

# Sustainability of tax relief policies in Brazil: Tax waiver *versus* Non-state public services

**José Antonio de França**

<https://orcid.org/0000-0002-8233-3620>

**Diana Vaz de Lima**

<https://orcid.org/0000-0002-4477-445X>

**Clesia Camilo Pereira**

<https://orcid.org/0000-0002-8407-8395>

**Eduardo Tadeu Vieira**

<https://orcid.org/0000-0002-2763-456X>

**José Marilson Dantas**

<https://orcid.org/0000-0001-6266-5233>

## Abstract

**Objective:** to present and test a theoretical, positivist, deterministic, non-parametric model to assess a tax relief public policy based on its performance, effectiveness, and efficiency, combining the tax waiver (RFT) benefit with a non-state public service (SPnE), to identify a State Supplementary Action (ASE) with metrics that indicate that the public policy is sustainable.

**Method:** non-parametric positivist, supported by an analytical model of equations that quantify each model indicator to identify and bring consistency to the metrics, as defined by algebraic combinations.

**Results:** the results obtained with academic configuration data, retrieved from the rendering of accounts of civil society organizations (CSOs), treated by the Third Sector Research and Extension Laboratory (LPETS) at the University of Brasília (UnB), indicate the model's robustness and consistency in assessing the sustainability of the tax relief public policy in Brazil.

**Contributions:** the results are relevant for the literature and regulators, managers, and researchers, as they show the model's adequate specification in indicating whether a public policy is sustainable. The model is expected to be applied using market data to enable identifying the model's restrictions and limitations.

**Keywords:** Non-State Public Service. State Supplementary Action. Tax Exemption

## 1. Introduction

This paper presents the results of a non-parametric, positivist, and deterministic theoretical model to investigate the sustainability of a tax relief public policy, combining resources from Tax Waiver (RFT) with Non-State Public Service (SPnE) in the scope of Civil Society Organizations (CSOs), and members of the third sector in Brazil.

The efficacy of the measures and effectiveness of the results achieved by tax relief has been discussed over time in the academic milieu (Surrey, 1967; Botelho; Abrantes; Fialho, 2019). In the case of CSOs, this matter can be considered from two perspectives: organizations that enjoy tax immunity and work in social assistance and education areas (articles 150, VI, “c” and 195, § 7 from 1988 CF); and entities that cannot benefit from tax immunity and, consequently, are only benefited by tax exemption (Gomes, 2020). Whether a CSO benefits from tax immunity and/or tax exemption, it must disclose the benefit amount as directed by the Federal Accounting Council (CFC), following ITG 2002 (R1 – 27(c)).

Civil Society Organization is the taxonomy institutionalized by Law No. 13.019 from 2014, which imposed standards for voluntary partnerships and support provided by the state for these organizations and improved the regulation of Law No. 91, from August, 28<sup>th</sup> 1935, which public utility titles, and Decree-Law No. 525 from July, 1<sup>st</sup> 1938, which created the Social Service National Council.

Other taxonomies are found in the voluntary sector, third sector, non-profit sector, social interest entities, non-governmental organizations, and philanthropy, as in Salamon and Anheier (1992), Paes (2003), Wagner (2012), Barman (2013), differing from countries in Europe, Asia, and North America, where identification is based on business groups and subgroups. In Brazil, this identification is made by the National Classification of Economic Activities (CNAE), composed of 5 digits, with the first two, on the left, “94” referring to the CSO, and the last three, on the right, associated with the organization’s activity. For example, a CSO whose activity is the defense of social rights would have the CNAE referenced by 94,308.

The non-parametric model identifies whether a CSO transfers to society the resources withheld as tax relief, being an SPnE, as a State Supplementary Action (ASE), to fulfill a public assistance policy.

RFT, as tax relief, is an indirect transfer of resources from the State to a private entity and constitutes an exemption from paying direct tax (TD) and indirect tax (IT), on income, property, production, circulation, consumption, and service, to any of the three levels of government (federal, State and municipal).

