

Accessory liabilities

Regarding the preparation and performance of the *ICMS* and *ICMS-ST* accessory liabilities in the State of Rio de Janeiro, according to the answers available, the companies surveyed devote, per establishment, an average of 691 annual hours per year. Illustrations 59 and 60 show the average amount of annual hours incurred by each accessory liability applicable in the State of Rio de Janeiro that was the object of the survey.



* FCI, Annual Statement for the Municipal Participation Index (DECLAN-IPM), Document of Use of Benefits (DUB).
 Illustration 59 - Rio de Janeiro – ICMS and ICMS-ST: Average annual hours per accessory liability.



* FCI, DECLAN-IPM, DUB.

Illustration 60- Rio de Janeiro: Average annual percentage distribution of hours per accessory liability.

The results obtained are well above the national average, considering that the State of Rio de Janeiro concentrates specific sectors, which cover companies whose size, data volume and operational complexity require a significant effort for the elaboration of EFD-ICMS/IPI.

The justification for the greater number of hours incurred in completing the EFD-ICMS/IPI to be greater than required for GIA, is that the first accessory liabilities requires a much greater level of details of the information than the second one. According to our analyzes,

99% of the information contained in GIA and 87% of the information contained in the DECLAN-IPM are already included in the EFD-ICMS/IPI records. The same occurs with 46% of the information contained in the DUB.

Information on the level of compliance of GIA-ST and FCI to EFD-ICMS/IPI is provided in section 4.1.3 of this survey.

Causes

According to the respondents, the main difficulties faced by taxpayers in the entire compliance process related to ICMS and ICMS-ST in the State of Rio de Janeiro are the great volume of information required in accessory liabilities, as well as their complexity, as shown in the table below. Also noteworthy is the topic related to the complexity of the legislation, as shown in Table 32.

Ranking	Causes	Average Classification*
1 st	Liabilities with large volume of information	4.80
2 nd	Complexity of accessory liabilities	4.55
3 rd	Complexity of legislation	4.10
4 st	Adaptation and adequacy of systems	4.00
5 st	Complexity of internal procedures and controls	3.75
6 st	Short time frame between preparation and submission	3.70
7 st	Large number of returns with a same submission date	3.10

*Scale of difficulty from 1 to 7.

Table 32 - Rio de Janeiro – ICMS and ICMS-ST: Main causes that hinder the compliance process.

Number of people involved

Table 33 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to ICMS and ICMS-ST, in the State of Rio de Janeiro.

Activity	People involved
<i>Determination</i>	
ICMS	4.0
ICMS-ST	3.3
<i>Accessory liabilities</i>	
EFD-ICMS/IPI	1.6
GIA	1.5

Table 33 - Rio de Janeiro – ICMS and ICMS-ST: Average number of people involved per activity.

4.2.6.5. ICMS and ICMS-ST ACCRUED CREDITS

As regards the ICMS-ST ICMS credits accrued in the State of Rio de Janeiro, it is possible to infer that, from the preparation of the information to its effective monetization, the process is restrictive, mainly due to the absence of a structured procedure and the need to provide information and deliver documentation upon request of the tax authorities.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to *ICMS* and *ICMS-ST* accrued credits in the State of Rio de Janeiro is the complexity for accessory liabilities followed by the obstacles for adaptation and adequacy of systems, as shown in Table 34.

Ranking	Causes	Average Classification*
1 st	Complexity of accessory liabilities	5.70
2 nd	Adaptation and adequacy of systems	4.55
3 rd	Complexity of internal procedures and controls	3.90
4 st	Complexity of legislation	3.85
	Liabilities with large volume of information	3.85
5 st	Short time frame between preparation and submission	3.10
6 st	Large number of returns with a same submission date	3.05

*Scale of difficulty from 1 to 7.

Table 34 – Rio de Janeiro - *ICMS* and *ICMS-ST* accrued credits: Main causes that hinder the compliance process.

4.2.6.6. Special Regimes, Tax Incentives and Industry-Based Controls

Concerning the special regimes, tax incentives and industrial-based controls in the State of Rio de Janeiro, it is possible to infer that, in order to allow a better operating efficiency of the companies, it is usually necessary to obtain a variety of special regimes, in order to promote greater compliance among certain operations and the legislation, which include issuance and bookkeeping of tax documents, granting deferrals, incentives and tax benefits, different forms and terms of collection of the main *ICMS* obligations, among others. Moreover, most special regimes require additional information and additional controls that go beyond the tax determination.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to *ICMS* special regimes, tax incentives and industry-based controls in the State of Rio de Janeiro are the complexity of legislation, the obstacles to adaptation and adequacy of systems, as well as the large volume of information required in the accessory liabilities, as shown in Table 35.

Ranking	Causes	Average Classification*
1 st	Complexity of legislation	4.79
2 nd	Adaptation and adequacy of systems	4.71
3 rd	Liabilities with large volume of information	4.57
4 st	Complexity of accessory liabilities	4.50
5 st	Complexity of internal procedures and controls	3.57
6 st	Short time frame between preparation and submission	3.21
7 st	Large number of returns with a same submission date	2.64

*Scale of difficulty from 1 to 7.

Table 35- Rio de Janeiro - Special regimes, tax incentives and *ICMS* industry-based controls: Main causes that hinder the compliance process.

4.2.6.7. General Remarks and Possible Opportunities

By comparative analysis of the averages of the State of Rio de Janeiro in relation to the national averages, it was verified that:

- The number of annual hours spent by companies in Rio de Janeiro, both for calculation of *ICMS* (4,848 hours) and *ICMS-ST* (2,418 hours), as well as for the preparation of accessory liabilities related to *ICMS* and *ICMS-ST* (691 hours) is substantially higher than the national average (938, 563 and 235 hours per year, respectively).
- Companies of Rio de Janeiro spend a greater annual workload on inspections compared to the national average (1,075 hours between companies in Rio de Janeiro, compared to 1,011 hours in the national average). Moreover, the State also presented an excessive workload dedicated to the management of administrative litigation (843 hours) in relation to the national average (536 hours).
- One can infer that the process of obtaining CND in the State of Rio de Janeiro tends to be less efficient, since the load spent in this process (348 hours per year) is the one that is closest to the national average (453 hours per year) among the eight states that presented individual results in this survey.

With regard to the opportunities identified, one can highlight:

- As regards GIA and DECLAN-IPM, the high level of compliance to EFD-*ICMS*/IPI (99% and 87%, respectively) suggests that such accessory liabilities can be discontinued.
- Considering the high level of expenditures in the State of Rio de Janeiro for the preparation of the EFD-*ICMS*/IPI (507 hours per year), compared to the national average (100 hours per year) - a relevant part of which is linked to particularities of Oil & Gas and Telecommunications segments, sectors with a strong presence in the territory of Rio de Janeiro - there would be room for the State to conduct a process of reviewing such information, in order to simplify such obligation.
- As for the process of monetization of accrued credits, considering that, from the preparation of information to the effective conclusion thereof, the process is restrictive, there is a window of opportunity for the process to be simplified and start to use the information existing in the EFD-*ICMS*/IPI.

4.2.7. Rio Grande do Sul

4.2.7.1 Sample Characterization

In the State of Rio Grande do Sul, responses were obtained from 15 establishments, which are distributed among the economic segments as shown in Illustration 61.

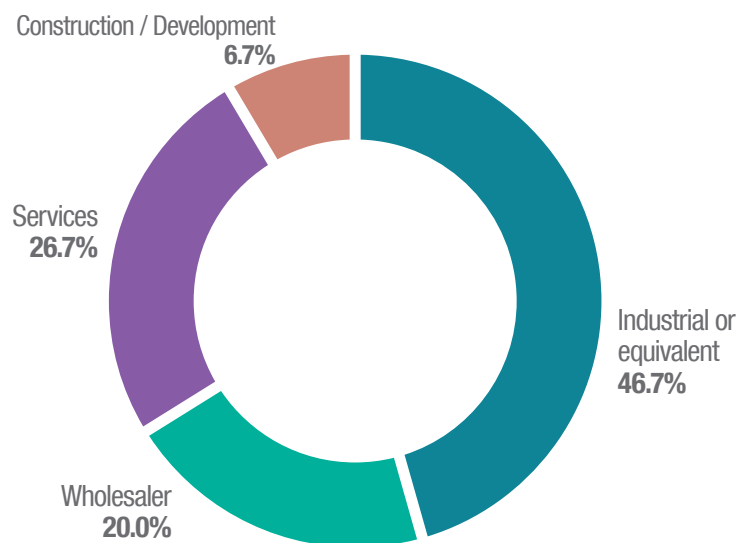


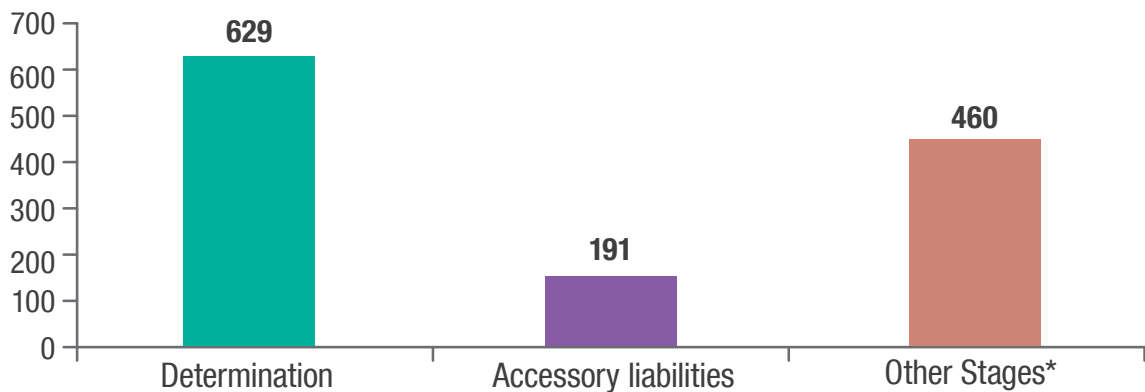
Illustration 61 - Rio Grande do Sul: Economic segments of the establishments surveyed.

4.2.7.2. General Findings

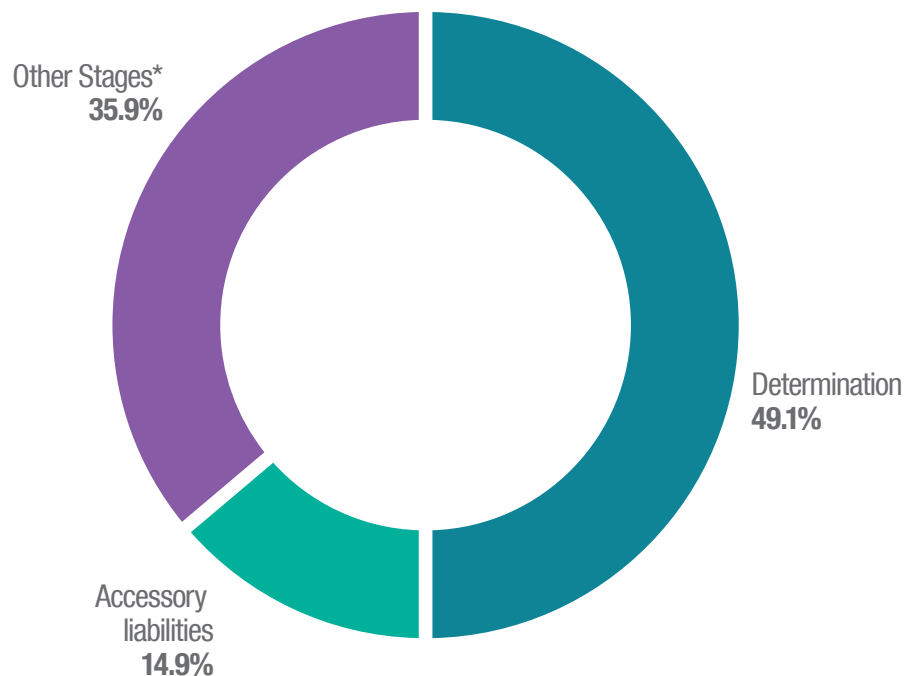
For performance of all tax compliance in the state of Rio Grande do Sul, an establishment of the companies surveyed dedicates, on average, approximately 1.3 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, attainment of CND, compliance with inspections and management of administrative litigation related to state taxes.

4.2.7.3. General Findings per Stage

In the State of Rio Grande do Sul, an establishment of the business groups surveyed incur, on average, 629 hours per year to determine taxes, 191 hours to prepare and perform ancillary liabilities, as shown in illustrations and 62 and 63.



*It includes the steps of own and third party inspection, administrative litigation and obtaining CND
Illustration 62 - Rio Grande do Sul: Average annual hours per stage.



*It includes the steps of own and third party inspection, administrative litigation and obtaining CND
Illustration 63 - Rio Grande do Sul: Average percentage distribution of the annual hours by stage.

From the results above, one can conclude that in the State of Rio Grande do Sul, the stage that most demands time from the companies surveyed is the determination of taxes, consuming virtually half the time spent in compliance activities measured by this survey.

4.2.7.4. ICMS and ICMS-ST

In the State of Rio Grande do Sul, the companies surveyed incurred, on average, per year, per establishment, approximately 898 hours for *ICMS* and *ICMS-ST* tax compliance. Of this total of hours, on average, 645 hours are applied for determination procedures, provided that 469 hours are dedicated to the determination of *ICMS* and 160 hours for the performance of accessory liabilities, as shown in illustration 64.

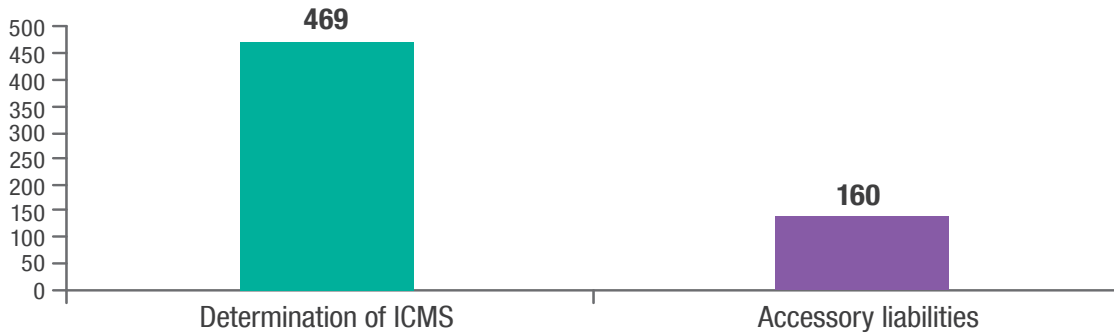
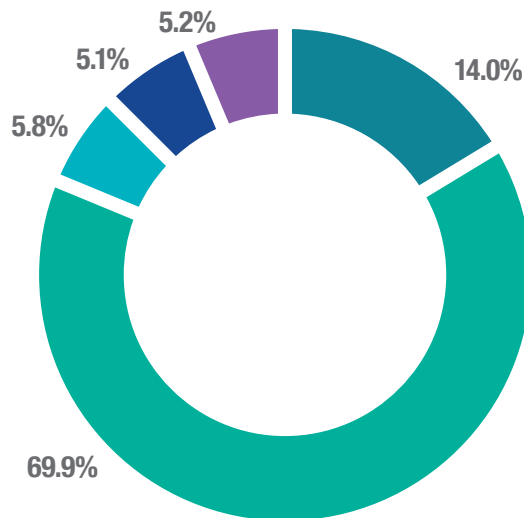


Illustration 64 - Rio Grande do Sul – *ICMS* and *ICMS-ST*: Average annual hours per stage.

This result shows that, in the State of Rio Grande do Sul, the *ICMS* determination stage requires more time from companies than other compliance activities related to state taxes.

Determination

The high amount of time demanded from companies for the *ICMS* determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents management of auxiliary controls, among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, as can be observed in Illustration 65.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: CIAP).
- Other determination-related activities.

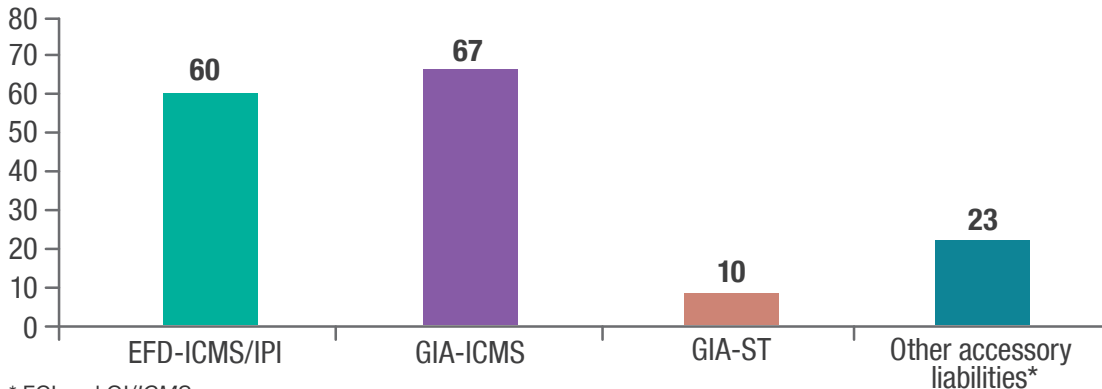
FigIllustration 65 - Rio Grande do Sul – *ICMS*: Average percentage distribution of the annual hours for determination.

