



► Social Protection in Action: Building Social Protection Floors for All

2022

Brazil: Protecting self-employed workers through a Monotax mechanism – Simples

Summary

Simples, also known as Simples Nacional or Super Simples, is a Monotax, a simplified tax collection or payment scheme for small contributors in Brazil. It unifies several taxes and contributions in a unique payment. Micro-entrepreneurs who join are automatically entitled to the benefits of the contributory social security system.

Historically, self-employed workers have been one of the most difficult groups to bring under contributory social protection coverage in Brazil. The Monotax has proven to be an effective tool to formalize micro and small enterprises as well as to extend social security coverage to self-employed workers. It has especially helped in reaching out to vulnerable groups of workers such as women and people from certain ethnic backgrounds. Argentina, Uruguay, and Ecuador have also successfully implemented similar schemes.

Main Lessons Learned

- A mechanism such as a Monotax can reduce informality in economic activity, which directly and simultaneously improves employment conditions and social protection coverage for workers.
- Flexibility in financing mechanisms can help in formalization of informal economy workers.
- Such incentives can unify, simplify and ease the collection of taxes and social security contributions.
- By requesting lower tax and contribution amounts than for workers in the formal sector, Monotax is also adapted to the low contributory capacity of workers in the informal economy.

Social Protection Floors Recommendation, 2012 (No. 202)

SDG 1.3 aims to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030, achieve substantial coverage of the poor and the vulnerable.

Social protection floors (SPFs) guarantee access to essential health care and basic income security for children, persons of working age and older persons. 187 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), to achieve universal social protection.

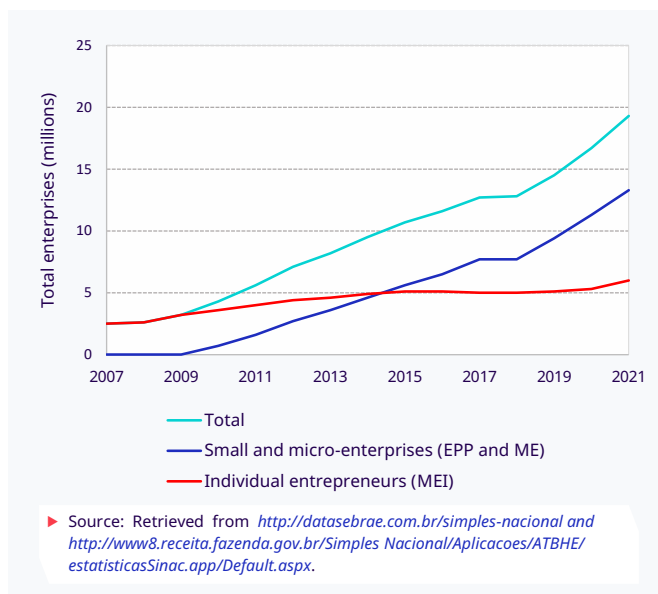
Brazil's experience in setting up a Monotax system contributed to the progressive realization of universal social protection based on social solidarity. It is in line with other principles of the Social Protection Floors Recommendation, 2012 (No. 202), such as ensuring social inclusion of persons in the informal economy and the consideration of a diversity of methods and approaches in building social protection system.

► Monotax has a sizable impact on gender and racial equality. Women and persons from mixed-race and black ethnicities working in micro and small enterprises, whether as employees or as employers, have the opportunity to be formalized and included in social security. Thus, it has a noticeable impact on the formalization of vulnerable groups.

How was the Monotax in Brazil set up?

The enactment of the Simples law (Lei do Simples) in 1996 was the first attempt to formalize small and microenterprises, upholding the 1988 Federal Constitution. Originally restricted to federal taxes, it established a single fee, based on a progressive scale of annual sales. This participation fee is based on gross sales, not on profits. Furthermore, the measure introduced the requirement for such companies to have accounting management books (now withdrawn).

Figure 1. Brazil's Simples Nacional and Super Simples registration evolution (2007–2021), millions of enterprises



Legal provisions were altered in 2006/7, when the programme became Simples Nacional (now integrating all levels of government) or Super Simples. This reform introduced the deduction at source of mandatory social

security contributions. It also included companies selling goods and providing services, as well as of small artisan producers.

The system allowed the unified payment of some federal taxes and of social security contributions. Finally, a 2008 Law included a single fixed monthly fee payable by individual micro company owners. Figure 1 shows the evolution of the registrations between 2007 and 2021

What does Simples look like?

Simples is the tax mechanism for small and micro-enterprises, as well as individual micro-entrepreneurs. It enables an integrated and simplified system for the payment of some taxes and contributions to social security. Five federal taxes were integrated, together with one state tax, one municipal tax, and employers' contributions to the National Social Security Institute (INSS). Box 1 provides the characteristics of Monotax regimes according to international practice.