SPnE is a benefit provided to society, as an ASE, by a private entity benefiting from RFT in exchange for the tax relief benefit. Hence, RFT is the financial tax resource withheld by a private entity whose disbursement would occur if there were no exemption. Therefore, a tax exemption is equivalent to an exemption and/or immunity and is an effective way of leveraging a private entity to offer SPnE.

ASE is an interaction between an OSC and civil society for the delivery of an SPnE as a supplement to an obligation of the State to assist its citizens, indirectly, with or without the tax waiver.

Just like an ASE, an SPnE can occur independently of an RFT counterpart; hence, evaluating it broadly within the scope of CSOs involves some complexity, as Cordery and Rowena (2013). The reason is that indirect transfer can be added to a direct transfer, such as donations and even the CSOs’ spontaneous deliberation, which compete for the provision of an SPnE.

This paper discusses SPnE only as a counterpart to the benefit received by indirect transfer of tax relief; therefore, the focus is on RFT. Thus, RFT and SPnE are complementary. For the regulator to be reasonably sure that a CSO is complying with the ASE, it is important to encourage accountability and compliance among CSOs, to ensure the quality and reliability of the information produced, as noted by Whitaker, Altman-Sauer, and Henderson (2004) and Dubnick (2003). In this context, the study is divided into two phases: in the first phase, the theoretical model assessing CSOs' compliance with the State Supplementary Action is presented as a consequence of the benefit received from tax exemption; in the second phase, the model's consistency is tested with academic configuration data retrieved from the Third Sector Research and Extension Laboratory (LPETS) at the University of Brasília (UnB).

Academic configuration data concern information from CSOs' rendering of accounts used for testing at LPETS, with authorization from the Public Ministry of the Federal District and Territories (MPDFT), through a cooperation agreement governed by Law No. 13.019/2014.

In the Brazilian tax system, TD is levied on assets and income, while TI is associated with a levy on production, circulation, consumption, import, export, economic domain, and service, and both TD and IT are levied in the form of tax or contribution. This tax burden is also added to the employer's contribution to finance social security, levied on the worker's income. In this regulation, for a CSO to enjoy tax exemption, it must be incorporated in the legal form of a foundation or association, included in the specific CNAE tree of an associative or foundational entity, and the regular fulfillment of ancillary tax obligations. Fulfilling these requirements, a CSO is a candidate for tax exemption and/or immunity, the collection of which is waived by the State.

This Brazilian requirement to enjoy RFT is similar in some aspects to the European Union's requirement. However, as Gjems-Onstad (1993) discussed, the benefit of exemption in the European Union depends on the taxpayer's action, a part of the formal system, and a deposit of VAT returns.

Tax waiver does not apply only to associations and foundations. It also applies to other organizations such as cooperatives, organizations in the social economy, and the union system. For example, cooperative organizations can be called hybrid organizations because they have social and business characteristics. The part that characterizes a social organization assumes the non-profit activity and enjoys a specific exemption benefit, while the part with business characteristics is equivalent to a company that produces and earns profits, taxed as usual.

Due to this characteristic of the Brazilian tax system, each government level administers one or more taxes and contributions of each tax type (TD and IT) with management autonomy, even though they are all bound to the National Tax Code (Law No. 5.172, from October, 25<sup>th</sup> 1966) with express authorization from the Federal Constitution (Magna Carta) from 1988. Due to this link, the main requirements for enjoying RFT are unified, such as not distributing profits in any way to managers or founders, as well as how to apply the leftovers in the organization's activity. This characteristic distinguishes the nature of the legal act of granting a tax relief benefit because it ties such exemption to a discretionary act of specific public authority, and immunity to the exclusive competence of the Federal Constitution, under terms of Art. 150-VI-c (CF/1988), for education, social assistance, and healthcare activities.