Illustration 65 shows that the share related to the calculation and determination of the tax represented 69.9% of the total time of the process of *ICMS* determination. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; bookkeeping; calculation of *ICMS* and *ICMS-ST*; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments in graphic account, such as distinguished tax rates, chargebacks, etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and assessment of impact on business, such as the inclusion or removal of products from the *ICMS* tax substitution regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 14.0% of the total hours incurred.

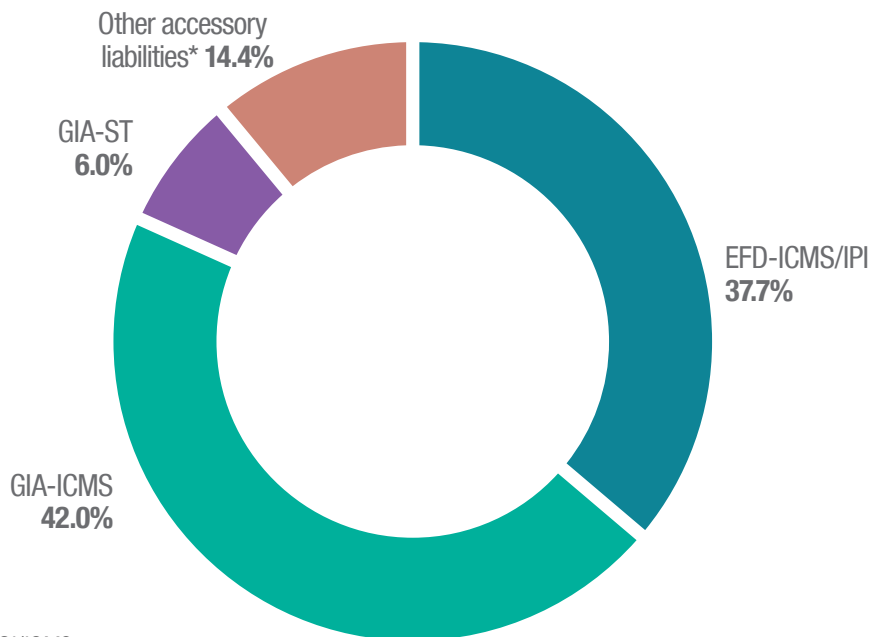
Accessory liabilities

Regarding the preparation and performance of the *ICMS* and *ICMS-ST* accessory liabilities in the State of Rio Grande do Sul, according to the answers available, the companies surveyed devote an average of 160 annual hours per year, per establishment. Illustrations 66 and 67 show the average amount of annual hours incurred by each accessory liability applicable in the State of Rio Grande do Sul that was the object of the survey.



* FCI and GI/*ICMS*.

Illustration 66 - Rio Grande do Sul – *ICMS* and *ICMS-ST*: Average annual hours per accessory liability.



* FCI and GI/*ICMS*.

Illustration 67 - Rio Grande do Sul – Average annual percentage distribution of hours per accessory liability.

Notwithstanding the fact that the State of Rio Grande do Sul has a high level of diversification of industrial activities, the results presented are slightly below the national average.

With regard to the EFD-*ICMS*/IPI, it was evidenced that an establishment of the companies surveyed devotes an average of 60 hours each year to its elaboration, revealing a shorter time spent compared to the GIA-*ICMS*, although the first ancillary obligation requires a much higher level of details of information than the second one. Even so, according to our analyzes, 87% of the information contained in the GIA-*ICMS* is already included in the EFD-*ICMS*/IPI records.

Information on the level of compliance of GIA-ST and FCI to EFD-*ICMS*/IPI is provided in section 4.1.3 of this survey.

Causes

According to the respondents, the main difficulties faced by taxpayers in the entire compliance process related to *ICMS* and *ICMS-ST* in the State of Rio Grande do Sul are the obstacles to the adaptation and adequacy of systems, as well as the great volume of information required in accessory liabilities, also noteworthy is the complexity thereof, as shown in the Table 36.

Ranking	Causes	Average Classification*
1 st	Adaptation and adequacy of systems	5.00
	Liabilities with large volume of information	5.00
2 nd	Complexity of accessory liabilities	4.60
3 rd	Complexity of legislation	3.87
4 st	Short time frame between preparation and submission	3.27
5 st	Complexity of internal procedures and controls	3.13
	Large number of returns with a same submission date	3.13

*Scale of difficulty from 1 to 7.

Table 36 - Rio Grande do Sul – *ICMS* and *ICMS-ST*: Main causes that hinder the compliance process.

Number of people involved

Table 37 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to *ICMS* and *ICMS-ST*, in the State of Rio Grande do Sul.

Activity	People involved
<i>Determination</i>	
ICMS	1.7
<i>Accessory liabilities</i>	
EFD- <i>ICMS</i> /IPI	1.3
GIA- <i>ICMS</i>	1.2

Table 37 - Rio Grande do Sul – *ICMS* and *ICMS-ST*: Average number of people involved per activity.

4.2.7.5. *ICMS* and *ICMS-ST* Accrued Credits

As regards the *ICMS* and *ICMS-ST* accrued credits in the State of Rio Grande do Sul, it is possible to infer that, from the preparation of the information to its effective monetization, the process is restrictive, mainly due to the absence of a structured procedure and the need to provide information and deliver documentation upon request of the tax authorities.

Causas

According to the respondents, the cause that makes the compliance process more difficult in relation to *ICMS* and *ICMS-ST* accrued credits in the State of Rio Grande do Sul is the complexity of accessory liabilities, followed by and large volume of information required in the respective obligations. Another point to be highlighted is the obstacles to the adaptation and adequacy of systems, as indicated in Table 38.

Ranking	Causes	Average Classification*
1 st	Complexity of accessory liabilities	4.87
2 nd	Liabilities with large volume of information	4.73
3 rd	Adaptation and adequacy of systems	4.27
4 st	Short time frame between preparation and submission	3.73
5 st	Complexity of legislation	3.60
6 st	Complexity of internal procedures and controls	3.47
7 st	Large number of returns with a same submission date	3.33

*Scale of difficulty from 1 to 7.

Table 38 – Rio Grande do Sul - *ICMS* and *ICMS-ST* accrued credits: Main causes that hinder the compliance process.

4.2.7.6. Special Regimes, Tax Incentives and Industry-Based Controls

Concerning the special regimes, tax incentives and industrial-based controls in the State of Rio Grande do Sul, it is possible to infer that, in order to allow a better operating efficiency of the companies, it is usually necessary to obtain a variety of special regimes, in order to promote greater compliance among certain operations and the legislation, which include issuance and bookkeeping of tax documents, granting deferrals, incentives and tax benefits, different forms and terms of collection of the main *ICMS* obligations, among others. Moreover, most special regimes require additional information and additional controls that go beyond the tax determination.

Causas

According to the respondents, the cause that makes the compliance process more difficult in relation to *ICMS* special regimes, tax incentives and industry-based controls in the State of Rio Grande do Sul are the large volume of information required in the accessory liabilities, the obstacles to adaptation and adequacy of systems and the complexity of accessory liabilities, as shown in Table 39.

Ranking	Causes	Average Classification*
1 st	Liabilities with large volume of information	5.00
2 nd	Adaptation and adequacy of systems	4.71
3 rd	Complexity of accessory liabilities	4.43
4 st	Complexity of legislation	3.86
5 st	Large number of returns with a same submission date	3.71
6 st	Short time frame between preparation and submission	3.29
7 st	Complexity of internal procedures and controls	3.00

*Scale of difficulty from 1 to 7.

Table 39- Rio Grande do Sul - Special regimes, tax incentives and *ICMS* industry-based controls: Main causes that hinder the compliance process.

4.2.7.7. General Remarks and Possible Opportunities

From the comparative analysis, it was verified that some of the indicators of the State of Rio Grande do Sul are below the national average. The State has the lowest indexes for the stages of determination of *ICMS* (469 hours per year) and the elaboration of *EFD-ICMS/IPI* (60 hours per year), as well as total compliance (approximately 1.3 hours per year), among the eight States whose individual results are offered in this survey. In the stage of determination of *ICMS*, the hours spent in calculation and determination activities demanded about 70% of the total time incurred, provided that Rio Grande do Sul presented the highest percentage rate among the eight States.

With regard to the opportunities identified, one can highlight:

- The high level of compliance by *GIA-ICMS* to *EFD-ICMS/IPI* (87%) suggests that such accessory liability can be discontinued.
- As for the process of monetization of accrued credits, considering that, from the preparation of information to the effective conclusion thereof, the process is restrictive, there is a window of opportunity for the process to be simplified and start to use the information existing in the *EFD-ICMS/IPI*.

4.2.8. São Paulo

4.2.8.1. Sample Characterization

In the State of São Paulo, responses were obtained from 49 establishments, which are distributed among the economic segments as shown in Illustration 68.

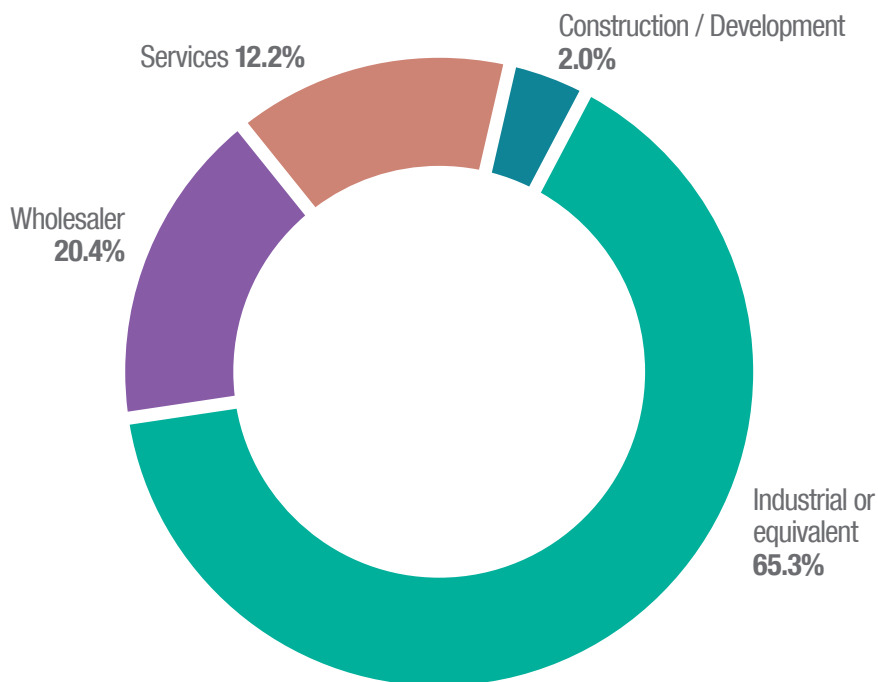


Illustration 68 - São Paulo: Economic segments of the establishments surveyed.

4.2.8.2. General Findings

For performance of all tax compliance in the state of São Paulo, an establishment of the companies surveyed dedicates, on average, approximately 5.5 thousand hours per year, which includes the stages of determination, preparation and performance of accessory liabilities, attainment of *CND*, compliance with inspections and management of administrative litigation related to state taxes.

4.2.8.3. General Findings per Stage

In the State of São Paulo, an establishment of the business groups surveyed incur on average, 3,173 hours, per year, for the determination of taxes, 1,013 hours for preparation and performance of accessory liabilities, 402 hours to carry out own inspections, 108 hours to carry out third party inspections, 539 for the management of administrative litigation and 274 hours to attain CND, as shown in illustrations 69 and 70.

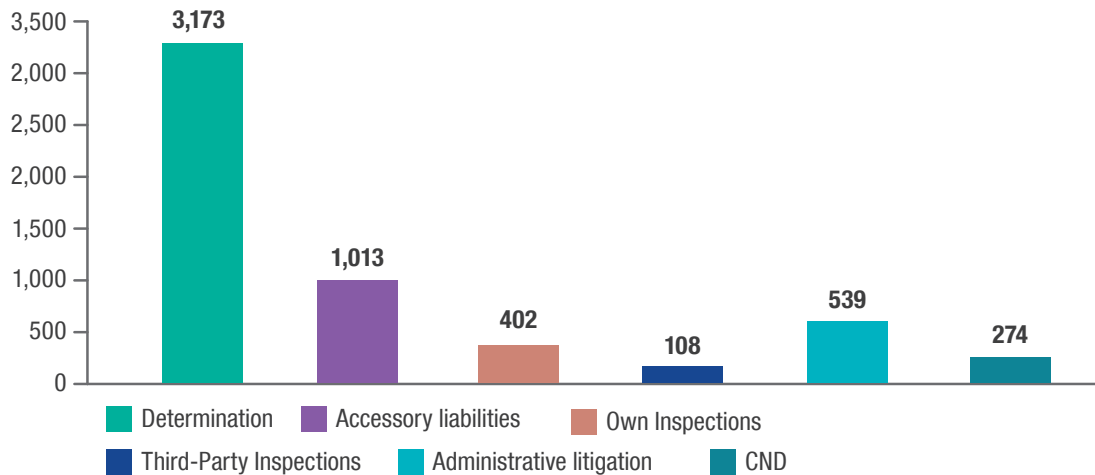


Illustration 69 - São Paulo: Average annual hours per stage.

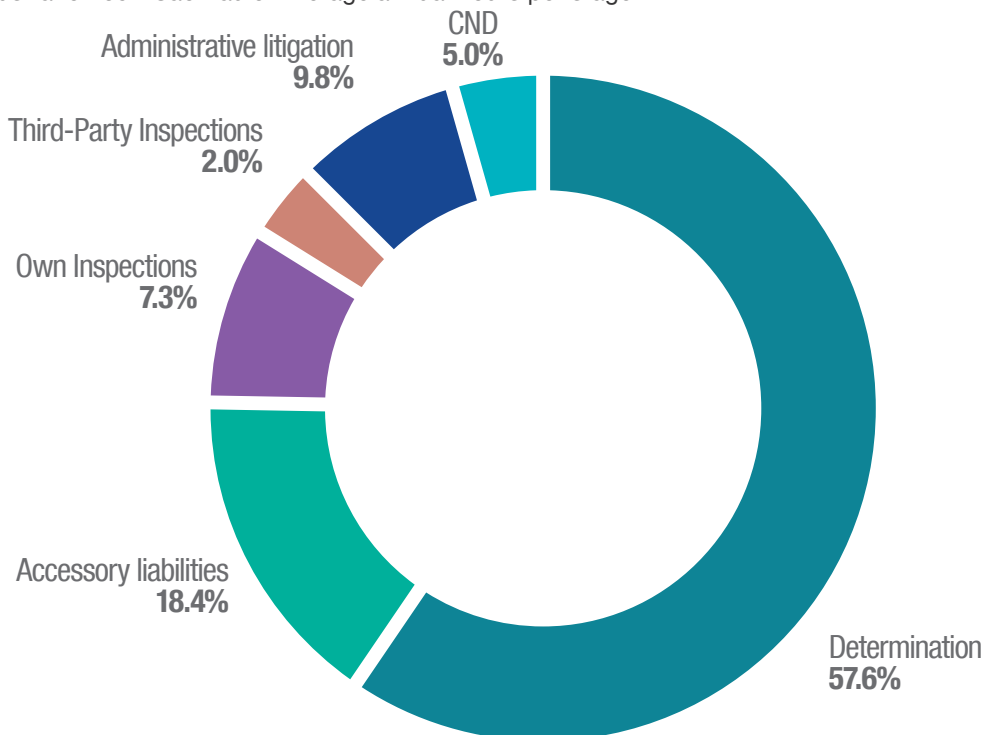


Illustration 70 - São Paulo: Average percentage distribution of the annual hours by stage.

Based on the findings above, we can conclude that, in the State of São Paulo, the stage that demands most time from the companies surveyed is that of determination, followed by the preparation of accessory liabilities and the management of administrative litigation.

The significant number of hours spent in inspections, both own and of third parties can be attributed to the fact that, although accessory liabilities present a high level of information provided substantially electronically, an additional effort is still required to comply with supplementary requests (information, calculation logs, reconciliations, specific statements etc.) required on-site by tax agents.

With regard to administrative litigation, the high number of hours presented reflects the complexity of the management of the infraction notices, which ranges from hiring law firms, to the preparation of technical reports, auxiliary controls, attachment of tax documents and all sub-sides required to support the administrative defense.

As regards the attainment of CND, we have verified that the absence of integration of the information between the State Treasury Attorney and the Treasury Department still requires an additional effort on the part of the taxpayers in relation to the proof of fiscal regularity or the presentation of guarantees for the suspension of the tax liability.

Table 40 shows the average number of people involved, without exclusive dedication, in the activities intended to carry out own and third-party inspections, management of administrative litigation and obtaining CND, in the State of São Paulo:

Activity	People involved
Own Inspections	2.5
Third-Party Inspections	2.1
Administrative litigation	2.8
CND	2.3

Table 40 - São Paulo: Average number of people involved in the activities intended to carry own and third-party inspections, management of administrative litigation and obtaining CND.

4.2.8.4. ICMS and ICMS-ST

In the State of São Paulo, the companies surveyed incurred, on average, per year, per establishment, approximately 2.8 thousand hours for compliance activities attributed to ICMS and ICMS-ST tax. Of this total of hours, on average, 2.3 thousand hours are applied for determination, provided that 1,780 hours determination of ICMS and 525 for determination of ICMS-ST, and 511 hours for the performance of accessory liabilities as shown in illustration 71 below.

