

# **SUMMARY**

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## ***1 - INTRODUCTION***

In the late 90s, the United States and Brazil engaged in a series of discussions that focused on the restructuring of their respective tax systems. The underlying issue of these debates was how the tax structure affected the attempts of the production sector to achieve the level of efficiency and competitiveness it needed in order to cope with the phenomenon of globalization. This rapidly changing environment made new demands on government resources and it became necessary to find a way by which taxes could be administered more efficiently at a lower cost to society.

In the United States, the discussion was centered on the creation of a single consumption tax that replaced all the taxes in effect at the time. The main purpose of this measure was to maximize the efficiency of tax collection and thus minimize the cost of tax administration.

In Brazil, there was a consensus that the tax burden was too heavy and that tax administration had not succeeded in preventing tax evasion. This led to a debate on the need for in-depth tax reform and such issues as the high number of taxes, the heavy tax rates, the emphasis on the collection of indirect taxes and the lack of transparency were discussed by society, which demanded a more efficient collection of Federal revenues and less taxation on production, and questioned the role of the tax structure in the distribution of national income as well.

Indirect taxes levied on consumption played an essential role in these debates. The purpose of this paper is to compare the indirect taxes on consumption that are in

effect in the United States and in Brazil and to analyze how these taxes are used and their importance within each country's tax structure.

First, I will attempt to establish the difference between direct and indirect taxation. Next, I will present a brief report on the theories that evaluate the efficiency and fairness of these types of tax. And I will conclude by comparing the indirect taxes that are in effect in each of the two countries: the legal aspects of such taxes, the tax rates adopted, the extent to which they are transparent, and their importance in the context of the total tax revenues obtained by the State.

## ***2 - TAXES ON CONSUMPTION AND INCOME***

The most efficient and equitable way for the Federal government to collect its revenues is one of the critical issues of the debate on changing the tax structure. It is important to begin by establishing the difference between the two types of taxes that are available to the Public Authorities for the implementation of a tax policy: direct and indirect taxes.

The first type of tax is based on the equity or income of corporate or individual entities. In the case of indirect taxation, however, taxes are levied on the taxpayer's consumption activities and the value of those taxes is added to the price of the product that is being sold or of the service being provided.

In indirect taxation, the actual taxpayer, i.e., the person who bears the financial burden of the tax, does not pay the tax directly to the public treasury. Since this type of

tax is levied on the operations that are carried out by business owners or service providers, they are the ones who are liable for payment to the State. Direct taxation is quite different because as a rule, the owner of the equity or income is held personally liable for paying the tax.

Considering the types of levies, there are three kinds of indirect taxes:

- Cumulative indirect taxes;
- Indirect taxes on value-added; and
- Indirect taxes on sales ( retail and excise taxes).

In the first case, the tax is levied on each operation and includes the tax levied on its respective input. In other words, the tax calculation basis of a sales operation includes the tax that has been levied on the previous operation. Cascading taxes of this type represent a heavier tax burden for products whose production or commercialization processes involve a number of different stages. Since no offsetting mechanisms are included in their calculation, it is easier to levy and to pay such taxes.

Though the procedure for calculating and levying cumulative indirect taxes is simpler, such taxes do not favor the competitiveness of national products vis-à-vis their foreign counterparts. The successive levying of this tax on the different stages of production makes it difficult to quantify the amounts that have been collected and that must be included in the calculations of an item's production cost. The fact that it is impossible to eliminate all the taxes that are levied on export products offers comparative advantages to imported products which, as a rule, are not submitted to a similar treatment in their countries of origin.

The value-added tax - VAT makes use of the billing/credit type of method and a tax is imposed only on the portion of additional revenue that is generated at each stage of the production and commercialization process. This type of tax provides the Federal Government with a regular inflow of revenue because it is levied according to the development of the chain of production. It is a more sophisticated type of levy that involves a more complex technique for calculating the tax to be collected since the tax that has already been levied on the previous stages is not included in the calculation basis of an operation.

The VAT has been adopted by Brazil and by the European Community and its use involves specific procedures. The company that performs a taxable operation must record on the invoice the amount of tax to be paid on that operation. The tax will be paid when, at the end of a specified period, the net total of the taxes on that company's purchases and sales is calculated. By making it possible to quantify to what extent the amount paid in indirect taxes affects the cost of each product, this type of calculation precludes any tax burden on exports and therefore allows a Brazilian product to be treated in the same manner as an imported one, thus facilitating the former's insertion in the global marketplace. Ironically, the VAT is the most difficult tax to understand and to calculate on account of its multiple offsetting mechanisms and of the types of operations to be considered.

The sales tax category includes two types of indirect taxes: the Retail Sales Tax and the Excise Tax, both of which have been incorporated into the United States tax system. What these two taxes have in common is that they are imposed at a single specific moment of the chain of production or commercialization.

In the case of the Retail Sales Tax, the tax is calculated and must be paid only upon the last sale to the consumer and the establishment that effectively carries out the sale to the consumer is responsible for transferring the tax levied on the entire chain of production to the public treasury. Among the three types of taxes that have been presented, this is the easiest one to calculate and the one that the taxpaying public finds the easiest to understand. Like the VAT, this type of calculation precludes any tax burden on export products.

Excise Taxes are selective taxes that are levied on certain products or services according to specific criteria established by the Federal government. In accordance with United States legislation, this type of tax must be levied on alcoholic beverages, cigarettes and fuel, among other items. The amount to be paid may be defined as a percentage of the selling price or as a fixed amount per unit sold.