In essence, a CSO has to provide an SPnE to society and it has to be seen as one of the facts that justifies tax relief, as a characteristic of organizations in the third sector or the non-profit sector, which aims to mitigate the State or market failures.

Objectively, tax relief, as an indirect transfer, reduces the spending capacity of the government's budget at the three levels (federal, state, and municipal) and, therefore, must be compensated with the provision of SPnE.

Given this context, this study's objective and purpose is to present and test a theoretical, non-parametric model to assess a tax relief public policy, combining tax waiver (RFT) benefit with the provision of non-state public service (SPnE), that identifies a State Supplementary Action (ASE) with metrics that indicate the public policy's sustainability.

The model's consistency is tested using academic configuration data to assess the responses of the ASE metrics provided by a CSO. The expectation is to fill a literature gap and contribute to researchers, regulators, and managers in implementing a public tax exemption policy. Consistency also requires adopting an accountability and compliance process in the production and provision of SPnE to allow a safe assessment of a CSO's performance in the delivery of non-state public service, as noted by Dubnick (2003).

In addition to this introductory section, **section 2** discusses the taxonomy and regulation of Civil Society Organizations; in **section 3**, the fundamentals of tax waiver and non-state public service are presented and discussed; **section 4** presents and discusses the roles of accountability and compliance in Civil Society Organizations; **section 5** contains the evaluation model's proposition and foundations - first phase; **section 6** assesses the model's consistency with academic configuration data - second phase; and **section 7** presents this study's main conclusions and limitations; and finally, the references.

## 2 Taxonomy and regulation of Civil Society Organizations

The taxonomy of non-profit Civil Society Organizations operating in the third sector may differ among countries depending on the regulator's systemic view. Long discussions, such as the one by Wagner (2012) and Barman (2013), show the struggle to construct these organizations' identities.

To show the magnitude of this divergence, Salamon and Anheier (1992) discussed the taxonomy of the third sector, considering European, Asian and American views. In this discussion, they introduced a system called the International Classification of Nonprofit Organizations (ICNPO), which classifies non-profit organizations into 12 main groups based on their primary economic activity, and further assigns them into 24 subgroups. They compared the ICNPO with existing systems, such as the United Nations' International Standard Industrial Classification (ISIC), the European Union's General Industrial Classification of Economic Activities (NACE), the US National Taxonomy of Exempt Entities (NTEE), and others. They argue that two fundamental issues need to be resolved in the design of any classification system. The first is the unit of analysis, and the second concerns the classification basis and the variables concerning which entities should be distinguished from one another. In their arguments, they defend that the classification base of third sector organizations offers different possibilities depending on the size, legal basis, and the users of the services offered, among others.

In Brazil, the third sector regulation emerged with the enactment of Law No. 91/1935 and Decree-Law No. 525/1938, which instituted the title of public utility for civil societies, associations, and non-profit foundations, and the National Council of Social Service, in that order. The dominant taxonomy is Civil Society Organizations as of Law No. 13.019/2014. This taxonomy also includes the cooperative societies provided for in Law 9,867 from 1999 and other similar ones, as well as faith-based organizations that engage in public interest activities and do not carry out activities intended exclusively for religious purposes.

Also, in Brazil, for the tax and economic identification of a non-profit organization, a five-digit code called “National Registry of Economic Activity (CNAE)” is used. The two leading digits on the left, “94”, identify the activities of membership organizations. The other three digits on the right identify the CSO activity or sector. Thus, the CNAE 94.30-8 code identifies a CSO whose activity is the defense of social rights.

Another taxonomy attributed by Paes (2003) is Social Interest Entities. The context of this denomination includes legal entities regularly constituted, without the purpose of profit, such as associations, foundations, unions, cooperatives, and adding consortiums without legal personality, as a form of economic activity.

### 3. Tax Waiver (RFT) and Non-State Public Service (SPnE)

The taxation of non-profit civil society organizations is related to the service provided to society as an SPnE, in exchange for the tax relief granted by RFT, as an indirect transfer from the government to a CSO. The service provided to society, as a counterpart to the RFT, in the form of an SPnE, allows assessing the performance of the State Supplementary Action, carried out by a CSO, as a form of the tax relief public policy’s sustainability.