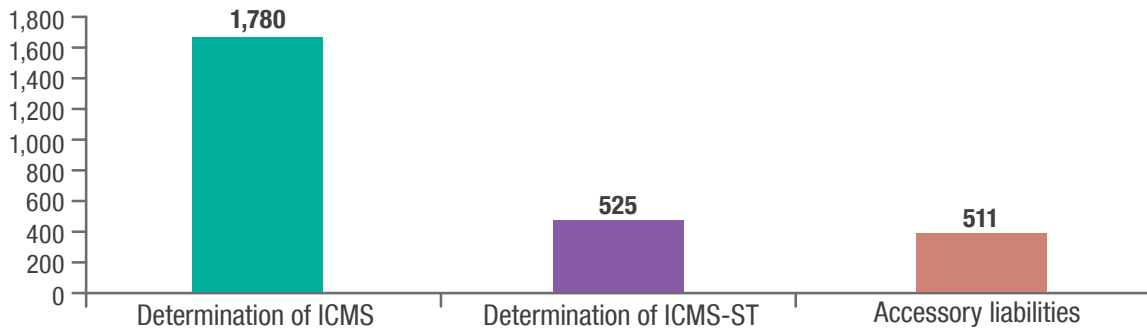


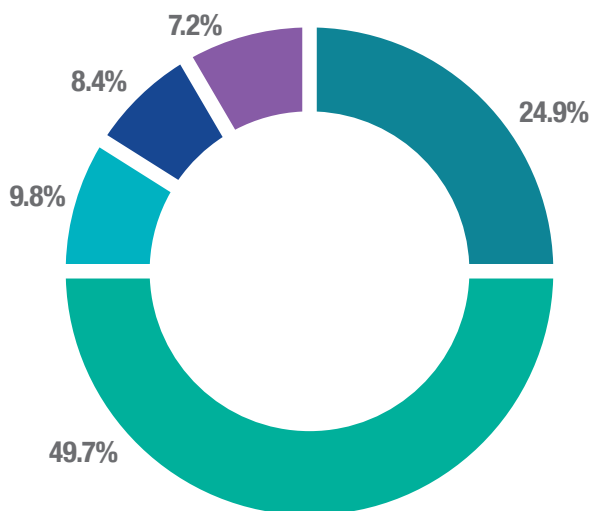
Illustration 71 - São Paulo – ICMS and ICMS-ST: Average annual hours per stage.

This result shows that, in the State of São Paulo, the ICMS determination stage requires more time from companies than other compliance activities related to state taxes.

Determination

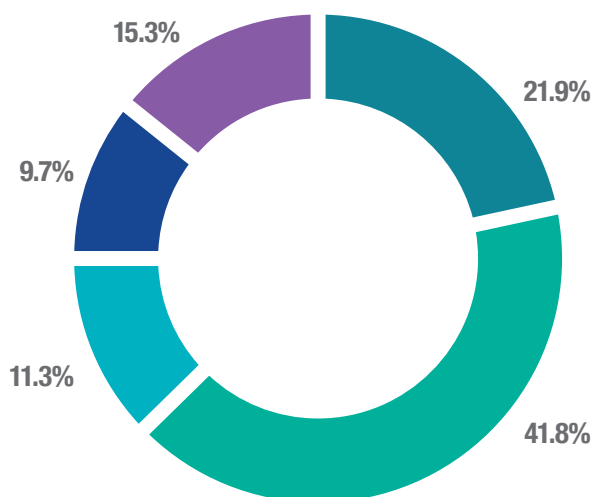
The high amount of time demanded from companies for the ICMS determination stage is explained by the fact that, prior to the determination of taxes, the taxpayer needs to perform several other

activities, such as monitoring of legislation, implementation in a systemic environment and impact assessment, bookkeeping of tax documents management of auxiliary controls, among others. Thus, the survey sought to discriminate the time spent for these specific items of the determination stage, as can be observed in illustrations 72 and 73.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: CIAP).
- Other determination-related activities.

Illustration 72 - São Paulo – ICMS: Average percentage distribution of the annual hours for determination.



- Activities deriving from monitoring of legislation, implement on system environment and evaluation of impact on business.
- Calculation and determination (writing of tax documents [NF and NF-e “.xml”], entries of calculation and assessment).
- Calculation review.
- Auxiliary control management (for example: GNRE, ICMS-ST in advance).
- Other determination-related activities.

Illustration 73 - São Paulo – ICMS-ST: Average percentage distribution of the annual hours for determination.

Illustrations 72 and 73 show that the share related to the calculation and determination of the tax represented 49.7% (*ICMS*) and 41.8% (*ICMS-ST*) of the total time of the calculation process. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml); document checking; storage; bookkeeping; calculation of *ICMS* and *ICMS-ST*; sample analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments in graphic account, such as distinguished tax rates, chargebacks, etc.

Moreover, the survey sought to identify, in a segregated way, the impacts of time spent on legislation monitoring and watching, implementation of the systemic environment and impact assessment in business, such as the inclusion or removal of products from the *ICMS* tax substitution regime, the signing of Protocols among some States, reduction or increase of the tax burden, etc. These controls demanded 24.9% (*ICMS*) and 21.9% (*ICMS-ST*) of the total hours incurred.

In addition to the activities already mentioned, the survey showed that the amount of time spent with the management of auxiliary controls (CIAP [G-Block of EFD-*ICMS*/IPI], GNRE, *ICMS-ST* in advance, among others) is also relevant. This is due to the fact that these tax controls require from the companies peculiar rules of determination, which require a greater amount of data and documentation to be captured for the calculation to be carried out, and further require, for the operation thereof, a greater degree of specialization of the professionals involved.

Accessory liabilities

Regarding the preparation and performance of the *ICMS* and *ICMS-ST* accessory liabilities in the State of São Paulo, according to the answers available, the companies surveyed devote an average of 511 annual hours per year, per establishment. Illustrations 74 and 75 show the average amount of annual hours incurred by each accessory liability applicable in the State of São Paulo that was the object of the survey.

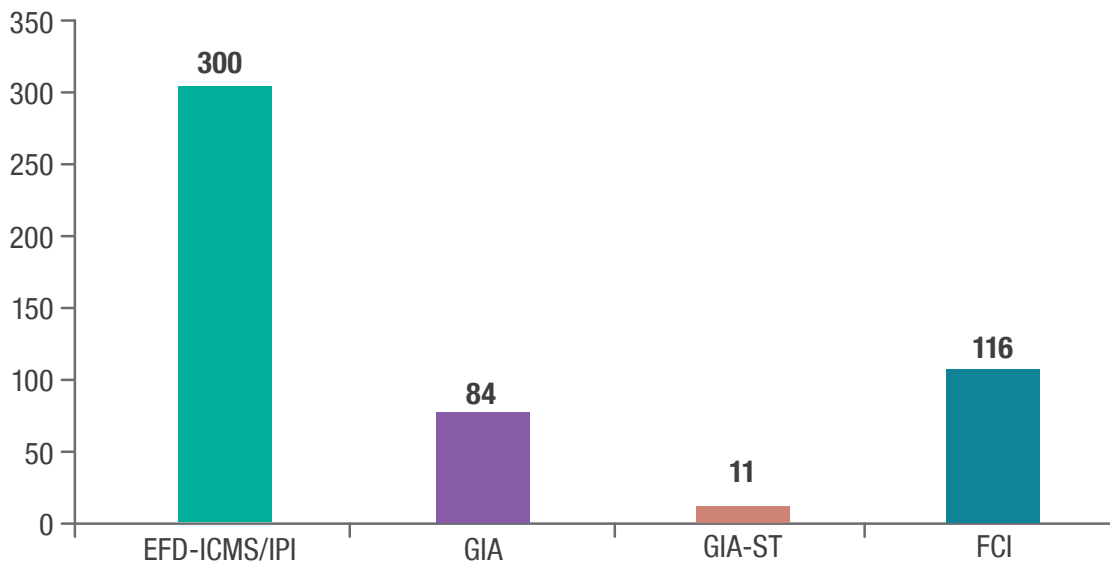


Illustration 74 - São Paulo – *ICMS* and *ICMS-ST*: Average annual hours per accessory liability.

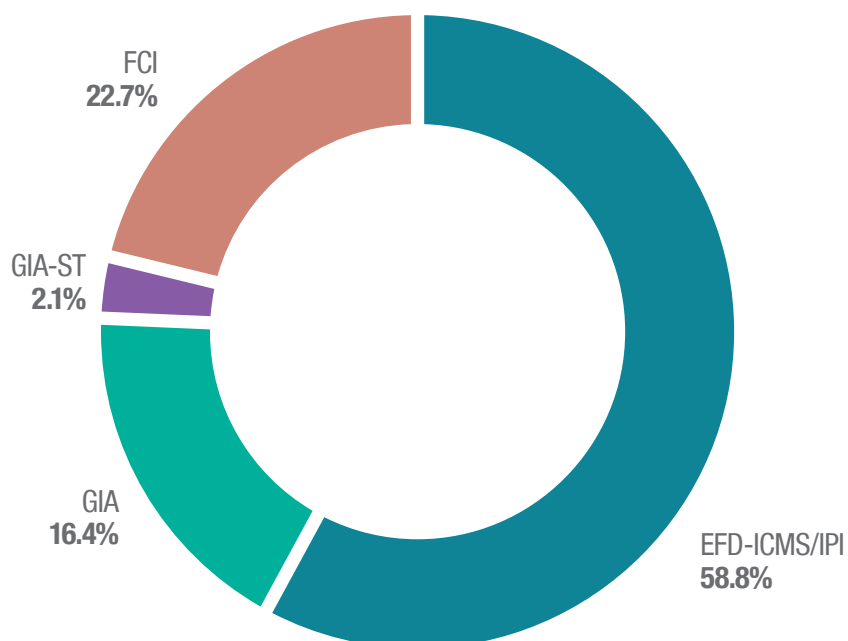


Illustration 75 - São Paulo: Average annual percentage distribution of hours per accessory liability.

The results obtained are above the national average. Considering that the State of São Paulo concentrates large part of Brazilian industrial production, the diversification of activities, the size of the companies and the complexity of operations demand greater detailing of information to comply with the accessory liabilities, which justifies the amount of hours presented for EFD- ICMS/IPI, as well as for FCI.

The justification for the greater number of hours incurred in completing the EFD-ICMS/ IPI to be greater than required for GIA, is that the first accessory liability requires a much greater level of details of the information than the second one. According to our analyzes, 84% of the information contained in the GIA is already included in the EFD-ICMS/ IPI records.

Information on the level of compliance of GIA-ST and FCI to EFD-ICMS/IPI is provided in section 4.1.3 of this survey.

Causes

According to the respondents, the main difficulties faced by taxpayers in the entire compliance process related to ICMS and ICMS-ST in the State of São Paulo are the obstacles to the adaptation and adequacy of systems, the great volume of information required and the complexity of accessory liabilities, as shown in the Table 41.

Ranking	Causes	Average Classification*
1 st	Adaptation and adequacy of systems	4.91
2 nd	Liabilities with large volume of information	4.41
3 rd	Complexity of accessory liabilities	4.11
4 st	Complexity of legislation	4.00
5 st	Short time frame between preparation and submission	3.91
6 st	Complexity of internal procedures and controls	3.85
7 st	Large number of returns with a same submission date	2.80

*Scale of difficulty from 1 to 7.

Table 41 - São Paulo – ICMS and ICMS-ST: Main causes that hinder the compliance process.

Number of people involved

Table 42 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to *ICMS* and *ICMS-ST*, in the State of São Paulo.

Activity	People involved
<i>Determination</i>	
ICMS	5.5
ICMS-ST	3.4
<i>Accessory liabilities</i>	
EFD-ICMS/IPI	2.0
GIA	1.6
FCI	1.6

Table 42 - São Paulo – *ICMS* and *ICMS-ST*: Average number of people involved per activity.

4.2.8.5 *ICMS* and *ICMS-ST* Accrued Credits

The companies surveyed incurred, on average, per year, per establishment, 1.5 hours and 2.4 people for the compliance related to *ICMS* and *ICMS-ST* accrued credits in the State of São Paulo. This total is distributed among the activities of determination of accrued credits, preparation and delivery of accessory liabilities for accrued credits, homologation and monetization of credits, as can be seen in Illustration 76.

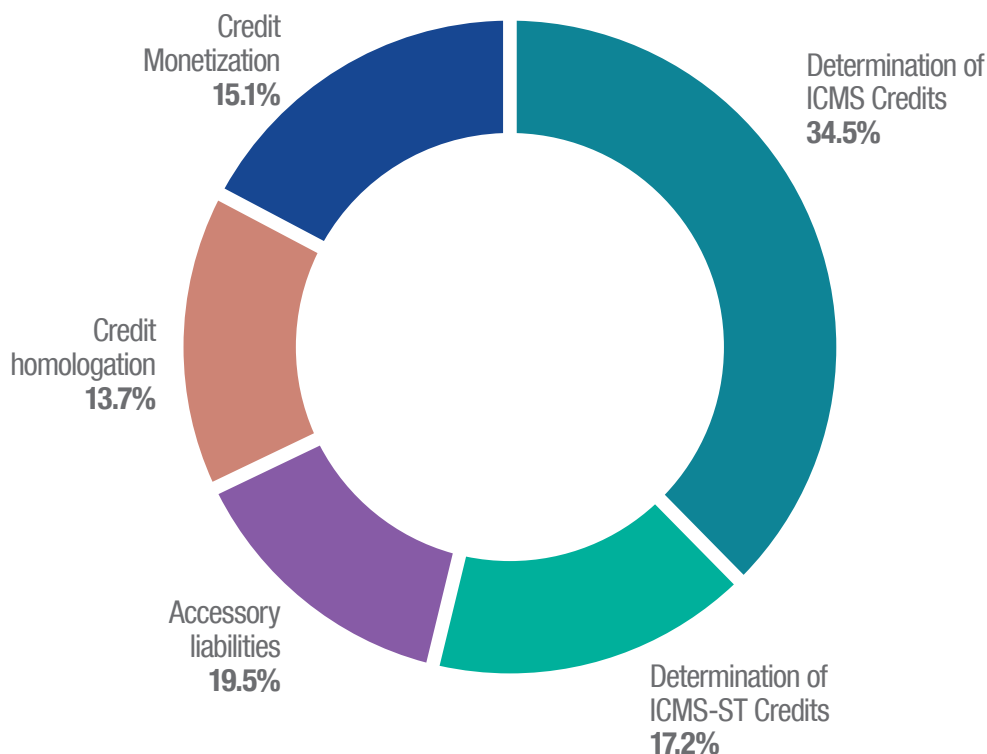


Illustration 76 - São Paulo - *ICMS* and *ICMS-ST* accrued credits: Average percentage distribution of the annual hours for compliance activities.

The analysis of the graph above shows that more than 50% of the time spent refers to the calculation of *ICMS* or *ICMS-ST* credit balances to convert them into credits sub-

ject to monetization. Moreover, approximately 30% of the hours are dedicated to the generation of the controls and documentation required by the tax authorities, as well as the homologation by the tax authorities.

By way of example, according to our analyzes, 64% of the information contained in the Accrued Credit Electronic Management System (e-CredAc) are already included in the EFD-ICMS/IPI records.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to ICMS and ICMS-ST accrued credits in the State of São Paulo is the complexity of the accessory liabilities, followed by the obstacles for adaptation and adequacy of systems, and the complexity of the legislation, as shown in Table 43.

Ranking	Causes	Average Classification*
1 st	Complexity of accessory liabilities	4.82
2 nd	Adaptation and adequacy of systems	4.67
3 rd	Complexity of legislation	4.33
4 st	Complexity of internal procedures and controls	4.09
5 st	Liabilities with large volume of information	3.78
6 st	Short time frame between preparation and submission Large number of returns with a same submission date	3.16 3.16

*Scale of difficulty from 1 to 7.

Table 43 - São Paulo - ICMS and ICMS-ST accrued credits: Main causes that hinder the compliance process.

In view of the results presented, one concludes that, from the preparation of the information to its effective monetization, the process is composed of several complex stages that require additional commitment of professionals of the fiscal area to produce the information required that arise from several areas, mainly tax, cost accounting and operating areas.

4.2.8.6. Special Regimes, Tax Incentives And Industry-Based Controls

The companies surveyed dedicate, on average, per year, per establishment, 1.3 hours to compliance activities attributed to special regimes, tax incentives and ICMS industry-based controls in the State of São Paulo. Of this total of hours, on average, 618 hours are applied for determination, management and control, and 724 hours for the performance of accessory liabilities, as summarized in Illustration 77:

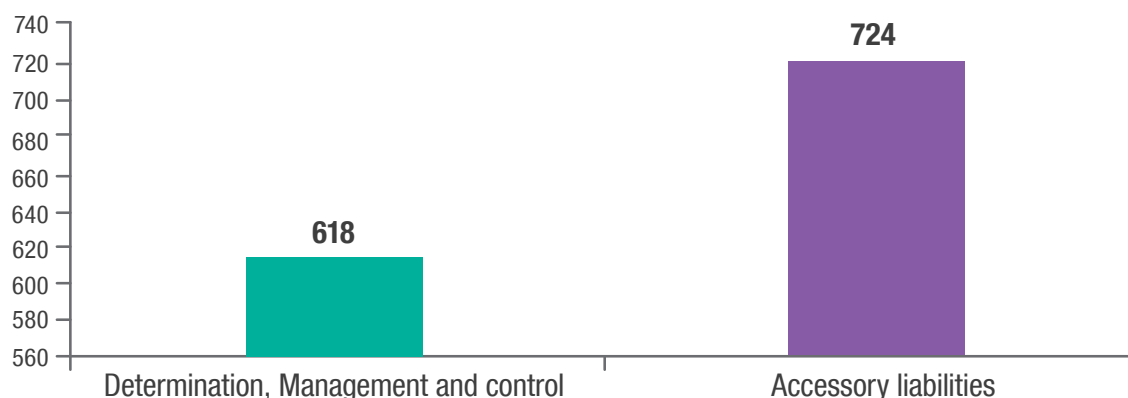


Illustration 77 - São Paulo – Special regimes, tax incentives and ICMS industry-based controls: Average annual hours per stage.