### ***3 - ECONOMIC ASPECTS OF USING CONSUMPTION AS A TAX BASE***

The controversy regarding consumption versus income or equity as the preferred tax base is not new to economists and tax planners. The main guidelines for an analysis of the distributional features of a tax system can be found in The Optimal Taxation Theory. The structure of optimal taxation contemplates three aspects: the representation of individual preferences, of technology, and of market structure; the Government's need to raise a fixed amount of revenue with a limited set of tax instruments; and the criterion function, which ranks outcomes and chooses the best tax system within the limited set

available. This theory is based on the notion that taxation efficiency is highly cost-intensive and that attempts to minimize such costs are worthwhile. Thus, the models that evolve from this theory may represent mere attempts to minimize efficiency costs or even to evaluate the distribution of income by balancing efficiency costs against distributional implications.

The fairness of a particular tax structure would therefore be evaluated in terms of the proportion of direct and indirect taxes to the total revenues collected by the Government. However, this type of evaluation is incapable of objectively determining the concepts of equity and ability to pay. Musgrave and Musgrave approach the problem by arguing that the essence of modern welfare economics precludes distributional considerations. The basic issue is not equity per se, a concept that is considered desirable by the vast majority of authors, but rather how this abstract concept can materialize within the practical elaboration of a tax system.

Two lines of thought have attempted to shed light on the definition of the concept of tax equity: one is based on the benefit principle, the other, on the ability-to-pay principle.

The former sees equity as the extent to which the amount of taxes paid by taxpayers is proportional to the quantity and quality of the public services provided or available to them. The benefit principle, which was introduced in the work of Adam Smith, does not confine the concept of equity to a structural analysis of a tax system, but considers it in the context of Government expenditure policies as well.

The latter line of thought, which was originally developed by Rousseau, Say, and Stuart Mill, approaches the concept of equity from the ability-to-pay perspective. It restricts the concept of equity to the area of Government revenues and does not consider

Government expenditure policies relevant to the analysis of the concept at hand. Equity would therefore have two components: a horizontal one, related to the requirement of equal taxes for people in equal positions, and a vertical one, corresponding to the pattern of unequal taxes among unequal incomes.

In a comparative analysis of these lines of thought, Musgrave & Musgrave point out that the merely comparative character of these approaches is already a clear indication of their respective limitations. According to these authors, “neither approach is easy to interpret or implement. For the benefit principle to be operational, expenditure benefits for particular taxpayers must be known. For ability-to-pay approach to be applicable, we must know just how this ability is to be measured. These are formidable difficulties and neither approach wins on practicality grounds”.

Till recently, most theoretical formulations associated direct taxation with the attainment of equity and indirect taxation with the efficiency requirements that a tax structure was expected to meet.

Progressive taxes levied on income or equity are directly proportional to the taxpayer’s ability to pay, therefore wealthier individuals contribute with larger portions to the costs of general social welfare.

In turn, indirect taxes are characterized by their regressivity and by the fact that they are equally applied among taxpayers in unequal positions from a contributory point of view. Because they are levied only on the portion of income that is to be spent on consumption, taxes of this type penalize taxpayers that spend the larger portion of their income on consumption. Considering that the smaller a taxpayer’s income, the larger the proportion that consumption represents in relation to that income, it becomes evident that the tax burden of low-income taxpayers is heavier than that of high-income taxpayers.



One of the ways by which the effects of this regression could be reduced would be to establish differentiated rates for products and services based on their essentiality. Nonessential products that are preferably consumed by high-income taxpayers would be subject to higher rates. The products that ensure the subsistence of lower-income groups would be subject to lower rates or even to exemption.

Differentiated taxation on nonessential products has met with general acceptance in the practical context of modern tax structures. This differentiation has been implemented both by the establishment of higher tax rates for such products and by excise taxes, which are specific indirect taxes levied on certain types of products (cigarettes, alcoholic beverages, etc.). In practice, however, it has been observed that with the adoption of differentiated tax rates, tax administration tends to become more complex and as a result, the costs are higher than the benefits thus obtained.

Indirect taxation is associated with efficiency because it is easier for the Public Authorities to administer and collect this type of tax. First of all, it requires less complex calculation and payment procedures. Secondly, the universe of taxpayers to be controlled by tax administration is smaller. And finally, the fact that business enterprises and service providers are subject to the registration rules set forth in the commercial legislation is an ancillary element for verifying compliance with tax liabilities.

Though most authors support it, the regressivity of indirect taxation is still the subject of much discussion. Thomas Hobbes, whose views were taken up again and expanded by Nicholas Kaldor in his book "An Expenditure Tax", proposes a tax based on expenditures. This line of argument qualifies the act of saving as a positive attitude for society while consumption is considered an individualistic and anti-social attitude. According to this principle, the levying of taxes on consumption would be the fairest way

by which to obtain resources from society. A summarized description of this line of thought may be identified in the quotation below, a passage taken from the work of Thomas Hobbes and used by Kaldor in the introduction to his book:

*“...The equality of Imposition consisteth rather in the Equality of that which is consumed, than of the riches of the persons that consume the same. For what reason is there, that he which laboureth much, and sparing the fruits of his labour, consumeth little, should be more charged, than he that living idly getteth little, and spendeth all he gets: seeing the one hath no more protection from the Common-wealth than the other? But when the Impositions are layd upon those things which men consume, every man payeth Equality for what he useth: Nor is the Common-wealth defrauded by the luxurious waste of private men.”*

HOBBS, Leviathan Ch. XXX

More recently, after evaluating the distributional effects of converting the United States Federal Income Tax into a consumption tax, Feenberg came to new conclusions on the subject. In their opinion, consumption expenditures are the most appropriate indicators of the taxpayers' standard of living and should therefore be adopted as parameters of their ability to pay. This line of reasoning is based on the fact that such expenditures are more stable than income throughout the life cycle of people in general, who typically make use of savings and loans with the purpose of maintaining their regular consumption pattern regardless of possible variations in their income. Therefore, an analysis of the amounts thus spent would make it possible to capture consumers' long-term consumption opportunities.