Broadly addressing the issue of non-profit organization performance, Cordery and Rowena (2013) analyzed the literature to identify performance evaluation measures of non-profit organizations that make up the third sector. Initially, they provided a list of denominations used as non-governmental organizations, social enterprises, charity institutions, public benefit entities, voluntary organizations, grantee organizations, non-profit organizations, associative organizations, and professional associations, among others. They state that conceptual papers and quantitative studies dominate the academic literature and that this dominance shows the need for empirical studies on measurement models and performance reports, as mentioned by Cairns et al. (2005) and Ebrahim & Rangan, (2010).

Tax waiver aimed at the third sector is understood as a choice of the State not to exercise the power of, directly or indirectly, taxing agents’ transactions regarding assets, income, production, consumption, or service. This position of the State is intended to strengthen the social role of non-profit entities in order to reduce social inequalities, as argued by Martins (2012) and Oliveira (2015). Tax waiver occurs, on the one hand, concerning immunity because the Constitution of the Federative Republic of Brazil (CF/1988) excludes the power to tax and, on the other hand, concerning exemption, as the ordinary lawmaker grants the legal favor of not allowing the occurrence of taxable events, as discussed by Amaro (2006, p. 280).

Third-sector taxation was also studied by Gjems-Onstad (1993) in the context of European Union countries, Australia, and Canada. The study considers the incidence, exemption, and zero rates of VAT. First, the author argues about the difficulty in applying tax waivers to third sector entities in these countries, given the VAT characteristics of focusing on the product and not on the taxpayer. Next, the author discusses an apparent paradox of VAT: the statute of a fully tax-exempt organization can only be obtained through a taxable person and part of the formal system and filing of VAT returns. Starting from this point, the author notes that the “zero rates” regime may be a reasonable alternative because a non-profit organization would pay entry tax and reimburse itself on exit, like any other taxable person. Although the previous study is similar to this one, the tax systems are different, considering that Brazil does not adopt VAT and that that study’s contributions do not include a model.

Clotfelter (1989) discusses the tax distortions of the voluntary sector in the United States, arguing that one of the reasons for the existence of non-profit organizations is the inability of a government to provide an adequate amount of goods and services to all its citizens. One citizen may need one public service more than another, and the government provides a limited amount of these services, leaving some citizens unattended. The previously mentioned author considers that two main basic types of non-profit organizations emerged in response to market and government failures, in the form of public service organizations and mutual benefit organizations. For these reasons, tax benefits are granted, but there are concerns about abuses on the part of taxpayers and institutions; the benefits do not meet the needs of all income classes and may not be worth the cost of foregone revenues, as well as the distortions they may cause to the economy's price structure.

In Brazil, the tax immunity and exemption institute regulates tax exemption. Tax immunity is a constitutional provision for educational and social assistance institutions that provide services without the purpose of profit and that do not distribute, under any title, gross or net revenue, surpluses, operating surpluses, dividends, exemptions of any nature, and immediately apply them in full to achieving the respective social purpose (CF/1988 and Law No. 5,172/1966). The measurement of tax relief requires determining the calculation basis of each tax, even in the case of immune activities, because the objective measurement is to quantify the economic tax effect and not to constitute an obligation to pay.

#### 4. Accountability and Compliance in Civil Society Organizations

Accountability and compliance are relevant to ensure the fulfillment of an agent's direct or indirect obligation towards the principal; hence, this study focuses on the fulfillment of a State Supplementary Action on the part of a CSO benefiting from tax exemption to mitigate State and market failures. Through these practices, the regulator retrieves information on the values of tax waiver enjoyed and non-state public services provided by a CSO, which allows assessing the sustainability of a tax relief policy. Studying these practices in the public service, Romzek and Ingraham (2000) investigated the causes of an air accident in the US armed forces, highlighting that the role of a person's responsibility is based on the performance expected of him/her. They conclude that legal and professional responsibility, among other factors, involves external and careful performance supervision to fulfill mandates and reflect work arrangements that provide autonomy to individuals who ground their decision-making on internalized norms concerning appropriate practice.