From the analysis of the graph above, one can infer that the compliance stages related to specific special regimes, tax incentives and industry-based controls require approximately 30% of the time incurred for all tax compliance in the State of São Paulo.

In order to allow a better operating efficiency of the companies, it is usually necessary to obtain a variety of special regimes, in order to promote greater compliance among certain operations and the legislation, which include issuance and bookkeeping of tax documents, granting deferrals, incentives and tax benefits, different forms and terms of collection of the main *ICMS* obligations, among others. Moreover, most special regimes require additional information and additional controls that go beyond the tax determination.

Causes

According to the respondents, the cause that makes the compliance process more difficult in relation to special regimes, tax incentives and *ICMS* industry-based controls in the State of São Paulo are the complexity of accessory liabilities, followed by the obstacles for adaptation and adequacy of systems and the complexity of legislation, as shown in Table 44.

Ranking	Causes	Average Classification*
1 st	Complexity of accessory liabilities	4.71
2 nd	Adaptation and adequacy of systems	4.53
3 rd	Complexity of legislation	4.33
4 st	Complexity of internal procedures and controls	4.11
5 st	Liabilities with large volume of information	4.06
6 st	Short time frame between preparation and submission	3.88
7 st	Large number of returns with a same submission date	2.94

*Scale of difficulty from 1 to 7.

Table 44 - São Paulo – Special regimes, tax incentives and *ICMS* industry-based controls: Main causes that hinder the compliance process.

Number of people involved

Table 45 shows the average number of people involved, without exclusive dedication, in some of the tax compliance activities related to special regimes, tax incentives and *ICMS* industry-based controls, in the State of São Paulo.

Activity	People involved
Determination, management and control	2.2
Accessory liabilities	1.6

Table 45 - São Paulo – Special regimes, tax incentives and *ICMS* industry-based controls: Average number of people involved per activity.

4.2.8.7. General Remarks And Possible Opportunities

By comparative analysis of the averages of the State of São Paulo in relation to the national averages, it was verified that:

- The annual charge spent on determination of *ICMS* (1,780 hours) and to prepare all accessory liabilities in the State of São Paulo (1,013 hours) is substantially higher than the national average (938 and 292 hours, respectively).
- Compared to the national average, São Paulo companies spend fewer hours per year

- to carry out inspections (510 hours, compared to 1,011 hours in the national average).
- One can infer that the process for obtaining CND in the State of São Paulo tends to be more efficient, inasmuch as the annual load spent in this process is below the national average (274 among São Paulo companies, compared to 453 in the national average).

With regard to the opportunities identified, one can highlight:

- Adjustments in the State legislation could eliminate a large number of special regimes and the consequent preparation of additional information and supporting reports usually required in this process.
- As for e-CredAc, as this obligation requires from taxpayers a considerable amount of time to complete it, despite its reasonable level of compliance to EFD-ICMS/IPI (64%), there is a window of opportunity for it to be simplified or incorporated into EFD-ICMS/IPI.
- As regards GIA, the high level of compliance to EFD-ICMS/IPI (84%) suggests that such accessory liability can be discontinued.

4.3. Comparative Results

The following is a comparative overview of all the results by State already analyzed and previously discussed with the national results.

4.3.1. General Findings per Stage

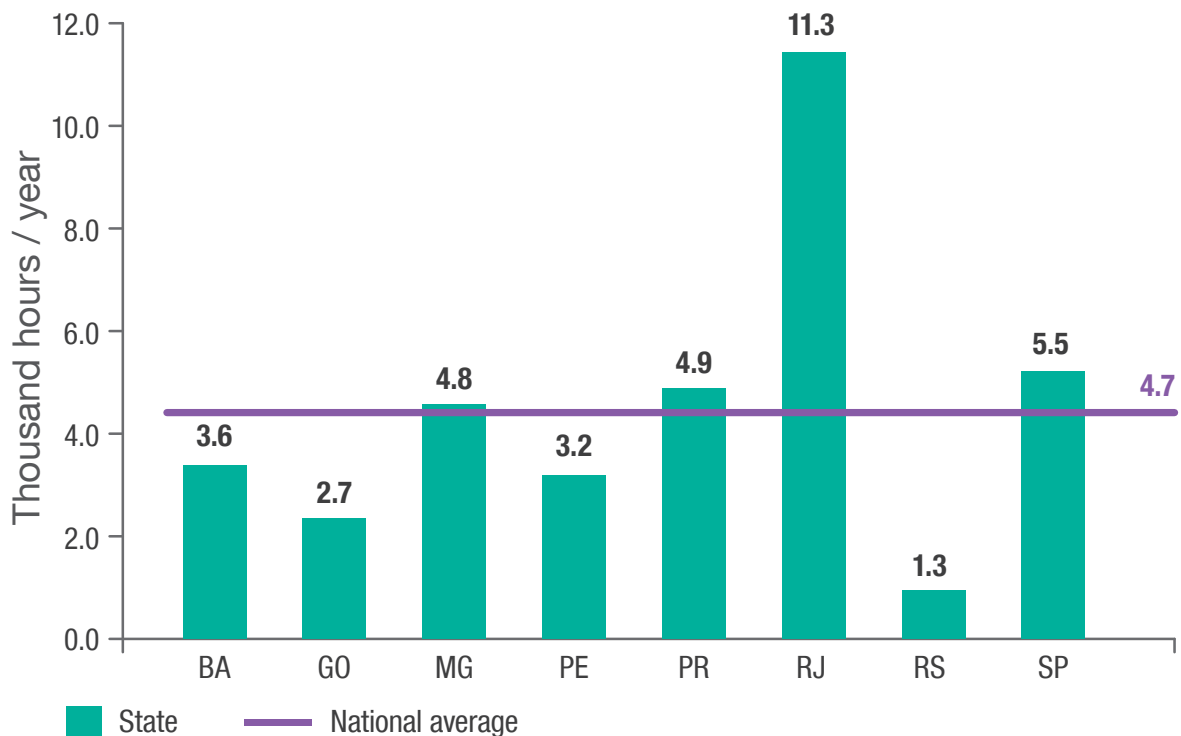


Illustration 78 - Average annual hours incurred for state tax compliance.

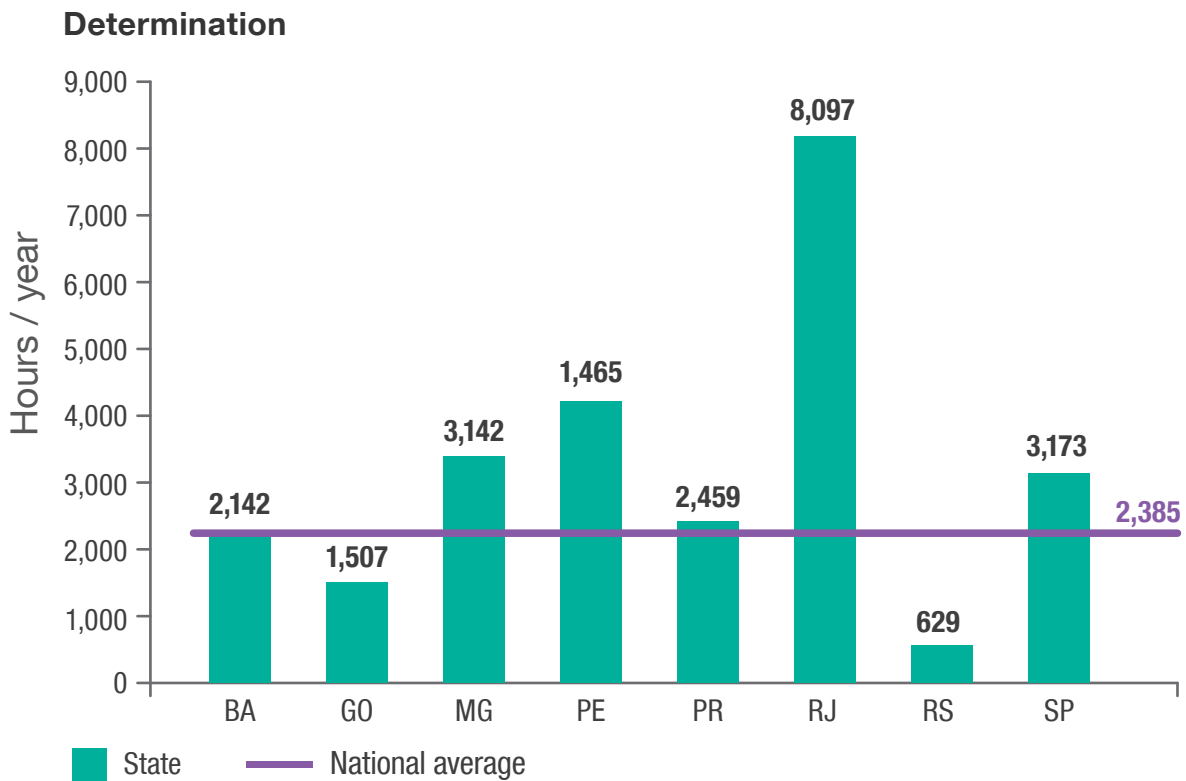


Illustration 79 - Average annual hours incurred for the determination stage.

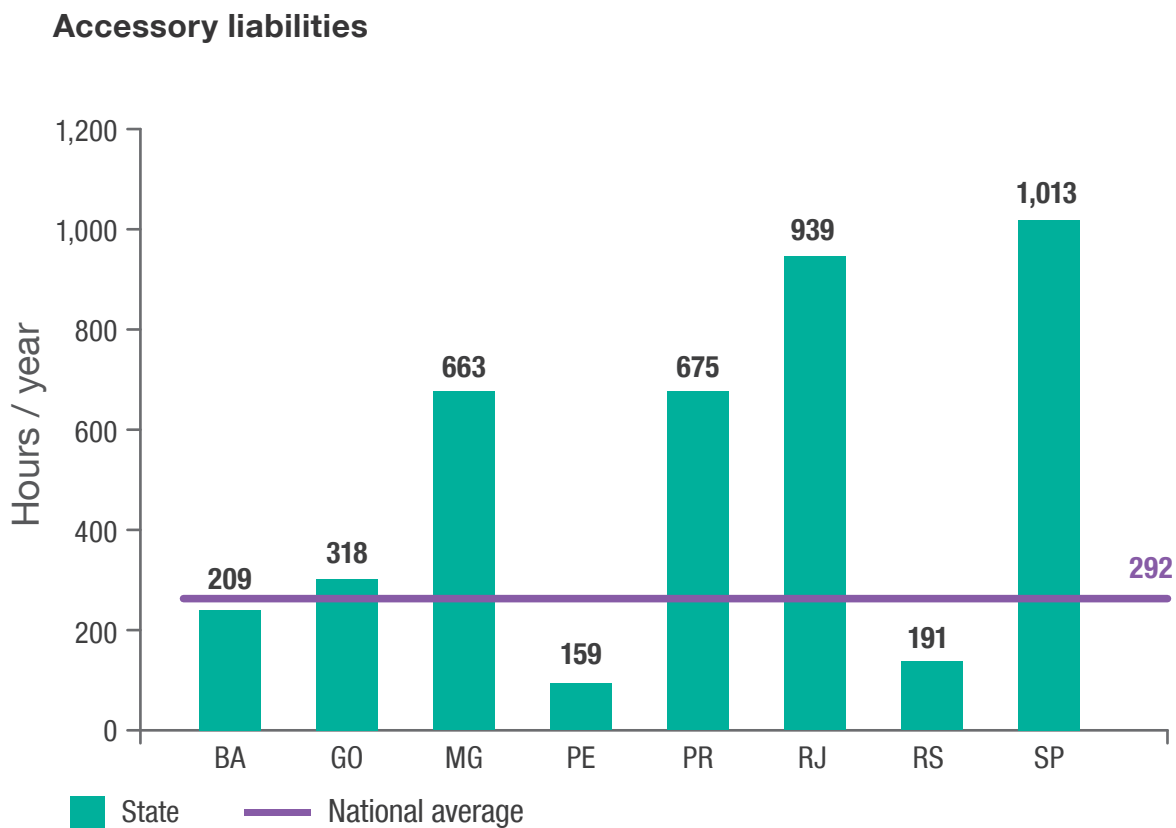


Illustration 80 - Average annual hours incurred for the accessory liabilities stage.

Own inspections

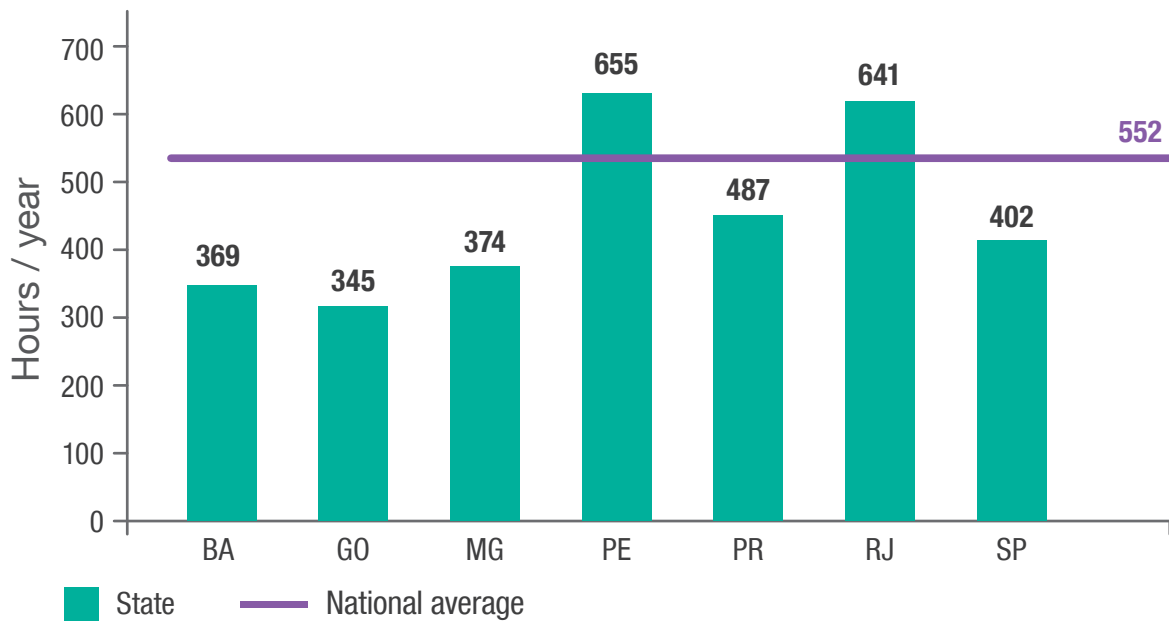


Illustration 81 - Average annual hours incurred for the stage of own inspections.

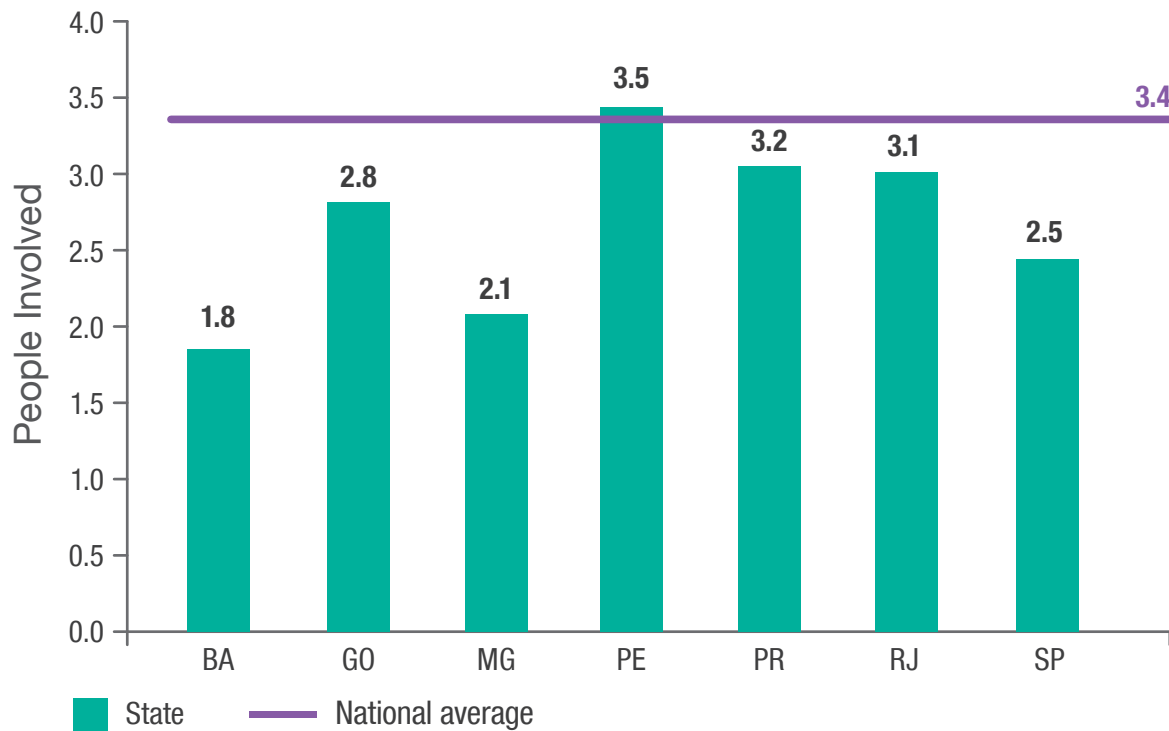


Illustration 82 - Average number of people involved in the stage of own inspections.