Although the elements that have been analyzed are of a subjective nature and do not lead to clear conclusions, the discussion regarding the option between efficiency and effectiveness in the process of defining a tax structure provides a basis for a comparative evaluation of the consumption taxes applied by two countries with such different social and economic realities. The option to include a specific type of tax within the framework of a tax system may help to solve the problems to be considered by society or aggravate them.

## ***4 - CONSUMPTION TAXES IN BRAZIL AND IN THE USA***

### ***4.1 – THE POWER TO CREATE AND MODIFY TAXES***

The first distinction that may be established between the two tax systems regards which authorities are legally empowered to create taxes or modify them. Generated by different historical processes, the tax laws of these two republics reflect the context of each country's political organization.

The United States of America comprises a united federation of independent states, whose autonomy is one of the basic principles of the country's legal system. In the Tenth Amendment, the Constitution establishes that the powers that are not specifically delegated to the federal level or that are not denied to the states are reserved to the latter.

### *Amendment X*

*“The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people”.*

This provision empowers each member state to implement its own autonomous tax system. The concise constitutional text does not include detailed rules on the subject and as a result, each Federal State has established its own specific legislation.

By comparison with the United States, the Brazilian Federation was formed in an inverse manner. The initial political structure was unified, the government was centralized, and provinces had little autonomy. With the advent of the republic, the country was divided into States. In the course of republican history, these federative entities have presented higher or lower levels of autonomy vis-à-vis the central government, but the greater portion of power has always rested with the Central Government.

The current Brazilian tax system was established by the Constitution of 1988. It presents several provisions that reassert the authority of the central government over the member States for the establishment of tax-related rules. As opposed to what can be observed in the United States, the creation of taxes is prohibited to other federative entities as can be seen in Article 154, which has been transcribed below.

*"Article 154. The Union may institute:*

*"I- by means of a supplementary law, taxes not instituted in the preceding article, provided that they are non-cumulative and not founded on a taxable event or an assessment basis reserved for the taxes specified in this Constitution;*

*"II- in the imminence or in the event of foreign war, extraordinary taxes, encompassed or not by its power to tax, which shall be gradually suppressed when the causes for their institution have ceased."*

The Brazilian Constitution empowers the States and Municipalities to legislate, collect and inspect the taxes it has established. However, it specifies the cases in which these taxes must be imposed and determines the percentages of State tax revenues that must be transferred to the Municipalities, and of Federal tax revenues that must be transferred to the States. Theoretically, the detailed regulation of the subject as it is presented in the constitutional text would generate greater harmony among the different types of legislation and prevent conflict among the members of the federation. In practice, however, it did not correspond to the general expectations. The States invoked their autonomy to administer their own taxes and began to promote the concession of tax incentives and benefits, particularly with the intention of attracting investments for the installation of new companies. This new ingredient introduced one more complicating factor into the already complex Brazilian tax system and the possibility of arriving at a consensual solution appears to be remote.

## ***4.2 - INDIRECT TAXES IN THE UNITED STATES***

### ***4.2.1 - FEDERAL GOVERNMENT***

The revenue that is generated by the collection of indirect taxes is not very relevant to the Federal budget. The Government's main source of income originates in direct taxation: income tax is levied on all persons or entities that have registered taxable profits during the tax year; the payroll tax is responsible for the maintenance of social security programs; and the federal wealth tax is levied on transfers of wealth. Indirect taxation is represented by excise taxes that are levied by the Federal Government on telephone tariffs, alcoholic beverages, gasoline and other fuels, and tobacco.

### ***4.2.2 - STATE AND LOCAL GOVERNMENT***

On the state and local level indirect taxes produce a larger share of tax revenues. Considering the abovementioned autonomy, it may be said that on the local level, there are fifty-two distinct tax structures in the United States. Nevertheless, it can be noticed that these indirect tax structures have a few characteristics in common.

There are two types of consumption taxes: retail tax and excise tax. In most States, certain products are subject to both of these taxes. In such cases, the calculation basis of the Sales Tax includes the amount collected as Excise Tax in the previous operation.

State Excise taxes are levied on: beer, cigarettes and other tobacco products, distilled beverages and fuel.

### ***4.3 - INDIRECT TAXES IN BRAZIL***

Differently from what has been observed with respect to the tax structure employed in the United States, indirect taxes on consumption play a fundamental role in the tax revenues of all the entities that comprise the Brazilian Federation, not only in terms of these entities' own tax revenues, but also on account of the intergovernmental transfers provided for in the Constitution.

Intergovernmental transfers occur when revenues collected through certain types of taxes are distributed to more than one entity of the federation in accordance with the rules set forth in the Constitution. In this case, the tax must be exclusively administered by the government body that is constitutionally empowered to do so, and only part of the total tax revenues is to be received by the other party.

#### ***4.3.1 - FEDERAL GOVERNMENT***

Most indirect taxes are concentrated in the federal level both in number and in terms of the amounts collected. The indirect taxes collected by the Federal Government are:

*IPI* – The Tax on Manufactured Products tax is levied on operations that alter the nature, functioning, finishing, presentation or purpose of manufactured products that have been made in Brazil or abroad. The rates are determined in accordance with the criteria of essentiality defined by tax administration. The rates are fixed on a product-by-product basis according to the MERCOSUR Common Nomenclature (NCM) that is based on the Harmonized System (NBM/SH) which individualizes each product by means of an eight-

digit code. It comprises 96 chapters and thousands of codes that establish a number for each product; the products range from commodities to the most sophisticated types of equipment.