How accountability is perceived has been conceptually discussed over the years from democratic, institutional, and sociological points of view. From a democratic perspective, Held (1996) and Pitkin (1969, pp. 57-78) note that accountability, as the responsibility to give account, has to indicate the relationship between regulator and executor in a mechanism that informs the actions performed. This serves to allow judging and imposing measures to ensure the object fulfillment and to distinguish the accurate or factual representation of something that has only the external features of formal presentation. From an institutional perspective, the approach is to formalize response and controls, as established by the state governance structures and corporate entities, as stated by Schedler (1999), which include obligations such as financial reports that make up the bureaucratic responsibility studied by Gruber (1987) and Rosen (1989). In this context, Dubnick (2003) discusses the concept from a sociological perspective to emphasize responsibility as a process that impacts the behavior of social agents in the rendering of accounts. The author focuses on the mechanisms of responsibility, culpability, obligation, and imputability. This view characterizes responsibility as a social act of a higher class of social processes that deal with the need to repair and overcome relationships damaged by inappropriate behavior, as discussed by Scott and Lyman (1968).

Complying with accountability in the context of a CSO demands an adequate definition of an accounting policy related to compliance practices to provide reliable data and information. To meet this purpose, the accounting policy must produce detailed information regarding observed and non-observed amounts in the standardized financial statements, complying with compliance rules, so that the regulator can assess the State Supplementary Action. In this context, compliance concerns rules that a CSO must apply throughout the information production process.

In addition to the data disclosed in the standardized financial statements, CSOs must disclose physical-financial data concerning the “Non-State Public Service” provided and financial data of the “Tax Waiver” received, regardless of legal obligations. Furthermore, both cases must compose a work plan. Thus, for the regulator to be sure that a CSO complied with the ASE, CSOs must adopt accountability and compliance practices and establish a mutual relationship between the principal, in this case, the State, and the agent represented by the CSO.

In this sense, Whitaker, Altman-Sauer, and Henderson (2004) highlight that many public services could be improved if governments and non-profit organizations worked together to understand what needs to be done to meet public needs effectively. Additionally, they note that mutual accountability involves key stakeholders in the dialogue to determine limitations, authorize discretion, define reporting, and create partnership review processes. They further argue that the conscious development of mutual responsibility requires recognizing the context and legitimate reciprocal expectations regarding the responsibility to identify who should do what and for whom it should be done. The authors do not discuss compliance with rules as a compliance role in depth though.

As Sean J. Griffith (2016) notes, compliance with RFT and SPnE represents a government intervention through the regulator, i.e., the government agent engaged in establishing rules, as discussed by Sean J. Griffith (2016).

## 5. Assessing model’s proposition and fundamentals – first phase

The research model is based on a set of equations that identify the tax subject to tax waiver (RFT), the non-state public service (SPnE), the State Supplementary Action (ASE), and respective evaluation metrics. The RFT model comprises a set of equations (1, 3, 4, and 5) that specify total tax exemption, direct tax (TD), indirect tax (TI), and the employer contribution to social security (SS). The SPnE model is specified by equation (2), which includes revenue waiver (RR) and community assistance (AC). The model metrics given by the ASE are specified in equation (6), composed of the difference between SPnE and RFT. TI is the sum of taxes and contributions such as IPI, ICMS, ISSQN, II, IE, PIS, and Cofins. The TD incorporates IRPJ, CSSL, IPTU, and IPVA. The variables are described in the appendix.