Third Party inspections

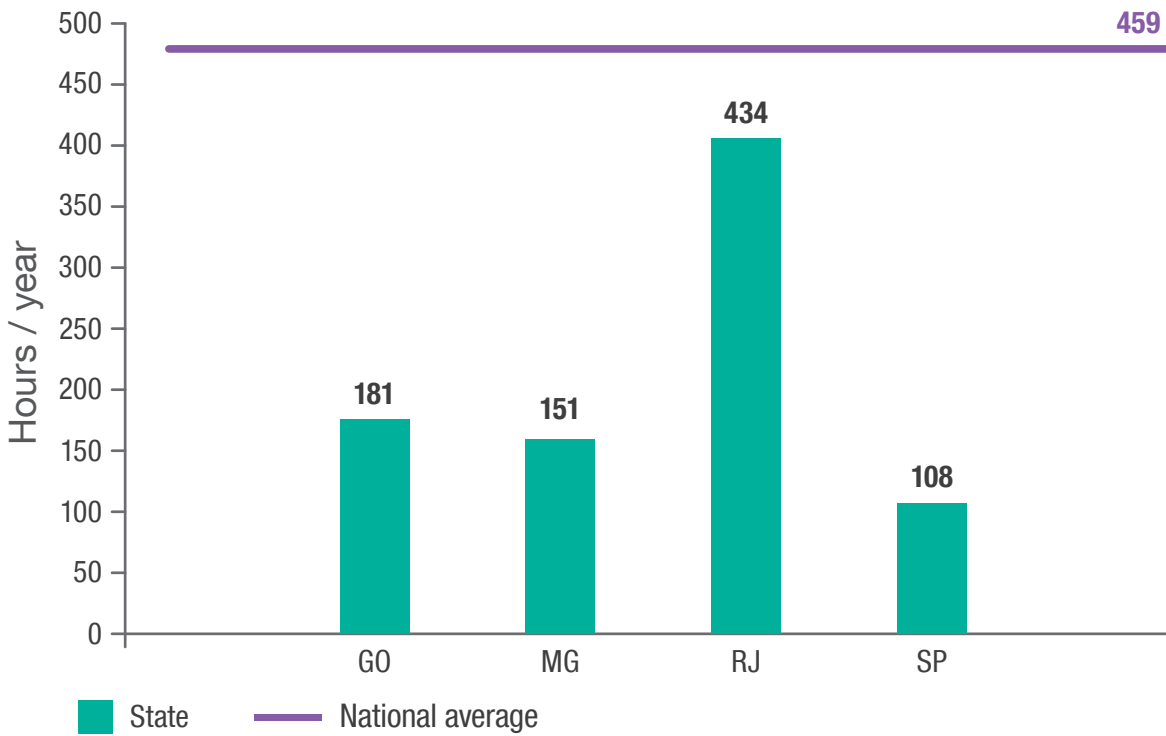


Illustration 83 - Average annual hours incurred for the stage of third party inspections.

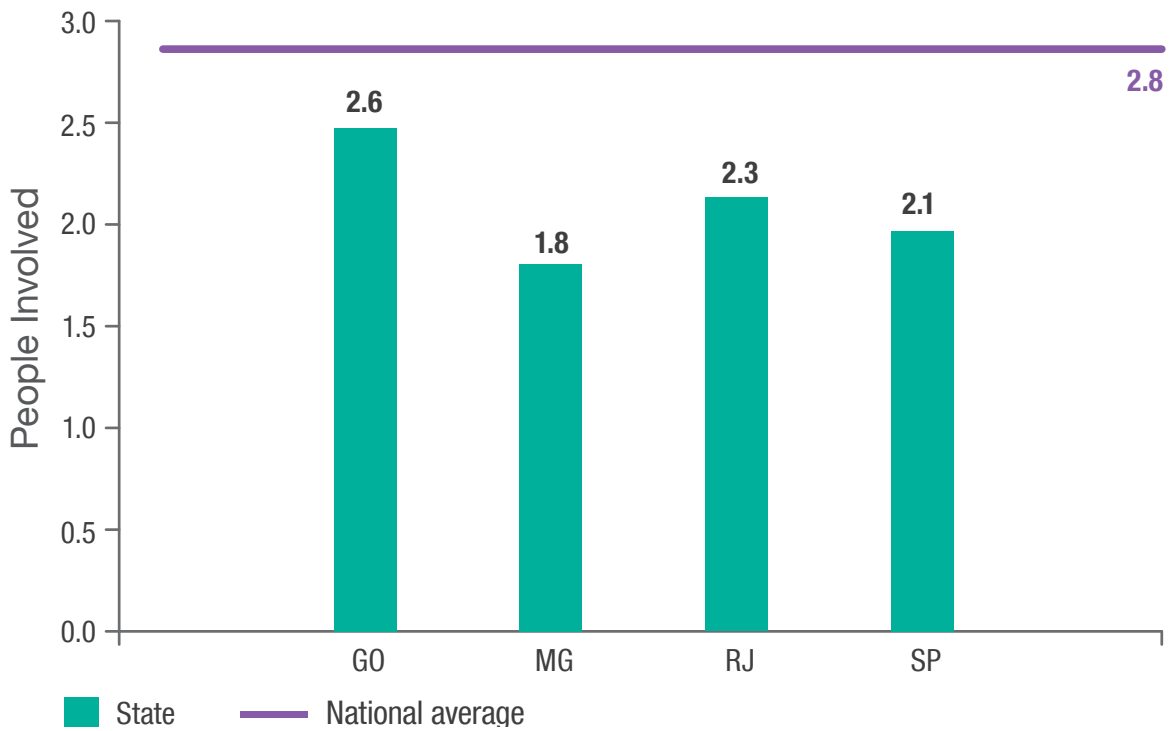


Illustration 84 - Average number of people involved in the stage of third party inspections.

Administrative litigation

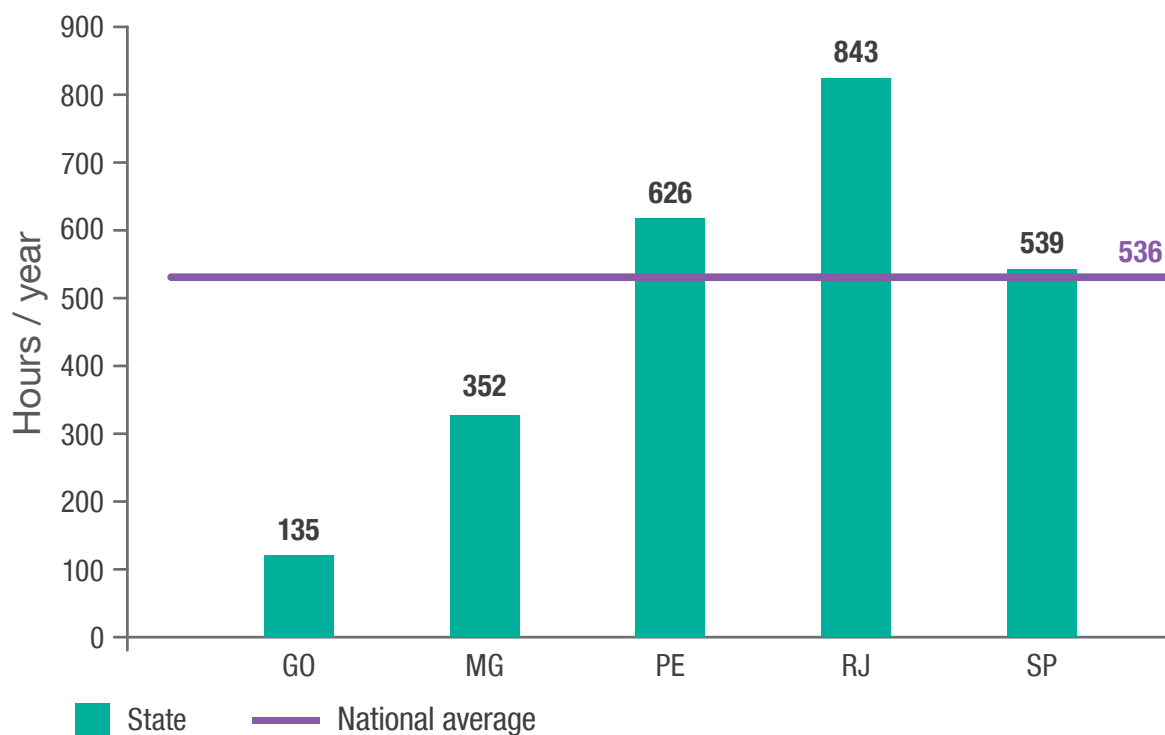


Illustration 85 - Average annual hours incurred for the management of administrative litigation.



Illustration 86 - Average number of people involved for the management of administrative litigation.

Obtaining CND

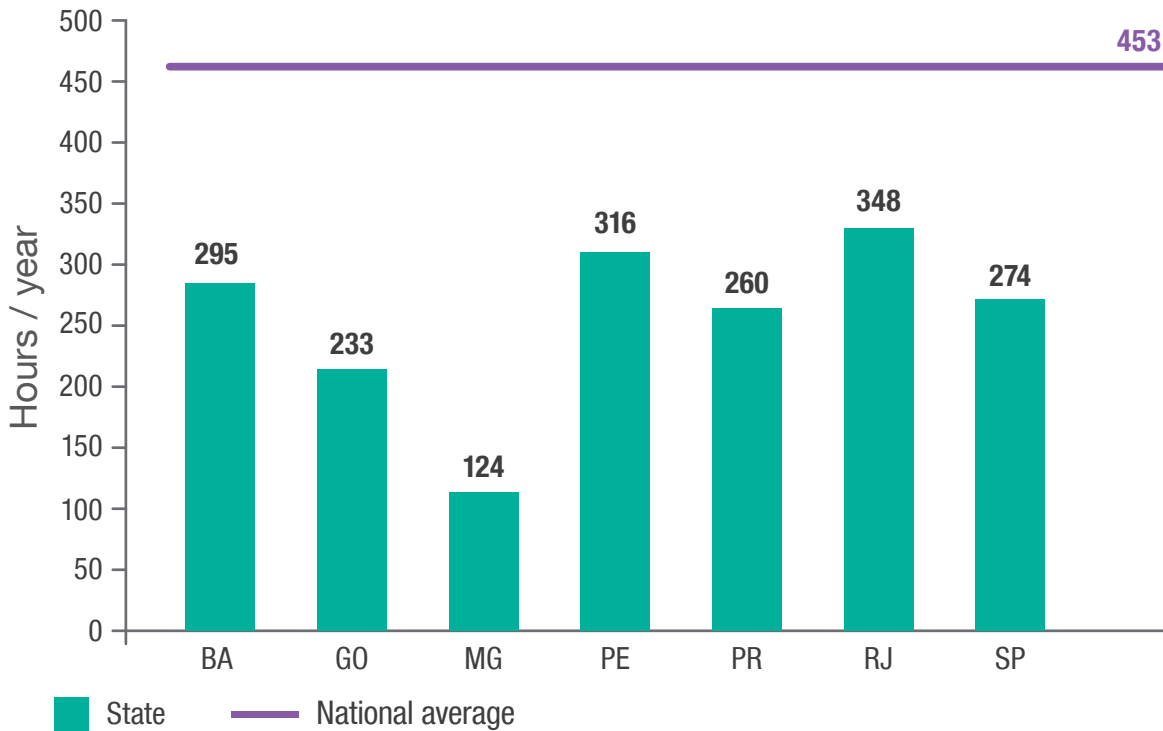


Illustration 87 - Average annual hours incurred for the step of obtaining CND.

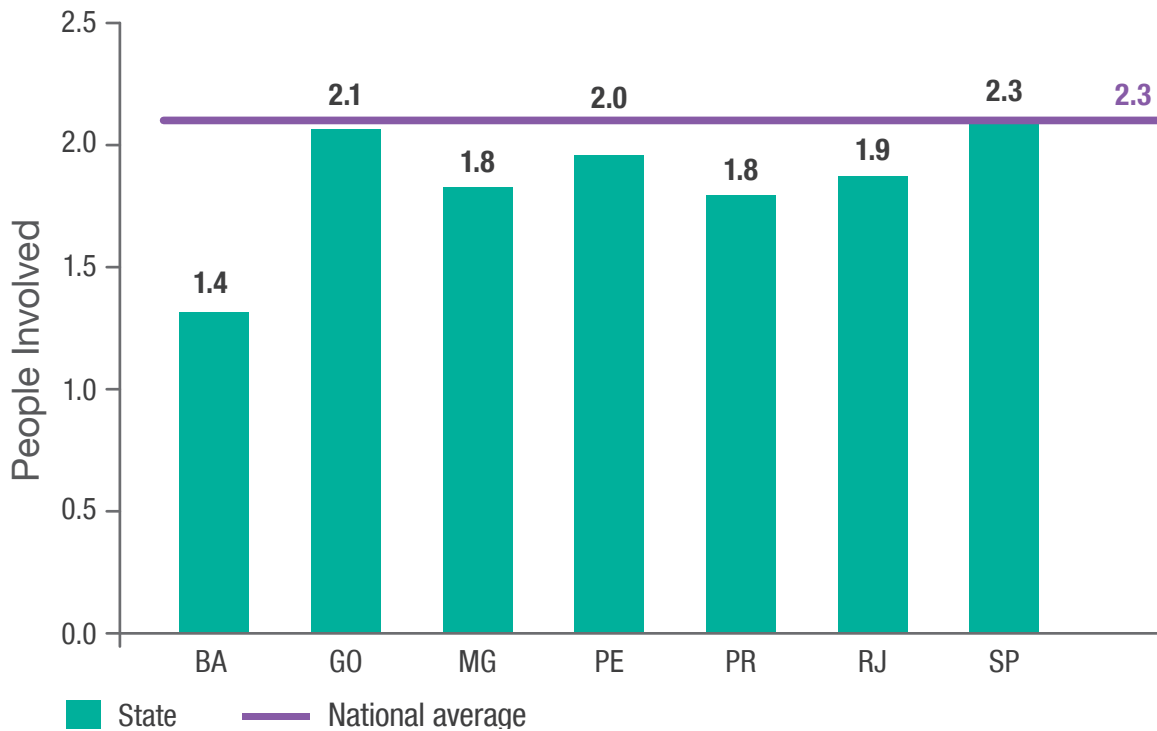


Illustration 88 - Average number of people involved in the stage of obtaining CND.

4.3.2. ICMS and ICMS-ST

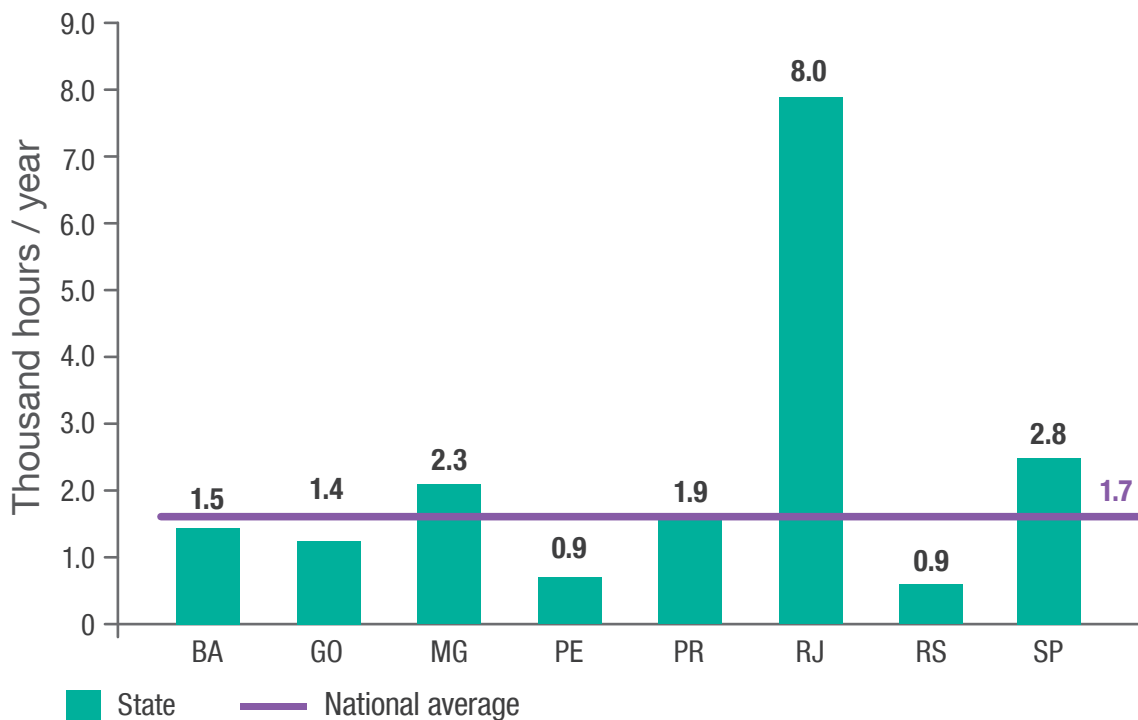


Illustration 89 - Average annual hours incurred for the compliance of ICMS and ICMS-ST.