COFINS – Social Contribution on Billings - This tax is paid by corporations in accordance with Income Tax legislation; financial institutions are not liable.

PIS/PASEP – Employees’ Profit Participation Program / Public Service Employee Savings Program – The purpose of this tax is to fund the unemployment insurance program and other development programs via the National Bank for Economic and Social Development - BNDES.

IOF – Tax on Financial Transactions – This tax is levied on the value of financial transactions. It functions mainly as an ancillary instrument for controlling the financial Market.

CPMF – Temporary Tax on Financial Activities – The CPMF is a controversial tax that is levied on all financial movements and was conceived as a provisional tax to be levied with the purpose of obtaining resources to pay for the health care system. The enforcement of this tax has been systematically extended and the Federal Government has clearly manifested its intention to make it become a permanent tax.

Among the abovementioned taxes, only the IPI may be classified as an indirect tax on value-added; the remaining taxes are classified as cumulative indirect taxes.



The Federal Government keeps only 46% of the total revenues generated by the IPI tax and the remaining portion is distributed among the States and Municipalities in compliance with rules that the Constitution itself has established.

The configuration of the current structure of indirect taxation is quite different from the one that was originally approved in the 1988 Constitution, which was believed to present a better distribution of tax revenues among the three levels of government. The changes were promoted on the initiative of the Federal Government and were meant to offset the losses it incurred as a result of these new rules and to fight the insistent fiscal imbalance. The successive federal administrations promoted a revival of the traditionally centralized Brazilian State and opted for an increase in the tax rates and for the creation of new taxes whose revenues would not have to be shared with the states and municipalities.

It may therefore be observed that throughout the 90s, the federal government adopted a position that opposed the rules of taxation established by the 1988 Constitution. This process introduced a less efficient tax structure in which indirect taxes of a cumulative nature became increasingly important in the overall context of federal government revenues. The creation of the CPMF tax and the successive increases of the COFINS tax rates reinvigorated federal government funds and caused the tax structure to become even less favorable to the production system, which now had to cope with yet another obstacle to its insertion in the global marketplace.

#### ***4.3.2 - STATE AND LOCAL GOVERNMENT***

The 1988 Constitution enabled both the State and Municipal Governments to have their own consumption taxes: the ICMS tax, and the ISS tax, respectively.

ICMS – Value-Added Tax on Sales and Services – This value-added tax is the main source of revenue for State Governments. Before the advent of the 1988 Constitution, only operations that involved the sale of goods were taxed. Among the events that generated this type of state tax, the new Charter included services that were related to the supply of electrical energy, to communications and to interstate and intermunicipal transportation.

ISS – Services Tax – This indirect tax is levied by the municipal governments and is due on services that are not burdened by the ICMS tax.

As for their classification, both taxes are levied on the value added to operations.

The state tax on the consumption of goods and services (ICMS) represents one of the main sources of revenue for states as well as for municipalities. According to the criteria established in the Constitution, one quarter of the total revenues collected by the States must be transferred to the Municipalities.

The 1988 Constitution expanded the application of the ICMS tax by incorporating communication and freight services into this tax and by including products that had previously been subject to exclusive taxation under the extinct single Federal Taxes. In the 1990s, the fact that the tax-to-GDP ratio of the taxes that corresponded to these services began to increase brought about a significant change in the profile of the revenues generated by this state tax. The tax which had historically and characteristically been levied on the purchase and sale of goods was now close to having services as its main source of revenue.

The municipal tax on services (ISS) only presents significant amounts of revenue in the municipalities located in urban areas, where activities related to service providing are more frequent. A significant number of Municipalities obtain their basic revenues from the collection of the municipal real estate tax and from the transfer of Federal and State resources.

#### ***4.4 - TAX RATES***

Tax rates deserve special attention in a comparative analysis of the different types of consumption taxes. A simple comparison between the values of the tax rates that are currently in effect in each country immediately indicates that they are higher in Brazil. Considering that such taxes, without exception, are levied in a cumulative manner throughout the production process, it is not difficult to identify the reason for the high rate of tax evasion in Brazil as well as for the constant complaints on the part of entrepreneurs with respect to the negative effects of the tax burden on the competitiveness of Brazilian vis-à-vis imported products.

A mere comparison of the effective tax rates may appear to be inconclusive in terms of an analysis of the differences between these two tax structures. However, this analysis would not be complete if it were limited to the simple confrontation of the nominal values of these tax rates. In some aspects, the way such rates are applied reveals that the Brazilian tax structure is not as transparent as the American structure.

Therefore, before comparing the nominal value of these rates, we will start out with a detailed description of the process by which the actual rate that is charged in certain indirect taxes is calculated. In the Brazilian context, we have identified two

hypotheses in which the tax percentage included in the end product is proportionally higher than the rate that has been set forth in the legislation: the cumulative taxes and the “inside” calculation which is contemplated in the ICMS legislation.