### a. Tax waiver (RFT)

The equation accumulates resources from society, identified by the type of tax, allocated by the regulator to a CSO as tax relief.

$$RFT = TD + TI + SS \quad (1)$$

b. Non-State Public Service (SPnE)

The equation sums up the benefits the CSO provides to society through goods and services through revenue waiver (RR) and assistance to the community (AC).

$$SPnE = RR + AC \quad (2)$$

c. Indirect Tax (TI)

The equation shows the value of the TI waived, the object of the tax exemption, added to the gross revenue (RB) from the sale of goods and services due to the rate application ( $\delta$ ).

$$TI = RB * \delta, \delta \in [0, 1] \quad (3)$$

d. Social Security (SS)

The value represented by the equation corresponds to the employer's contribution to SS on the remuneration of salaried employees (RT) that the State exempts the CSO from paying as a result of the application of the rate ( $\varphi$ ).

$$SS = RT * \varphi, \varphi \in [0, 1] \quad (4)$$

e. Direct Tax (TD)

The cumulative amount of the equation corresponds to the total of the tax and contribution that make up the direct tax burden, in each fiscal year, on the CSO's surplus for the year (SE), real estate equity (PI), and automotive equity (PA), as a product of the aliquots ( $\theta$ ), ( $\beta$ ) and ( $\tau$ ).

$$TD = SE * \theta + PI * \beta + PA * \tau; \quad \theta, \beta, \tau \in [0, 1] \quad (5)$$

f. Metrics of State Supplementary Action (ASE)

The equation displays the ASE metrics a CSO performed, which correspond to the difference between the SPnE and the RFT and indicates whether the tax relief policy is sustainable.

$$ASE = SPnE - RFT \geq \quad (6)$$

ASE Metrics

$$ASE = \begin{cases} \geq 0, \text{ sustainable tax relief public policy} \\ < 0, \text{ non - sustainable tax relief public policy} \end{cases}$$

**Statement 1:** for any ASE equal to or greater than zero, the indication is that the social cost of tax relief was fully recovered by the SPnE benefit offered to society by the CSO. In this case, it is said that the tax relief public policy is sustainable.

**Statement 2:** if ASE is less than zero, society has not benefited from the transfer of resources from the State to the CSO. This situation suggests that the CSO is enriching its assets and that the tax relief public policy is unsustainable.



## 6. Consistency of the assessment model with academic configuration data – second phase

Academic configuration data were obtained from two CSOs-test, CSO1 and CSO2, to test the model's consistency (Table 1). CSO1 provides education services covered by tax immunity and, therefore, receives the benefit of exemption from social security (SS). In addition to this benefit, OSC1 fulfills the requirements to obtain the benefit of the tax exemption for IT and TD. On the other hand, the activity of CSO2 is assistance and does not meet the requirements to obtain tax exemption from immunity; hence it only has tax exemption.

For both CSOs, the framework is associated with “CNAE 94” in the first two digits on the left, and all ancillary tax obligations have to be fully met to maintain this framework.

Table 1

### Academic configuration data to test the model

OSC1 Data	R\$ 1,000	OSC2 Data	R\$ 1,000
Gross revenue (RB)	150,500	Gross revenue (RB)	95,600
ISSQN (TI) 2%	0	ISSQN (TI) 2%	4,780
COFINS (TI) 3%	0	COFINS (TI) 3%	2,868
Scholarships granted (RR)	34,100	Scholarships granted (RR)	0,00
Community assistance (AC)	18,700	Community assistance (AC)	5,300
Worker's income (RT)	50,100	Worker's income (RT)	30,100
Employer's social security (SS) 20%		Employer's social security (SS) 20%	6,020
Other expenses	10,200	Other expenses	3,100
Surplus of the year (SE)	37,400	Surplus of the year (SE)	43,432
IRPJ and CSLL (TD)	0	IRPJ and CSLL (TD)	0
Social security rate 20%		TD rate (IRPJ+CSLL) 34%	
Real State (PI)	25,300		
Wealth tax rate 4%			

Source: developed by the authors.

