Protecting self-employed workers through a Monotax mechanism

Brazil

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. Informal work reaches around 47 per cent of the labour force in the country. In 2018, approximately 66 per cent of self-employed workers having contributory capacity were outside the national social security system (IBGE, 2018).

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 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.
- 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.

The Recommendation on Social Protection Floors, 2012 (No. 202) stipulates establishing basic social security guarantees to ensure access to essential healthcare and income security for all, including children, people of working age and older persons.

The Sustainable Development Goal 1.3, part of the UN 2030 agenda, aims to implement nationally appropriate social protection systems and measures for all, including floors, supported by the Universal Social Protection partnership (USP2030).

This brief presents a successful experience of a country in extending social protection.

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1. 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).

Legal provisions were altered in 2006/7, when the program 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 (MEI).

2. What does Simples look like?

Tackling the informal economy: Simples is the tax mechanism for small and microenterprises, as well as individual micro-entrepreneurs (MEI). 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 Social Security Institute (INSS).

**Some characteristics of Monotax regimes according to international practice**

- They are simplified taxation schemes aimed at combating informality.
- Taxes and social security contributions are lower than general taxes in order 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 contributions are grouped in one contribution, the “Monotax”.

**How it works**: Simples divides companies in three levels according to size: *Individual micro company owners* (*microempreendedor individual*, MEI), the smallest, pay a fixed monthly fee and can have one employee. *Micro Companies* (*microempresa*, ME) are the intermediate category, and *Small Companies* (*Empresa de Pequeno Porte*, EPP) are larger. Based on this classification, each pays different contribution percentages 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.

**Services and benefits**: 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.

3. 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 (see Box) and the number of total registered firms covered by the scheme went from around 3 million to around 12 million. Today 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 49.4 per cent in 2008 to around 45 per cent in 2016, but increased again to 46.8 per cent in 2019 due to economic downturns (IBGE, 2019).

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 BRL 41 billion in 2008 to BRL 73 billion in 2016 (SEBRAE, 2017).

**Impact on gender and racial equity**: 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.

4. What’s next?

The creation of Simples and its amendments has achieved 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.

An effort to increase the programme’s sustainability, preventing disruption from fiscal imbalances in 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).

**Similar experiences: Argentina, Uruguay, 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.
REFERENCES


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