ICMS Determination

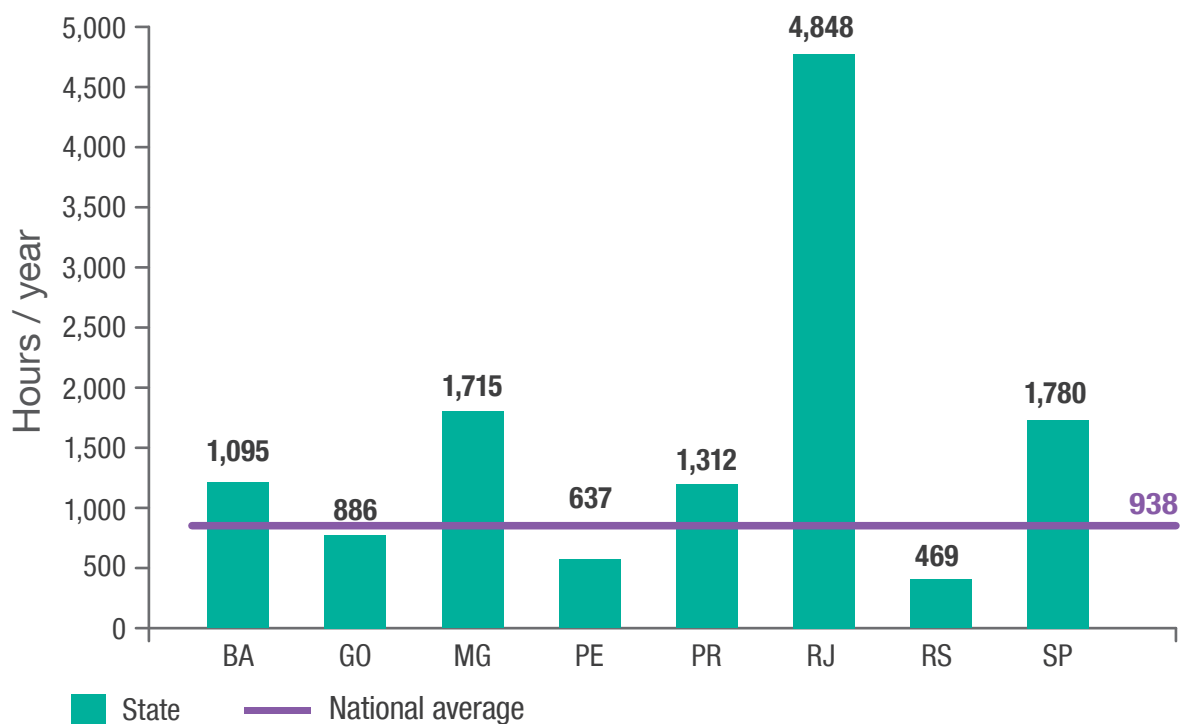


Illustration 90 - Average annual hours incurred for the ICMS determination.

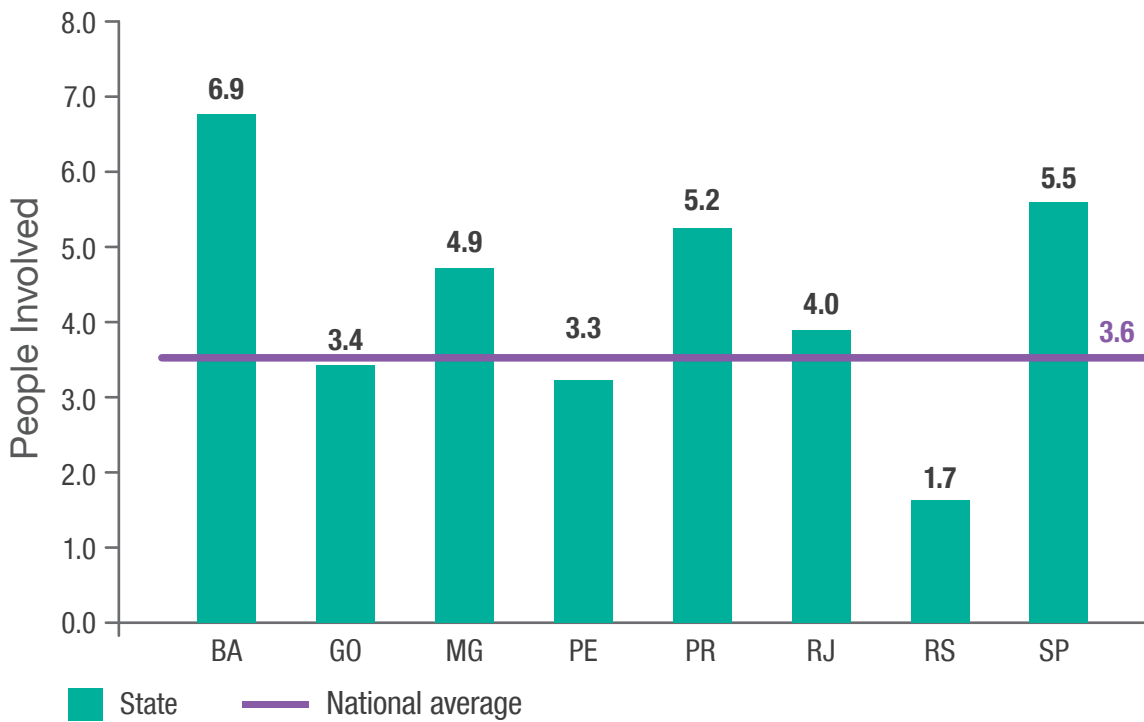


Illustration 91 - Average number of people involved in the ICMS determination.

ICMS-ST Determination

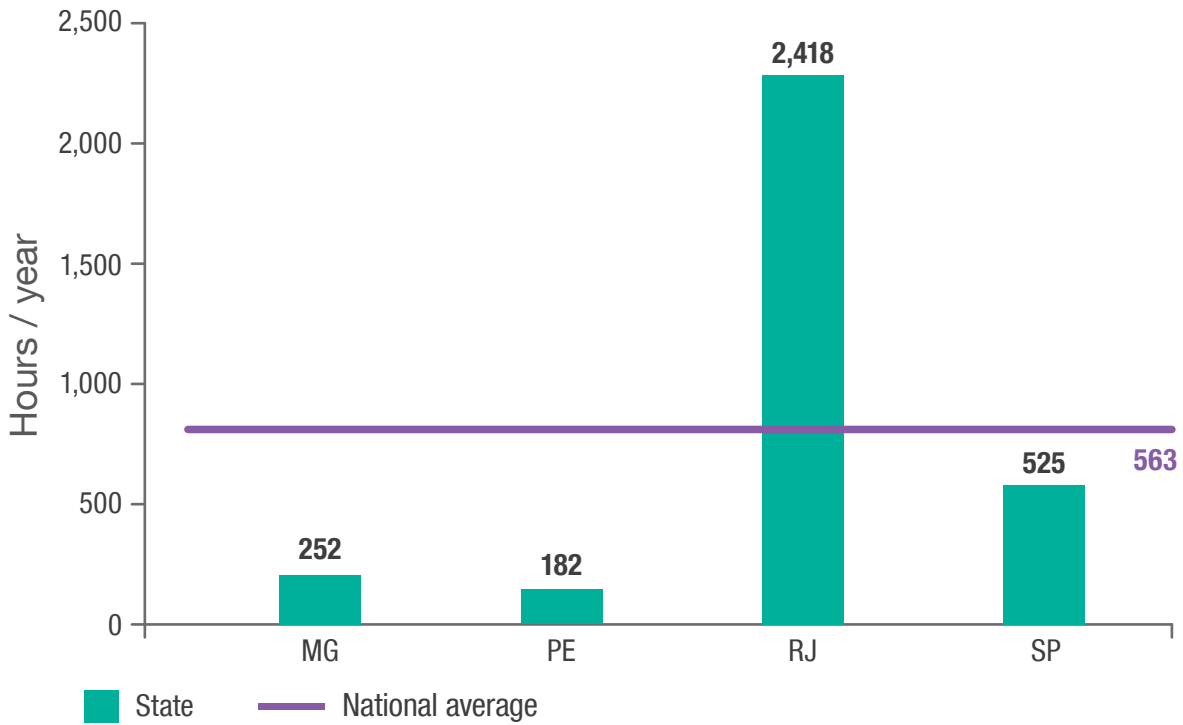


Illustration 92 - Average annual hours incurred for the ICMS-ST determination.

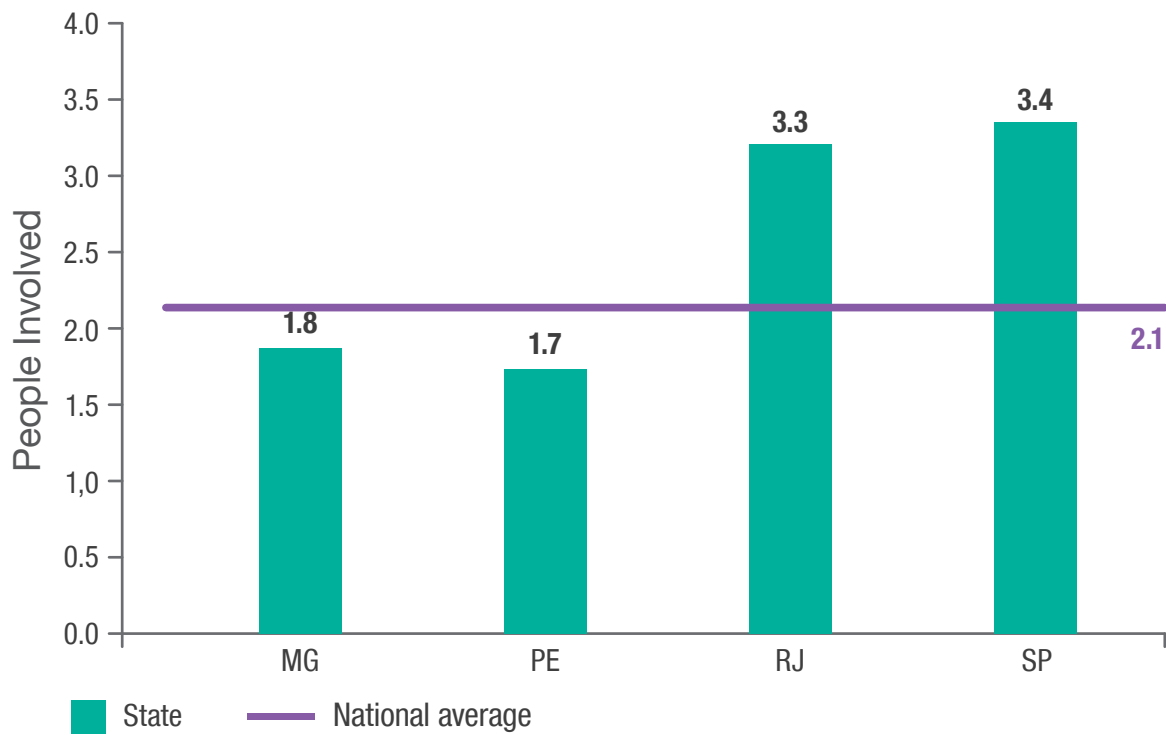


Illustration 93 - Average number of people involved in the ICMS-ST determination.

Accessory liabilities

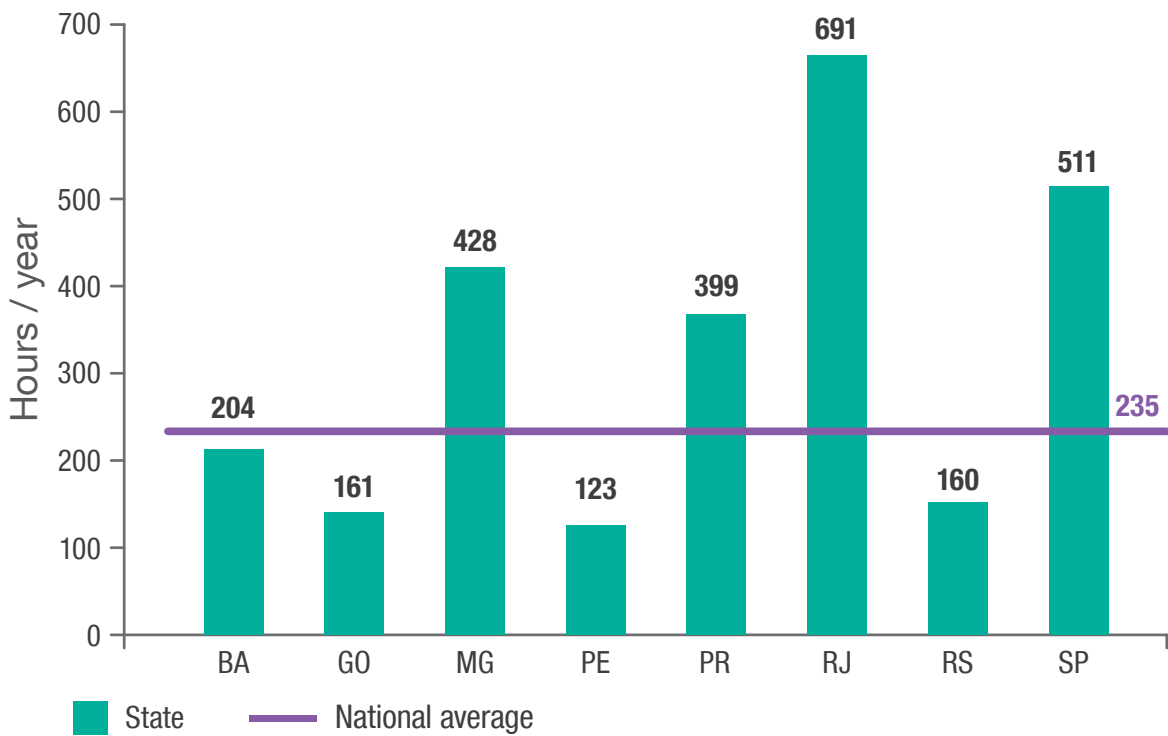
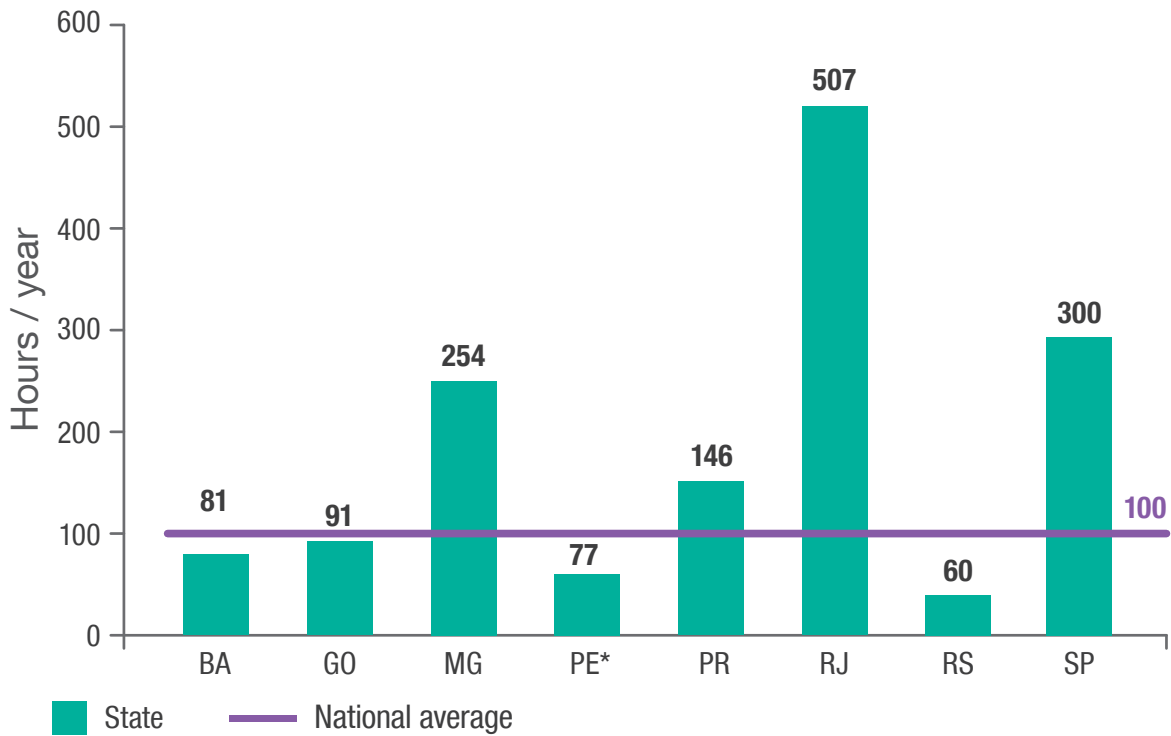
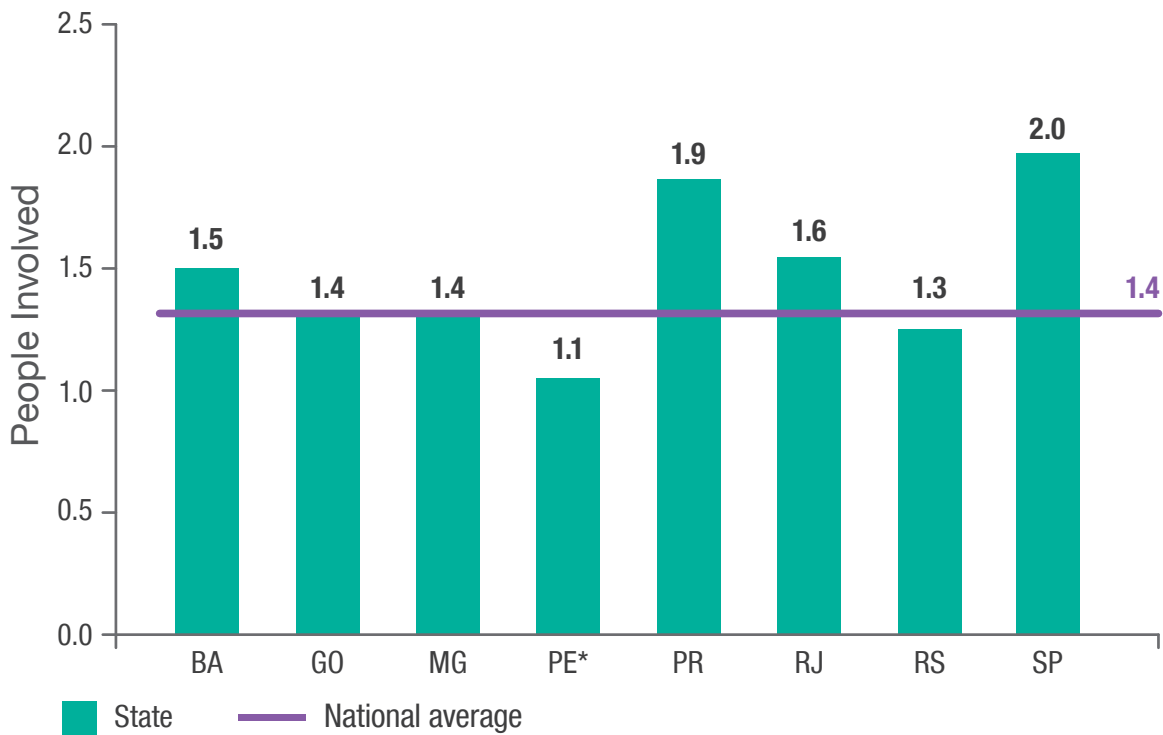


Illustration 94 - Average annual hours incurred for the accessory liabilities related to ICMS and ICMS-ST.