### 6.1 Calculating tax exemption for CSO1:

CSO1 is exempted from paying direct tax, indirect tax, and employer contribution to social security because it performs a non-profit educational activity. This condition allows accumulating the benefits of immunity and tax exemption. It is also assumed that CSO1 obtained tax relief from TD and IT at the three levels of the Federation (federal, state, and municipal).

- a. Exemption from TI (Equation 3).

$$TI = 150.500 * 0,02 + 150.500 * 0,03 = 3.010 + 4.515 = 7.525$$

The sum of the amounts of this tax exemption, ISSQN R\$3,010 and Cofins R\$4,515.00, would be paid to the State Treasury if there was no benefit from the tax exemption.

- b. Exemption from employer's contribution to social security (Equation 4).

$$SS = 50.100 * 0,20 = 10.020$$

The amount of R\$10,020 would be due to social security if there was no immunity.

- c. Exemption from the direct tax on income and assets (Equation 5).

$$TD = 37.400 * 0,34 + 25.300 * 0,04 = 12.716 + 1.012 = 13.728$$

The amounts of direct tax on income (IRPJ and CSLL) R\$12,716 and on real estate R\$1,012.00 would be required by the State if CSO1 did not enjoy the benefit of tax relief.

- d. Totaling the tax waiver (Equation 1).

$$RFT = 7.525 + 10.020 + 13.728 = 31.273$$

The value of the RFT reduces the total State budget with tax relief. It constitutes society resources retained by the CSO though. Therefore, OSC1 must convert RFT into SPnE.

- e. Totaling the value of the non-state public service (Equation 2).

$$SPnE = 34.100 + 18.700 = 52.800$$

The value of the SPnE is the sum of the service CSO1 offered to society in return for the RFT received (Table 1).

- f. Assessing the sustainability of public tax relief policy (Equation 6).

$$ASE = 52.800 - 31.273 = 21.527$$

The ASE shows that CSO1's compliance with the tax relief public policy is sustainable because the difference between SPnE and RFT ("e" minus "d") is greater than zero, and this situation confirms **Statement 1**.

## 6.2 Calculating tax exemption for CSO2:

Because CSO2 does not meet the conditions for enjoying the tax immunity benefit, it only receives exemption from the direct tax on the surplus for the year.

- a. Exemption from direct tax on income (Equation 5).

$$TD = 43.432 * 0,34 = 14.766$$

The amount of direct income tax corresponds to IRPJ and the CSLL. This amount would be collected from the State Treasury if CSO2 did not enjoy the benefit of the TD exemption on rent.

b. Totaling tax waiver (Equation 1).

As CSO2 does not enjoy further tax relief, RFT is limited to the TD over income.

$$RFT = 14.766$$

RFT corresponds to the tax withheld by OCS2 that the State Treasury would demand if it did not enjoy the tax exemption benefit. Therefore, the RFT must be provided to society as an SPnE, to offset the cost of the tax exemption granted.

c. Totaling the value of the non-state public service (Equation 2).

$$SPnE = 5.300 = 5.300$$

SPnE corresponds only to the value of assistance provided to the community (AC) (Table 1) because the CSO2's financial statements do not show any revenue waiver as a counterpart to the tax exemption benefit received.

d. Assessing the sustainability of tax relief public policy (Equation 6).

$$ASE = 5.300 - 11.016 = -5.716$$

The ASE metric is less than zero. This situation reveals that CSO2 did not deliver SPnE to society value that is sufficient to replace the RFT benefit. This result indicates that CSO2 is enriched with resources from society and, therefore, the tax relief public policy is unsustainable, confirming **Statement 2**.

### 6.3 Analysis of the result of the State Supplementary Action (ASE)

Academic data reveal that CSO1 complied with the tax relief public policy by presenting an ASE greater than zero. OSC2 obtained equity enrichment by presenting an ASE lower than zero though. These two results are relevant to assist regulators and the manager of the tax relief public policy regarding its sustainability. Note that no adjustments were made for any of the CSOs in the TD calculation basis for surplus that would occur if the organizations were from the second sector. Additionally, we assumed that both CSOs adopt compliance rules to produce reliable accountability.