Cumulative taxes, which have already been presented, are levied on each operation. Thus, two items that have the same final consumer price may present differentiated tax values simply because they have distinct stages of production and commercialization. For instance, let us suppose that two products have an identical final price of R\$ 300,00. Product A went through three R\$ 100,00 stages of production and commercialization and product B required only two stages at R\$ 150,00 each. Considering that a cumulative tax of 3% has been levied on each operation, we would arrive at the following effective rate for each operation:

	<i>PRODUCT A</i>			<i>PRODUCT B</i>		
<i>Production stage</i>	<i>Value of operation</i>	<i>Value-added</i>	<i>Tax (3%)</i>	<i>Value of operation</i>	<i>Value-added</i>	<i>Tax (3%)</i>
<i>1</i>	100,00	100,00	3,00	150,00	150,00	4,50
<i>2</i>	200,00	100,00	6,00	300,00	150,00	9,00
<i>3</i>	300,00	100,00	9,00	-	-	-
<i>Total tax</i>			18,00			13,50

In the example above, it can be observed that by the end of the production and commercialization processes, the cumulative application of a nominal rate of 3% may generate an effective tax rate of 6% on product A and of 4.5% on product B. Therefore, the reason that the tax burden becomes heavier has nothing to do with the principle of

essentiality set forth in the Constitution, but rather with the inherent complexity of a production or commercialization process.

Another example of inconsistency between the nominal and the actual rate can be observed in the calculation of the ICMS tax. According to the calculation system that is currently in effect, the value of the tax is an integral part of its own calculation basis, in other words, when this tax is being calculated, the value of the tax must be added to the total value of the products and the services. For example, in the case of a sale which amounts to a total of R\$100,00, whose output is burdened by the ICMS tax at a rate of 18%, the value of the tax levied on the operation will be R\$ 18,00. The effective tax rate on the operation would be approximately 21.95% as a result of the proportion between the tax due (R\$ 18,00) and the net value of the sale which is received by the owner or operator of the business (R\$ 82,00).

Since we have not detected the existence of a cumulative indirect tax nor have we identified any type of “inside calculation” procedure in the American tax structure, we may conclude that the system is more transparent than the Brazilian one because it allows taxpayers to identify and measure the amount of tax due in the purchase price of a product without having to make use of mathematical models or spreadsheets.

The lack of transparency when presenting taxes to consumers may be viewed as a way by which to mask the amount of tax that is due, an understandable approach considering the heavy taxes imposed on Brazilian taxpayers.

I will now provide a brief description of the principal taxes that are effectively applied to the principal indirect taxes of these two countries.

#### **4.4.1 - USA**

STATE SALES TAX ON RETAIL - There are 46 states that collect this kind of tax. The majority of them establish the tax rates between 4% and 6% that results in a US median rate about 5%. In the state of Colorado we can observe the smallest rate (2.9%) and in the States of Mississippi and Rhode Island the largest (7%). All of them are shown in Table I at page 37.

Prescription drugs are considered an exemption except for the state of Illinois that has a rate of 1%. Nonprescription drugs are considered exemptions in just 10 States. Food is exempted in 27 States and has a lower rate in another 5. These exemptions can be seen in Table II at page 39.

EXCISE TAXES - All American States and Federal Government collect excise taxes, each one determining its own values for the rates. They are collected over motor fuel, beer, distilled spirits, cigarettes and other tobacco products.

State sales tax basis over beer and distilled spirits includes the amount of state excises taxes in 42 States, as shown in the Tables IV and V. In 18 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees and net liquor profits.

The value to pay must be determined by a tax rate or by a certain amount of money for each unit sold. As a result, these rates vary on every product (See Tables III to VII at pages 40 to 45). The table below shows some of the U.S. median excise taxes:

<i>EXCISE TAX</i>	<i>US MEDIAN RATE</i>
Distilled spirits	US\$ 3.30 per gallon
Beer	US\$ 0.188 per gallon
Cigarettes	US\$ 0.34 per pack

#### **4.4.2 - BRAZIL**

COFINS - Until February of 1999, the tax rate of the Social Contribution on Billings (COFINS) was 2% applied on the sales of merchandises and services. After that the tax rate was raised to 3%.

PIS/PASEP - The amount to pay to the Employees' Participation Program and the Public Employee Patrimony Savings Program is calculated according to the tax rate of 0.65 % of gross revenue.

IOF- As an auxiliary instrument of market control, Tax on Financial Transactions has rates that could vary depending on the decision of the Ministry of Finance. This Ministry can establish the value between zero and the maximum rates listed below:

<i>FINANCE OPERATION</i>	<i>MAXIMUM TAX RATE</i>	<i>CURRENT TAX RATE</i>
Credit operations	1.5% daily	0.0041% daily
Exchange operations	25%	0% to 5%
Insurance operations	0% to 7%	0% to 7%
Security operations	1,5%	0%
Gold operations	1%	1%

CPMF - The tax rate of the Temporary Tax on Financial Activities was 0.38% from June 17, 1999 to June 16, 2000. It was reduced to 0.3% for the financial operations that would be carried out from June 17, 2000 to June 16, 2002. The apparently small tax rate of the CPMF is responsible for the collection of a large amount of revenue because it's levied in almost every financial operation.

IPI - The Tax on Manufactured Products has decreasing rates according whether the merchandise is essential. The tax rates vary from zero to 130% depending on the product. The tax rate for each product can be found in the "table of IPI"(TIPI). Essential goods, such as food, are not taxed. Merchandises such as cigarettes, spirits, beer, wines and automobiles have significant high tax rates. On the table below we can see some examples of these rates.

<i>MERCHADISE</i>	<i>POSITION IN TIPI</i>	<i>TAX RATE</i>
Automobiles	8703.22.10	25%
Wines	2204	From 10% to 130%
Cigaretes	2402.20.00	330%
Beer	2203.00.00	80%

ICMS - A federal law regulates the rates levied on interstate sales of this states' tax. It determines two rates, 7 or 12%, depending on the state of destination of the merchandise. If the good is addressed to the states located on the Regions of North, Northeast, Midwest or the State of Espírito Santo, the rate is 7%. If the destination of the merchandise is any other State, the tax rate is 12%.