EFD-ICMS/IPI



*In the State of Pernambuco, the SEF was considered for the purposes of comparison.
Illustration 95 - Average annual hours incurred for preparation of EFD-ICMS/IPI.



*In the State of Pernambuco, the SEF was considered for the purposes of comparison.
Illustration 96 - Average number of people involved in the preparation of EFD-ICMS/IPI.



Illustration 97 - Average annual hours incurred for preparation of FCI.



Illustration 98 - Average number of people involved in the preparation of FCI.

GIA-ST

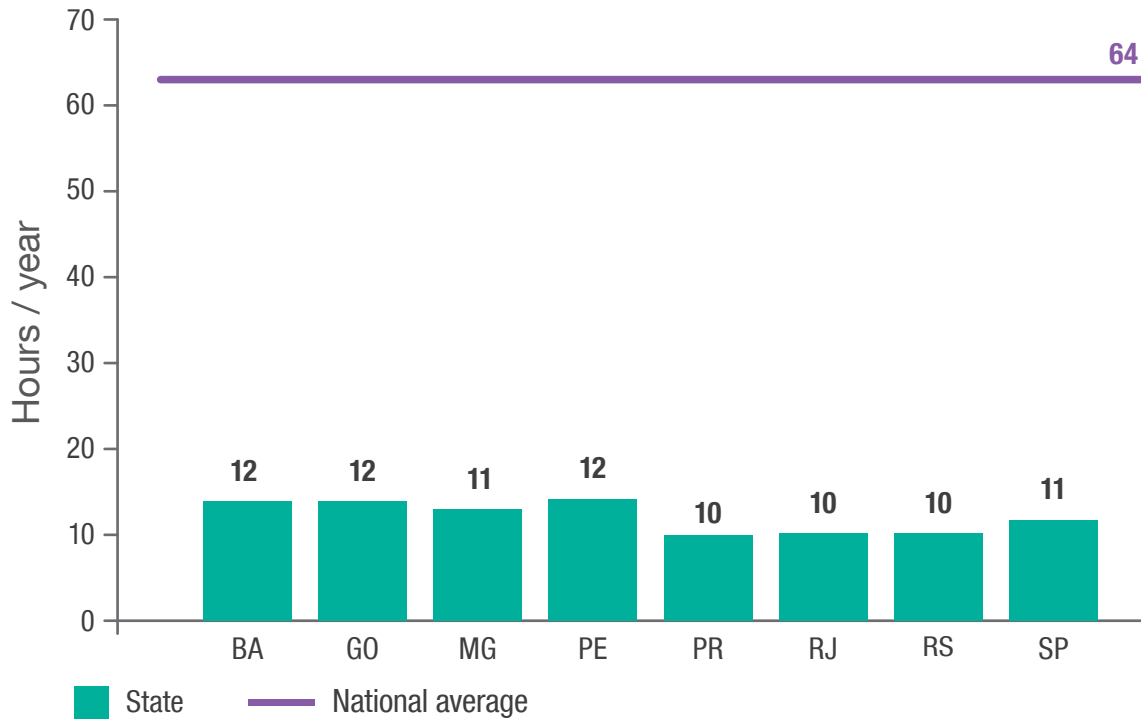


Illustration 99 - Average annual hours incurred for preparation of GIA-ST.

4.3.3. ICMS and ICMS-ST Accrued Credits

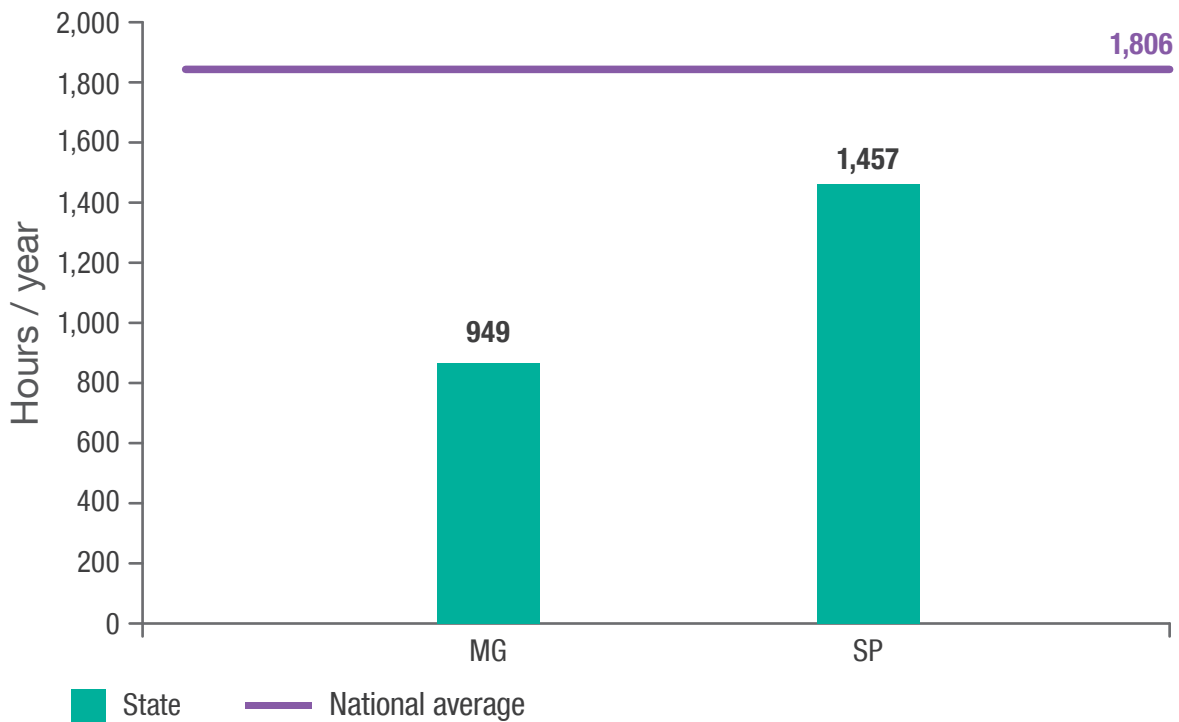


Illustration 100 - Average annual hours incurred for the compliance in relation to ICMS and ICMS-ST accrued credits.



Illustration 101 – Average number of people involved for the compliance in relation to ICMS and ICMS-ST accrued credits.

4.3.4. Special Regimes, Tax Incentives And Industry-Based Controls



Illustration 102 - Average hours incurred per year for compliance with the special regimes, tax incentives and industry-based controls.

Determination, management and control



Illustration 103 - Average hours incurred per year for determination, management and control of special regimes, tax incentives and industry-based controls.

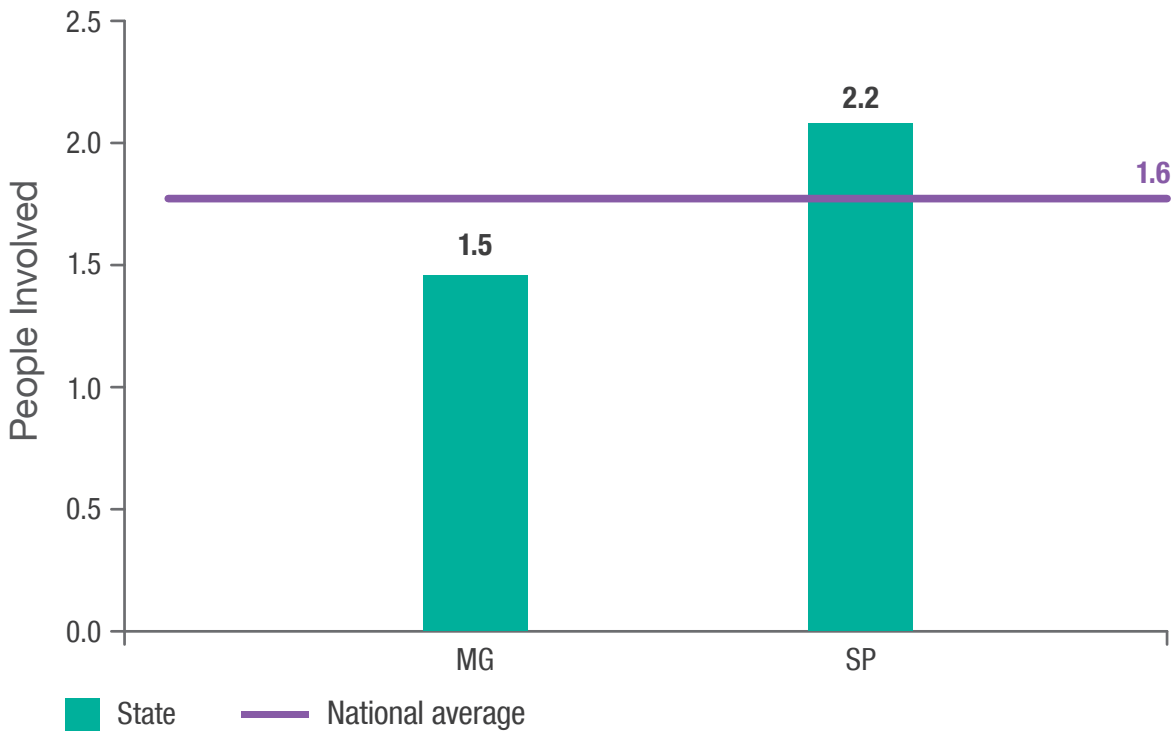


Illustration 104 - Average number of people involved for determination, management and control of special regimes, tax incentives and industry-based controls.

Accessory liabilities

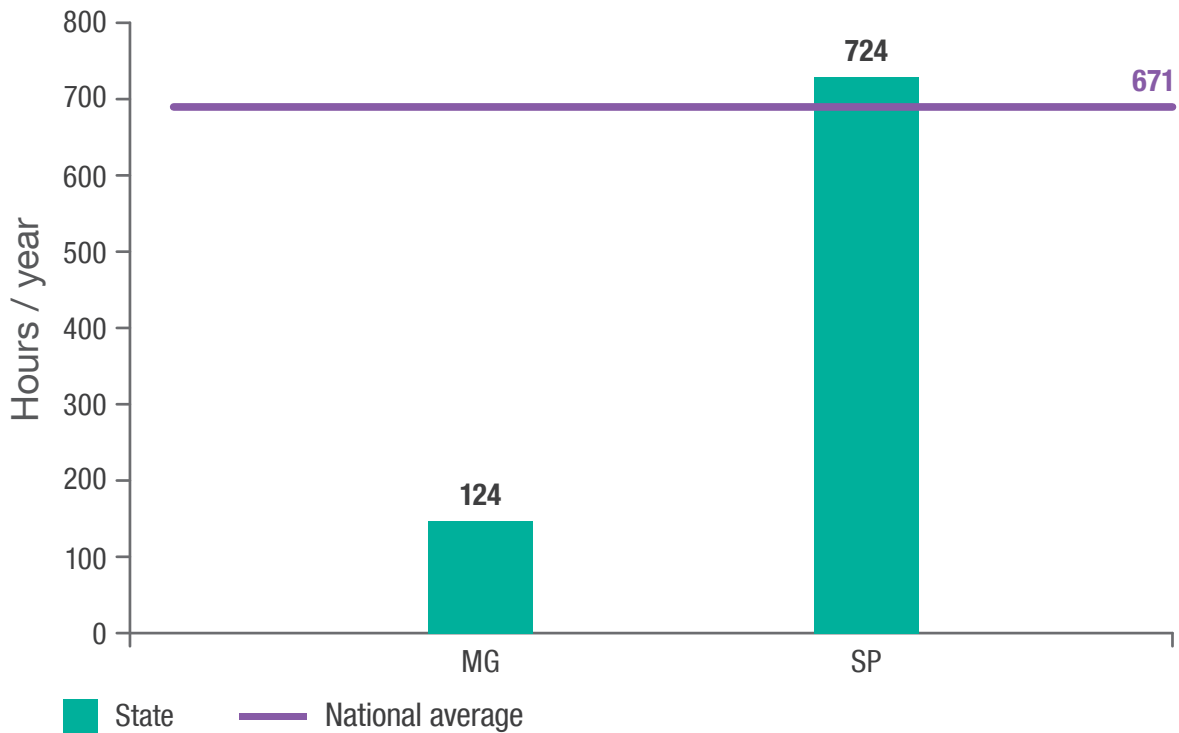


Illustration 105 - Average hours incurred per year for preparation of accessory liabilities related to the special regimes, tax incentives and industry-based controls.

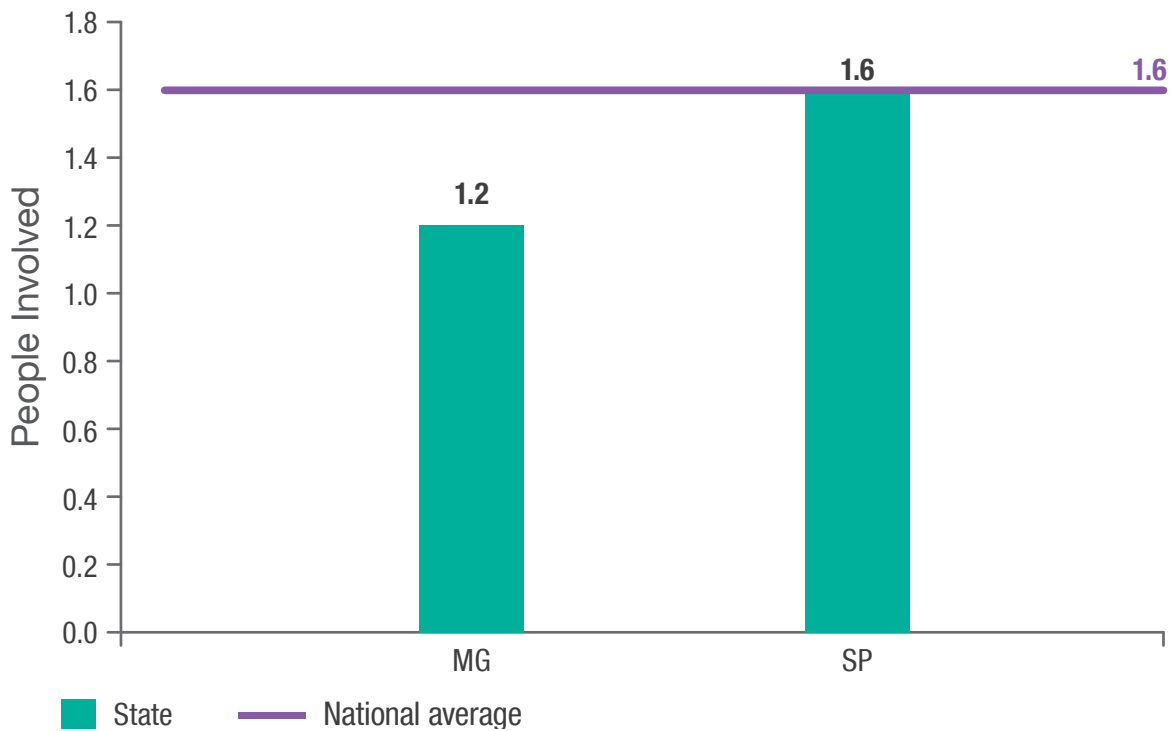


Illustration 106 – Average number of people involved in the preparation of accessory liabilities related to the special regimes, tax incentives and industry-based controls.

5 – Conclusions

In the light of the above, the following conclusions can be drawn.