The two results provide robust evidence that the assessment model proposed here is consistent and appropriate to assess the sustainability of the tax relief public policy.

## 7. Main conclusions and limitations

This study was divided into two phases. The first phase concerned a theoretical model to assess the State Supplementary Action (ASE) complied by Civil Society Organizations (CSO) in Brazil, comparing the social cost of the Tax Waiver (RFT) granted by the State with the benefit of Non-State Public Service (SPnE) a CSO provides to society. The second phase tested the consistency and propriety of the model's metrics using academic configuration data retrieved from the Research and Extension Laboratory of the Third Sector (LPTES) at the University of Brasília (UnB).

The model's metrics indicate that one CSO transferred the benefit received as an RFT to society as an SPnE, i.e., when ASE is equal to or greater than zero; otherwise, there is evidence that society's resources contribute to the CSO's enrichment. The first metric ensures that the tax relief public policy is sustainable. The second metric indicates that the public policy is not sustainable.

The model was tested in two CSOs, using academic configuration data: one benefited from immunity and tax exemption, and the other benefited only from the exemption of direct income tax.

The results suggest that the theoretical model is robust, consistent, and appropriate for assessing a tax relief public policy because it indicates that this policy is sustainable when the ASE quantum is at least equal to zero and not sustainable otherwise.

The model's contributions consistently mitigate the literature gap regarding the provision of metrics to evaluate a tax relief public policy and assist researchers, regulators, and managers in evaluating the fulfillment of public policy goals. If public policy is successful, it mitigates State and market failures. It is supported by good accountability and compliance practices, necessary for producing reliable information by a CSO, with physical and financial detailing of the object, as required by regulators.

To determine the basis for calculating the TD on the revenue, no adjustments a second sector organization would make to calculate this tax were considered. Therefore, the measurement of tax from immune activities has a purely economic effect and does not constitute an obligation to pay.

The results found with academic configuration data are robust and consistent because they ensure that the metrics of the evaluation model can show whether a tax exemption public policy is sustainable.

Therefore, the model proposed here is expected to encourage future studies addressing market data to assess the sustainability of the tax relief public policy so that society can learn how tax waiver resources are applied in the delivery of non-state public services. In addition, using market data enables identifying potential limitations of the model, which were not observed when using academic configuration data.

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## Appendix

<b>Acronym</b>	<b>Denomination</b>	<b>Application</b>
AC	Community assistance	Food, medicines, material, and services.
ASE	Supplementary state assistance	Metrics of compliance with public policy on tax relief.
COFINS	Contribution to Social Security Financing	Federal tax that makes up the sale price, on the inside, is one of the sources of social security financing.
CSSL	Social contribution on net income	Federal tax that is levied on the income of legal entities and is one of the sources of social security revenue.
ICMS	Tax on the circulation of goods and provision of services state tax	State tax inside, which makes up the sale price paid by consumers.
IE	Export tax	Federal tax on the export of goods.
II	Import tax	Federal tax on the import of goods that compose the product's cost.
IPI	Tax on industrialized goods	Federal tax on the production of goods added to the price.
IRPJ	Corporate income tax	Federal tax on the tax profit (positive or negative) of legal entities.
IPTU	Urban property and land tax	Municipal tax on real estate levied annually
IPVA	Motor vehicle ownership tax	State tax on motor vehicle ownership levied annually
ISSQN	Tax on services of any kind	Municipal tax on services of any kind
RFT	Tax waiver	Tax exemption, consisting of tax immunity and exemption
SPnE	Non-state public service	Service provided by a CSP to society in return for the tax relief benefit provided by the State
SS	Contribution to social security	Federal tax on workers' monthly income
TD	Direct tax	Tax levied on income and property
TI	Indirect tax	Tax levied on the production, circulation of goods, consumption, and service