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DEPARTMENT OF STATE
AIRGRAM

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NO. _____

TO : Department of State

INFO: Amembassy, RIO

FROM : Amconsul, SAO PAULO DATE: January 2, 1968

SUBJECT : Sao Paulo State Government to Raise Circulation Tax Rate

REF : CERP D

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 DEPARTMENT OF STATE
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 ANALYSIS BRANCH

Sao Paulo State Governor Roberto de Abreu SODRÉ signed a decree law on December 29, 1967, under which the rate of the state circulation tax (ICM) will be raised gradually from the current 15 percent ad-valorem to 18 percent. The rate will be raised to 16 percent starting April 1, 1968, to 17 percent effective May 1, 1968, and to a full 18 percent as of June 1, 1968. Agricultural products will not be subject to any tax increases.

According to Governor Sodr , the ICM tax rise will take place not only in Sao Paulo, but will be adopted uniformly by all the states of Central-South Brazil. This measure was authorized by Federal Minister Antonio DELFIM NETO following the November 9, 1967 meeting of the Secretaries of Finance of all the states of Brazil (see A-148 of November 9, 1967).

The gradual increase in the state ICM rate to become effective in April, 1968, rather than in January is aimed at avoiding an additional inflationary impact on prices to consumers at a time when the increase as of January 1, 1968, of the federal tax on Industrialized Products-IPM- (a form of excise tax) on several products is liable to influence prices upward.

The increase in the rate of the ICM to 18 percent will provide significant additional revenue to the state government assuming no adverse impact on business as forecast by the S o Paulo Federation of Industries. The state retains 80 percent of the tax and the municipality in which the

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merchandise is sold keeps the remaining 20 percent. While a tax rate of 15 percent represents revenue of 12 percent ad-valorem to the state coffers, the 18 percent tax rate will provide 14.4 ad-valorem or 2.4 percent more. Likewise, prefectures will also receive additional income from the tax rise: 3.6 percent as compared with the current 3 percent ad-valorem.

The state budget for FY1968 forecasts a deficit of NCr\$286 million (see A-96 of October 3, 1967). However, the potential shortfall would be considerably higher since the budget bill did not make provision for January 1, 1968, salary increases to civil servants totalling NCr\$370 million and the gradual redemption of state promissory notes falling due in the course of 1968. Thus, the state authorities hope that the ICM rate increase will provide sufficient revenue to cover at least salary increases and help to keep the deficit for 1968 within reasonable limits.

The Sao Paulo business community does not support the tax rise. In fact, during the past several weeks, both the Federation of Industries of the State of Sao Paulo (FIESP) and the Sao Paulo Commercial Association have repeatedly warned that an increase in the ICM rate would force a general price rise and reduce consumer buying which would ultimately be detrimental to business in general.

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