Each State is free to levy the tax rates on the sales carried out inside the borders of its territory. As a result, there are a large number of tax rates for each product that varies accordingly to the States' economic characteristics. Otherwise the main kinds of operation, products and services have almost the same rates, as related below:

- The standard tax rate for the sales inside the States' territory varies from 17% to 18%;
- Cigarettes, tobacco, alcoholic beverages and luxury items have tax rates of 25%;
- Electricity, telecommunication services and gas have tax rates of 25%.

The comparison between the rates used in the two countries leads to the conclusion that the amount of indirect taxes included in the price of Brazilian's merchandises is higher than the ones in the US. Whereas US have a retail sales tax rate between 4% and 6%, Brazil's ICMS levies a rate from 7 to 25%. It's important to emphasize that as long as few products are levied with excise and sales tax simultaneously in the US, the tax basis of ICMS includes all other indirect taxes such as IPI, Finsocial and COFINS.

The complexity of the law is another difference between the two tax systems. The United States has only two sorts of indirect taxes with a relatively small number of tax rates. These taxes also are due in just one stage of the production or the selling cycle. These characteristics simplify the administration of these taxes by the taxpayers and public administration.

The Brazilian legal environment is far more complex. First of all, Brazilian taxpayers should be responsible for the payment of even four indirect consumption taxes simultaneously. Moreover, the rules concerning the use of tax rates of the Brazilian's

value added taxes, IPI and ICMS, are more complex than North Americans' excise and retail sales tax. For example, in order to know the IPI's tax rate of certain product, the taxpayer is "challenged" to classify it in the TIPI (Table of IPI), that is divided in 96 chapters with thousands of codes, one for each good. Any mistake in this classification could make taxpayers pick the wrong rate and lead them to pay an incorrect amount of money to the state. In the ICMS the rate could vary according to the destination of the merchandise, the kind of good and the State where the sell took place.

This multiplicity of rules is reflected on the complexity of registering the buying and selling operations and in the calculation of the amount of money that has to be paid. So, in order to do away with so complex tasks, firms and Government have to spend appreciable resources with specialized workers and technology. All these expenses reflect on the costs of production that, once again, makes it difficult for the Brazilian products to compete in the global marketplace. These kinds of expenditures are part of the Brazil cost, legal and institutional weak points that increase the price of Brazilian products and services.

#### ***4.5 - TRANSPARENCY***

A good definition of transparency can be found in the IMF's Code of Good Practices on Fiscal Transparency. It says that government involvement in the rest of the economy should be conducted in an open and public manner, and on the basis of clear rules and procedures that are applied in a nondiscriminatory way. It also says that taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.

Fiscal transparency would make a major contribution to the cause of good governance. It should lead to better-informed public debate about the design and results of fiscal policy, make governments more accountable for the implementation of fiscal policy, and thereby strengthen credibility and public understanding of macroeconomic policies and choices.

So what would be the requirements for the transparency when we are dealing with consumption taxes? Basically, it is informing taxpayers about which taxes are included in the price of the merchandise that they are buying. It's also important to present tax rates and the value of each tax levied on the goods that have been sold.

The Brazilian tax system fails to provide this kind of data for the taxpayers. This lack of information can be seen as a way of hiding from the citizens the amount of indirect taxes included in the price of the merchandises.

The first evidence of the lack of transparency in the Brazilian tax system is the use of cumulative indirect taxes. As mentioned before, this sort of tax over consumption doesn't allow taxpayers to identify or to calculate its amount in the price of the good. It's an "invisible" tax that was the main device in the shift of the tax structure carried out by Federal Government in the late 90's. The change in the COFINS' law is a good example of this fiscal policy; the result of the raising from 2% to 3% in its rate was an increase in the revenue from 2.08% to 3.23% of GDP between 1998 and 1999. It was easier to increase state's revenue through this kind of hidden tax than to collect it from taxpayers' income.

The way of reporting the tax for the consumer is another evidence of the scarcity of transparency in Brazilian's legal system.

The Brazilian legal environment understands that the value added taxes are a part of the price of the merchandise. So, the retail price includes the amount of indirect taxes but it is just partially presented to the consumer after the making out of the sales receipt. We can say that it's partially presented because the ICMS is the only tax that is recorded in the sales receipt, all the others remains hidden from the taxpayers. It's important to emphasize that there are some kinds of sales receipts that don't present even the value of ICMS, recording just the total amount of the sale.

Considering this way of hiding consumption taxes to consumers, we can say that Brazilian legal system is not transparent because it doesn't give means for taxpayers to know the exact amount of taxes that are inside a retail price.

The North American legal system has a better way of presenting the consumer with the amount of indirect taxes in a retail price. The price is informed to the consumer including only the value of the excise tax. The retail sales tax is added to this value when consumers decide to pay for the merchandise, being presented separately in the sales receipt. It seems easier for taxpayers to identify the exact amount of indirect taxes over consumption.

This comparison shows that the North American tax structure provides better information for taxpayers about indirect taxation over consumption. The less complex tax system makes it easier to grant transparency to the taxation process.

It also shows that the lack of transparency in Brazilian legal system contributes to maintain a structure that taxes consumption with regressive cumulative taxes and huge rates.

## ***4.6 - THE SHARE OF CONSUMPTION TAXES IN THE PUBLIC REVENUE***

The characteristics of consumption taxes presented above will be reflected in the share of these taxes in total revenue. The comparison is based on the public revenue of 1999. The share of indirect taxes will be presented in each level (federal and state / local) and then in the total public revenue of each country.