It was found that the **ICMS determination** is the stage that demands the most hours for compliance in all the States analyzed, mainly in relation to the calculation, verification and monitoring of the legislation, which represents more than 70% of the time incurred. It is worth mentioning that this activity includes the capture of entry and exit tax documents (.xml files); sample document checking; storage; bookkeeping; *ICMS* and *ICMS-ST* calculation; qualitative analysis based on documents, current legislation and differentiated tax treatment; specific collections and/or adjustments in graphic account, such as rate differential, chargebacks, etc.; as well as implementation in the systemic environment and assessment of business impact as a result of legislative changes.

This result reflects the complexity and diversification of the *ICMS* legislation, inasmuch as the regulations thereof and many of its amendments are edited by non-statutory acts, such as Decrees, Ordinances, Resolutions, Decisions, Communications, Normative Instructions, Protocols, etc. Therefore, it is extremely necessary to review the *ICMS* regulatory environment, aiming at simplifying and standardizing state legislations, including by updating regulations of national level - such as the Integrated National System of Economic and Tax Information (SINIEF), which dates from 1970s - in such a way that they can reflect the procedures adopted in the current business environment. Some initiatives are in line with this guideline and shall be expanded, such as *ICMS* Agreement No. 92/2015, which sought to standardize and limit products subject to tax substitution in all Federative Units.

The monitoring of legislative amendments presented significant weight in the time spent by the taxpayers in the determination stage. The high volume of regulatory changes and also the lack of structured sources that can provide access to official information quickly and safely cause companies to seek diverse external sources of information and invest time to assess their quality in order to avoid possible risks due to the elaboration of obligations with nonconformities. In this context, in order to avoid unnecessary spending on legislative research and also to increase legal certainty in the taxpayer-to-tax ratio, the opportunity and the convenience of the tax authorities sending the legislative amendments to taxpayers, individually, could be assessed, thus, preventing taxpayers from continuing to conduct unnecessary searches and allowing them to optimize the time to analyze only those that impact their business. Some states have already begun this practice, such as Rio Grande do Sul, whose model could be expanded and adopted by other states.

The high number of hours spent to **comply with the accessory liabilities** can be significantly reduced by eliminating those with redundant information, such as the GIA or equivalent, whose compliance of information to the EFD-*ICMS*/IPI has been quite high (See Exhibit I), signaling a low effort to discontinue it. It is worth noting that some states are already making progress in this direction, such as Ceará, Goiás, Mato Grosso, Paraíba, Paraná and Sergipe, which have already waived the delivery of some of their own accessory liabilities, indicated in Exhibit II.

Although most States already adopt the EFD-*ICMS*/IPI as a source of tax information of taxpayers in a standardized way, there are still Federative Units,

specifically Pernambuco and Federal District, that remain outside the SPED platform for *ICMS* purposes. Therefore, in order to achieve national uniformity in the provision of such information, it is recommended that these Federative Units adopt EFD-*ICMS*/IPI as the only accessory liability instrument for *ICMS* determination purposes.

Considering the high number of hours spent for various stages of compliance observed in the State of Rio de Janeiro, compared to the national average - which may be related to the particularities of the Oil & Gas and Telecommunications industry installed in that State -, it is suggested considering the possibility of reviewing the related legislation and accessory liabilities applicable to such industry, with the purpose of identifying opportunities for rationalization and simplification.

Moreover, the significant demand of hours required to **perform own and third party inspections** and for **the management of administrative litigation** indicates the legislative complexity of the tax rules, as well as the difficulty of their interpretation and application. In addition, it is evidenced that a lot of detailed information provided electronically is required again at the time of the inspections, demonstrating that the potential gains from technological advances (especially with the advent of the SPED environment) are still underused by some States.

Regarding the **obtaining of CND**, we have verified that the lack of integration of the information between the State Finance Attorney Offices and the Finance Secretaries still require an additional effort on the part of taxpayers to prove tax regularity, or the presentation of guarantees for the suspension of the enforceability of the tax credit, as well as the need to allocate professionals to constantly monitor tax regularity. Sometimes the company needs to resort to court cases to obtain the certificate. Thus, the need for greater integration of information between the Treasury Attorney and Treasury Departments becomes evident.

Some states, like São Paulo and Paraná, have structured processes to convert the *ICMS* credit balance into **accrued credit** that can be used in the legal hypotheses anticipated. Considering that much of the information required is already included in the EFD-*ICMS*/IPI, there is a great opportunity to reduce the demand for hours in these processes, by adopting the EFD-*ICMS*/IPI as a method of determination. Through the implementation of this system, States that do not have structured determination processes have also benefited, and allowed taxpayers to not only reduce compliance time, but also have greater legal certainty and improvement of the business environment.

In many cases, the business environment dynamics requires the taxpayer to enter into **special regimes** that facilitate some operational procedures related to accessory liabilities and, consequently, eliminate unnecessary business costs. It would therefore be necessary to assess which of these schemes are most recurrent so that they can be incorporated into the legislation.

6 – Exhibits

6.1. EXHIBIT I - Comparative duplication of information study:

EFD-ICMS/IPI versus accessory state liabilities

This study covers all existing accessory liabilities in the eight States analyzed, as well as the main accessory liability related to the determination of ICMS of other Federal Units. It focused on the comparison of all fields and records of such liabilities, according to their manuals and layouts published with the fields and records of the EFD-ICMS/IPI layout, in order to indicate the level of similar information requested from the taxpayer and identify any possible liabilities whose level of compliance may lead to the discontinuity or simplification thereof. Therefore, the “level of compliance” refers to the amount of similar information requested by accessory state liabilities in relation to EFD-ICMS/IPI.

In order to determine the level of compliance, the information required in accessory state liabilities was classified into three categories: (i) Information contained in the EFD-ICMS/IPI, (ii) information not included in the EFD-ICMS/IPI and (iii) technical information on layout. For the calculation and definition of the percentage of similar information, the technical layout information was disregarded.

It should be noted that it was not possible to submit to this comparison the accessory liability of the State of Acre (Statement of Monthly Determination - DAM), as it was not possible to find its respective manual with the layout information.

To determine the complexity involved in the process of discontinuity of an accessory liability, we have established bands based on the level of compliance, as can be seen in Table 46.

Level of compliance	Complexity for discontinuity
Beyond 84%	Low
Between 70% and 84%	Medium
Below 70%	High

Table 46 - Complexity for discontinuity of a state accessory liability according to level of compliance to EFD-ICMS/IPI.

Table 47 summarizes the results regarding the level of compliance of the accessory state liabilities to the EFD-ICMS/IPI, as well as the level of complexity involved for the discontinuance thereof.

Federation Unit	Accessory Liability	Level of Compliance	Complexity to discontinued accessory liabilities
All	Tax Determination Guide - Tax Substitution (GIA-ST)	100%	Low
All	Integrated Information System on Interstate Operations with Goods and Services (SINTEGRA)	94%	Low
All	Import Content Sheet (FCI)	89%	Low
All	System of Collection and Audit of Fuel Attachments (SCANC)	58%	High
AL	Annual Tax Return (DAC)	83%	Medium
AP	Statement of ICMS Information and Determination (DIAP)	74%	Medium
AM	Statement of Monthly Determination (DAM)	58%	High
BA	Monthly ICMS Tax Return and Determination of (DMA)	99%	Low
BA	Statement of Movement of Products with Deferred ICMS Tax (DMD)	94%	Low
DF	Electronic Tax Book (LEF)	88%	Low
ES	Economic and Tax Information Document (DIEF)	65%	High
GO	Information Guide on Interstate Operations and Services (GI/ICMS)	100%	Low
MA	Economic and Tax Information Statement (DIEF)	86%	Low
MG	ICMS Statement of Determination and Information (DAPI)	88%	Low
MG	Annual Statement of the Fiscal Economic Movement/Fiscal Added Value (DAMEF-VAF)	44%	High
PA	Economic and Tax Information Statement (DIEF)	75%	Medium
PR	System of Control of Transfer and Use of Accrued credits (SISCRED)	100%	Low
PR	Tax-Accounting Statement (DFC)	88%	Low
PE	Tax Bookkeeping System II (SEF) - Not considering information from the Development Program of the State of Pernambuco (PRODEPE)	81%	Medium
PE	Tax Bookkeeping System (SEF) - Considering PRODEPE information	78%	Medium
PI	Economic and Tax Information Statement (DIEF)	86%	Low
RJ	Tax Determination Guide (GIA)	99%	Low
RJ	Annual Statement for the Municipal Participation Index (DECLAN)	87%	Low
RJ	Document of Use of Benefits (DUB ICMS)	46%	High
RN	Monthly Information Form (GIM)	96%	Low
RS	ICMS Information and Determination Form (GIA-ICMS)	91%	Low
RR	ICMS Monthly Information Form (GIM)	100%	Low
SC	ICMS Tax and Economic Movement Statement (DIME)	52%	High
SP	ICMS Information and Determination Form (GIA)	88%	Low
SP	Accrued Credit Electronic Management System (e-CredAc) - Considering Block K information	70%	Medium
SP	Accrued Credit Electronic Management System (e-CredAc) - Not Considering Block K information	64%	High
SP	Declaration of the Value of Acquisition of Electric Energy in a Free Contract Environment (DEVEC)	61%	High
TO	Monthly ICMS Information and Determination Form (GIAM)	82%	Medium

Table 47 - Level of compliance of the accessory state liabilities to the EFD-ICMS/IPI.

It should be noted that the States not included in the table above have waived the delivery of their main accessory liability in relation to the determination of *ICMS* on behalf of EFD-*ICMS*/IPI (see Exhibit II).

Illustration 107 shows where the information overlaps of the analyzed accessory liabilities are concentrated in relation to the EFD-*ICMS*/IPI Blocks.

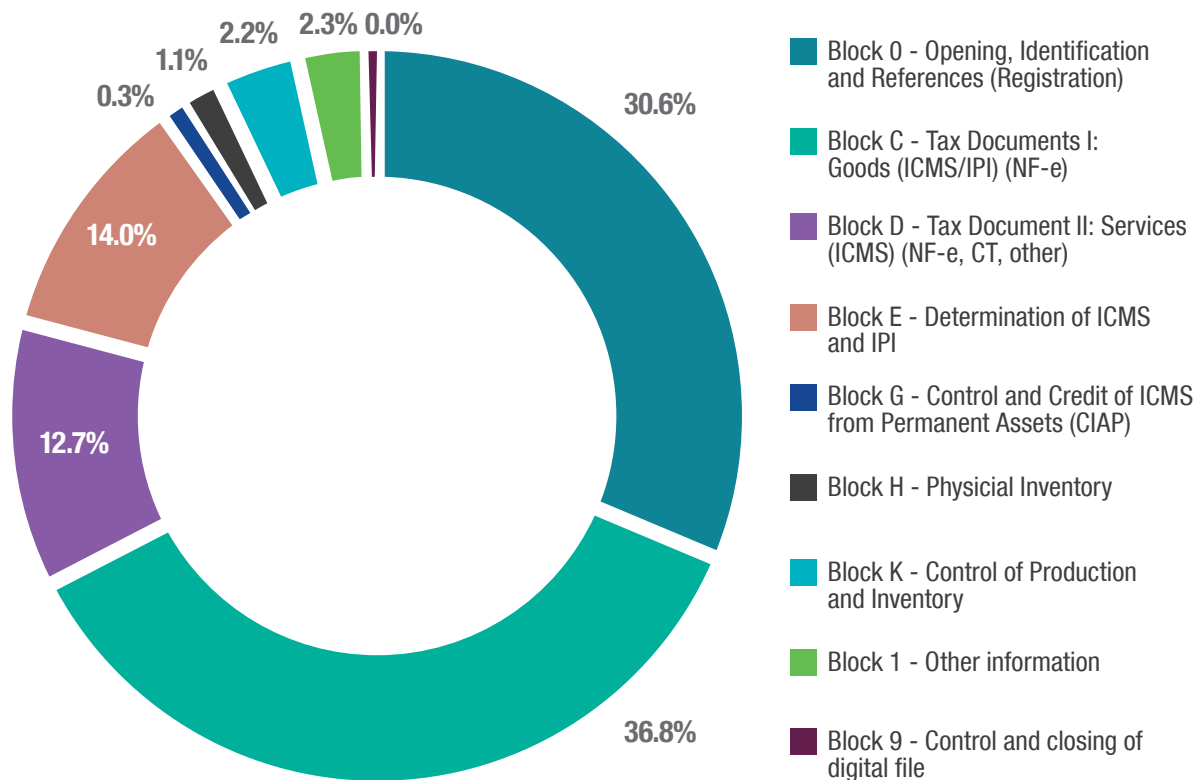


Illustration 107 - Concentration of information overlaps between accessory liabilities and EFD-*ICMS*/IPI.

Illustration 107 makes evident that similar information is mainly concentrated in Blocks 0, C and E of the EFD-*ICMS*/IPI, which cover, respectively, legal entity information, tax documents and *ICMS* determination.

As far as non-adherent information is concerned, they are mainly related to: Financial and accounting information, many of which reported in ECD - Digital Accounting Bookkeeping; inventory-related information not provided for in EFD-*ICMS*/IPI; specific information to the very accessory liabilities; and specific information related to tax incentives - is shown in Illustration 108.

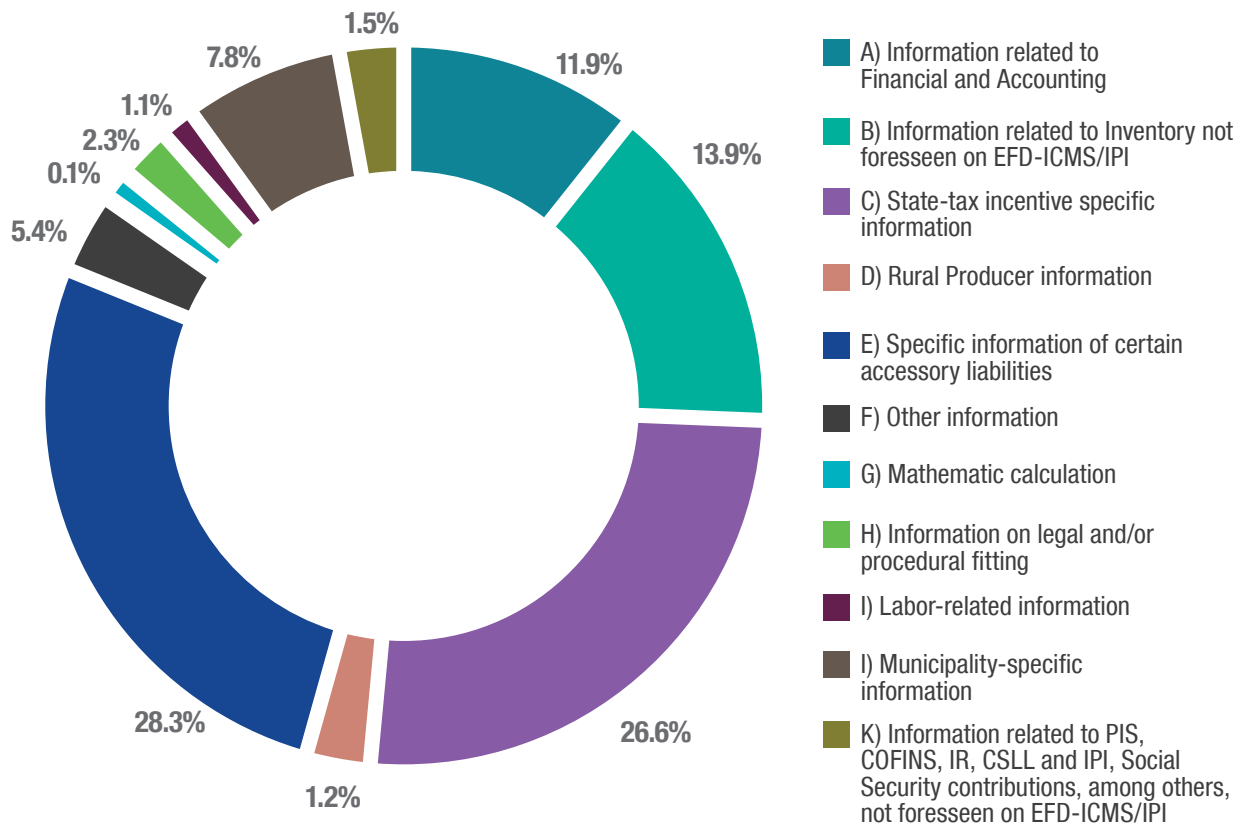


Illustration 108 - Mapping of accessory liabilities information non-compliant with EFD-ICMS/IPI.

6.2 EXHIBIT II – Accessory state liabilities waived under EFD-ICMS/IPI

Table 48 shows the accessory liabilities which deliveries have already been waived by the Federative Units on behalf of EFD-ICMS/IPI.

Federation Unit	Accessory liability waived by virtue of EFD-ICMS/IPI	Effectiveness of Waiver
Ceará	Economic and Tax Information Statement (DIEF)	As of January 2012
Goiás	Declaration of Periodic Information (DPI)	As of January 2011
Mato Grosso	ICMS Information and Determination Form (GIA)	As of January 2011
Mato G. do Sul	ICMS Information and Determination Form (GIA)	As of January 2014
Paraíba	ICMS Monthly Information Form (GIM)	As of September 2013
Paraná	ICMS Information and Determination Form (GIA-ICMS)	As of August 2015
Pernambuco	ICMS Information and Determination Form (GIA)*	As of January 2013
Rondônia	Monthly ICMS Information and Determination Form (GIAM)	As of July 2012
Sergipe	Taxpayer Information Statement (DIC)	As of January 2014

*Replaced by SEF.

Table 48 - Accessory liabilities waived by the State.



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