Simples divides companies in three levels according to size: i) individual micro company owners (*microempreendedor individual*, MEI); ii) micro companies (*microempresa*, ME); and iii) small companies (*Empresa de Pequeno Porte*, EPP). Based on this classification, each category pays different contribution rates to the INSS.

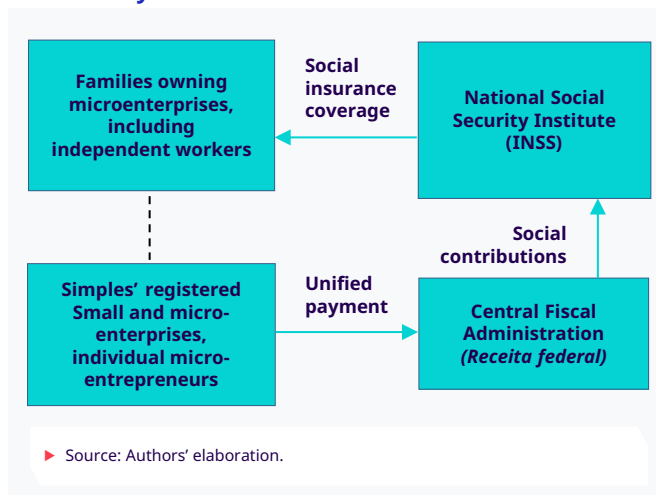
Simples contributions are collected by the central fiscal administration and the share corresponding to social security payments is transferred to the INSS. These contributions cover the social insurance members and their families. MEI social security contributions amount to 5 per cent of the minimum wage. The public health system, in turn, is funded through tax revenues from the federal, state, and municipal budgets (see figure 2).

Registration as an individual entrepreneur (MEI) entitles the worker to an old-age pension (requiring 180 months' contribution), sickness benefits and a disability pension (requiring 12 months' contribution) as well as a maternity benefit (10 months' contribution required). Families are also covered: for example, surviving spouses are entitled a pension worth one minimum wage, varying in duration according to beneficiary age. In the case of small and micro enterprises, adherents are entitled to the regular INSS benefits.

► **Box 1: Characteristics of Monotax regimes according to international practice**

- ▶ Simplified taxation schemes aimed at combating informality.
- ▶ Taxes and social security contributions are lower than general taxes to generate fiscal stimulus.
- ▶ Taxable income is normally presumptive (presumed income in the absence of the information); a fixed fee is applied to each presumptive income category.
- ▶ Taxes and social security contributions are grouped in one contribution, the “Monotax”.

Figure 2. Schematic overview of Brazil's Simples system



What is the impact on people's lives?

Thanks to the innovative reforms associated with Simples, the take up rate between 2008 and 2016 has been very high and the number of total registered firms covered by the scheme went from around 3 million to around 12 million. As of 2018, Monotax covers 75 per cent of the totality of enterprises in the country (Guimarães et al. 2018) and represents 39 per cent of the total number of enterprise-based jobs in Brazil. This model was similarly successful in other countries of the region. Informality went from 41.1 per cent in 2012 to around 39 per cent in 2016 but increased again to 41 per cent in 2019 due to economic downturns (IBGE 2021).

The scheme has proven to be an effective instrument for the formalization and inclusion of self-employed workers

into the social security system. Studies have shown that its implementation has reached low-income groups of the population, with an estimated 8 million new jobs in the formal sector from 2006 to 2016 (Pimentel 2017). It is also an effective tool to generate additional fiscal resources that can be used to further finance social protection. Tax revenues originating from Simples adherents went from 41 billion Brazilian reais in 2008 to 73 billion reais in 2016 (SEBRAE 2017).

Although the scheme is open to all, enterprises that are participating in Simples, especially the MEI programme, was composed largely of women (47.6 per cent), self-identified mixed-race persons (42 per cent) and black persons (11 per cent) in 2016 (SEBRAE 2017b). Therefore, it represents a step towards greater participation of vulnerable groups in the economy and in access to social protection.

What's next?

The creation of Simples and its amendments has contributed to the objective of extending social security. However, some challenges remain. In Brazil, as in other South American countries, the main challenge is to reach full coverage (see box 2). In addition, another challenge is to transition monotributistas into the general scheme.

An effort to increase the programme's sustainability, preventing disruption from fiscal imbalances in the future, must be pursued. The relatively low amount of the fixed contributions by some categories may not be sufficient to support the payment of benefits in the future (IPEA 2018).

► **Box 2: Monotax experiences in Argentina, Uruguay, and Ecuador**

In Argentina, the Monotax has allowed for the subsidization of social security contributions for individual independent workers and micro-enterprises by incorporating low-income people into pensions and health benefits. In Uruguay, Monotax is a simplified tax collection/ payment scheme for small contributors. People are entitled to the same social security benefits as salaried workers. RISE (Régimen Impositivo Simplificado de Ecuador) includes a discount of 5 per cent in social security contributions for each affiliated worker who is up to date with payments.

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