### ***4.6.1 - USA***

*FEDERAL LEVEL* - Taxes over consumption carried by the Federal Level are not relevant in the public revenue. The amount collected with excise taxes was US\$ 65.4 billions, representing 3.5% of the total revenue.

*Table A - TAXES COLLECTED IN 1999 – FEDERAL LEVEL*

<i>DESCRIPTION</i> (amounts in billions of dollars)	<i>TOTAL</i>	<i>%</i>
Individual income taxes	907.1	48.83%
Corporate income taxes	185.9	10.01%
Employment taxes and contributions	586.3	31.56%
Unemployment insurance	26.6	1.43%
Contributions for other insurance and retirement	4.6	0.25%
<i>Excise taxes *</i>	<b>65.4</b>	<b>3.52%</b>
Estate and gift taxes	29	1.56%
Customs duties	18.7	1.01%
Miscellaneous receipts	34.7	1.87%
<b><i>TOTAL BUDGET RECEIPTS</i></b>	<b>1,857.8</b>	<b>100.00%</b>
<b><i>EXCISE TAXES *</i></b>	<b>65.4</b>	<b>3.52%</b>

*Source – Federal Fiscal Operations – Budget Results and Financing of The US Government 1999.*

*STATES AND LOCAL LEVEL* -The table below presents total revenue of states and local level in 1999. From a total revenue of US\$ 499.510 billions, 43.68% (US\$ 218.207 billions) were originated in indirect taxes. The main indirect tax is the General Sales and Gross Receipts (Retail Sales Tax) that is responsible for around 70% of this sort of tax at this level of Government.

*Table B - TAXES COLLECTED IN 1999 – STATE AND LOCAL LEVEL*

<i>DESCRIPTION (amounts in billions of dollars)</i>	<i>TOTAL</i>	<i>%</i>
Property Taxes	11.26	2.25%
<i>General Sales and Gross Receipts *</i>	<b>165.72</b>	<b>33.18%</b>
<i>Alcoholic Beverages *</i>	<b>3.90</b>	<b>0.78%</b>
Amusements	2.82	0.57%
Insurance Premiims	9.57	1.92%
<i>Motor Fuels *</i>	<b>29.20</b>	<b>5.85%</b>
Parimutuels	0.38	0.08%
Public Utilities	8.89	1.78%
<i>Tobacco Products *</i>	<b>8.19</b>	<b>1.64%</b>
<i>Other Selective Sales *</i>	<b>11.20</b>	<b>2.24%</b>
Alcholic Beverage License	0.30	0.06%
Amusement License	0.28	0.06%
Corporation License	6.36	1.27%
Hunting & Fishing License	1.08	0.22%
Motor Vehicle License	14.07	2.82%
Motor Vehicle Operators License	1.27	0.25%
Public Utility License	0.37	0.07%
Occupation & Business Licenses, NEC	6.23	1.25%
Other Licenes	0.45	0.09%
Individual Income	172.34	34.50%
Corporation Net Income	30.69	6.14%
Death & Gift	7.49	1.50%
Documentary & Stock Transfer	4.09	0.82%
Severance	3.13	0.63%
All Other	0.23	0.05%
<b>TOTAL TAXES</b>	<b>499.51</b>	<b>100.00%</b>
<b>EXCISE TAXES *</b>	<b>218.21</b>	<b>43.68%</b>

*Source - State Government Tax Collections: 1999 - Compiled by FTA from various sources.*

TOTAL REVENUE - The share of indirect taxes over consumption in the total public revenue is about 12.3%, as presented in the table below. As we can see, the main source of revenue of the US are the not the taxes over consumption.

*Table C - TAXES COLLECTED IN 1999 – TOTAL REVENUE*

REVENUE	TOTAL	INDIRECT TAXES
Federal	1,857.80	65.40
State /local	499.51	218.21
<b>TOTAL</b>	<b>2,357.31</b>	<b>283.61</b>
%	100.00%	12.03%

Source – Tables A and B

#### 4.6.2 - BRAZIL

FEDERAL TAXES - The share of indirect taxes in total federal revenue in 1999 was 32.16%. COFINS and IPI that together have 21.84% of all revenues.

*Table D - TAXES COLLECTED IN 1999 – FEDERAL LEVEL*

DESCRIPTION(amounts in millions of Reais)	TOTAL	%
Income Tax	55.215.24	25.57%
Contributions for the social security system	47,424.99	21.96%
<b>COFINS *</b>	<b>30,874.61</b>	<b>14.30%</b>
FGTS *	17,408.21	8.06%
<b>IPI *</b>	<b>16,275.31</b>	<b>7.54%</b>
<b>PIS/PASEP *</b>	<b>9,490.81</b>	<b>4.40%</b>
<b>CPMF *</b>	<b>7,948.65</b>	<b>3.68%</b>
CustomsTariff	7,860.12	3.64%
CSLL (Contribution on net profits)	6,767.49	3.13%
<b>IOF *</b>	<b>4,843.65</b>	<b>2.24%</b>
Contributions for the social security system of public servants	3,150.92	1.46%
Other Federal taxes	8,655.12	4.01%
<b>TOTAL BUDGET RECIEPTS</b>	<b>215,915.12</b>	<b>100.00%</b>
<b>INDIRECT TAXES *</b>	<b>69,433.16</b>	<b>32.16%</b>

Source – Carga Fiscal 1999 –Arrecadação Tributária – Secretaria da Receita Federal.

STATE AND LOCAL LEVEL - Indirect taxes over consumption are the main source of revenue of State and local level, about 80.51% of the revenue. ICMS is responsible for 75.14% of the total revenue and 86.83% of the States Revenue. In the local level, ISS represents 5.37% of total revenue collected by States and municipalities and 39.87% of local public revenue.

*Table E - TAXES COLLECTED IN 1999 – STATE AND LOCAL LEVEL*

<i>DESCRIPTION(amounts in millions of reais)</i>	<i>LEVEL</i>	<i>TOTAL</i>	<i>%</i>
ICMS *	State	<b>67,885.20</b>	<b>75.14%</b>
IPVA ( tax over property of automotive vehicles)	State	4,480.66	4.96%
Contributions for the social security system	State	3,694.07	4.09%
Other State Taxes	State	1,824.14	0.52%
ITCD ( tax over the inheritance and gift)	State	301.34	0.33%
ISS ( Services tax)	Local	<b>4,847.30</b>	<b>5.37%</b>
IPTU ( Tax over urban real estate properties)	Local	3,642.64	4.03%
ITBI (Tax over transmission of real estate properties)	Local	858.08	0.95%
Contributions for the social security system	Local	389.44	0.43%
Other local taxes	Local	2,420.25	0.10%
<b>TOTAL BUDGET RECIEPTS</b>		<b>90,343.13</b>	<b>100.00%</b>
<b>INDIRECT TAXES *</b>		<b>72,732.51</b>	<b>80.51%</b>

Source – Carga Fiscal 1999 –Arrecadação Tributária – Secretaria da Receita Federal.

TOTAL REVENUE - The share of indirect taxes of total public revenue was 46.42% in the year of 1999.

*Table F - TAXES COLLECTED IN 1999 – TOTAL REVENUE*

<i>REVENUE</i>	<i>TOTAL</i>	<i>INDIRECT TAXES</i>
Federal	215,915.13	69,433.16
State /local	90,343.13	72,732.51
<b>TOTAL REVENUE</b>	<b>306,258.26</b>	<b>142,165.67</b>
<b>%</b>	<b>100.00%</b>	<b>46.42%</b>

Source – Tables D and E



Employees, employers and autonomous workers pay the contributions for the social security system. In the State, local and Federal level those are resources related to the payment of the pensioners of public and private sectors. The source of this kind of revenue is the worker's wages and it's used exclusively on the purpose of paying them. If we take away these revenues from the total collected, we can have the amount of money that the public sector has to serve the ordinary citizen. In the table below is presented these new figures: indirect taxes' share of the total revenue changes to 61.57%.

<i>REVENUE</i>	<i>TOTAL</i>	<i>INDIRECT TAXES</i>
Federal	144,634.47	69,433.16
State /local	86,259.63	72,732.51
<b><i>TOTAL REVENUE</i></b>	<b>230,894.09</b>	<b>142,165.67</b>
<b>%</b>	<b>100.00%</b>	<b>61.57%</b>

*Source – Tables D and E*

We can conclude of the comparison between the two tax systems that while the US society decided to collect its public revenue mainly from taxes over income and property, Brazilian society took the way of taxing consumption.

## ***5 - CONCLUSION***

The structural differences between the indirect taxes on consumption that are applied in Brazil and in the United States reflect each country's distinct developmental process and provide useful insights into their current social and economic scenarios.

It has been observed that the tax structure for indirect taxation on consumption is simpler in the United States than in Brazil on account of the fact that it comprises fewer taxes with less complex calculation and collection systems.

The indirect tax burden in Brazil has proved to be proportionally heavier than that of the United States as a result of the greater number of taxes, the high tax rates adopted, and the use of cumulative indirect taxes.

Cumulative indirect taxes, which are nonexistent in the United States tax structure, hinder the insertion of Brazilian products in the global marketplace. The fact that it is difficult, and sometimes impracticable to calculate the total amount of such taxes in the final cost of a product makes it impossible to lower the tax burden and puts the prices of Brazilian products at a disadvantage vis-à-vis the prices of foreign competition.

Another distinctive feature of Brazilian tax law is that the government does not appear to be interested in making the amount of indirect taxes included in the final price paid for products or services known to the taxpaying public. Of all the multiple indirect taxes that may be levied on a specific product, the ICMS tax is the only one that is recorded in the fiscal instrument presented to the end consumer. By omitting this type of information, the government prevents taxpayers from knowing that they are being burdened with heavy taxes on the consumption of goods and products.

This lack of transparency provided an opportunity for tax laws to be repeatedly changed by the different federal authorities after the promulgation of the 1988 Constitution. As a result of the creation and multiplication of indirect taxes, the government succeeded in raising the tax burden and avoided the high political cost that an increase in direct taxes would involve.

On account of the variety of consumption taxes that are levied in Brazil, the procedures for calculating and recording each operation are much more complex than those of the model employed in the United States. Such intricate routines and procedures require larger investments in human resources and technology on the part of both the business and the public sectors. The resources that are drained by this bureaucratic structure are reflected in the so-called “Brazil cost” and the existence of such requirements represents an additional constraint to the insertion of Brazilian products in the global marketplace.

Even Brazilian authorities have been known to admit that the conjunction of the heavy tax burden, the lack of transparency and the complex legislation encourages the practice of tax avoidance and evasion.

The differences found between the two tax structures demonstrate that in the United States, indirect taxes on consumption generate a much smaller share of total government revenues than they do in Brazil. It may therefore be concluded that the citizens of the United States preferred to be taxed on their income and equity in order to finance public expenditures, whereas Brazilian society chose the road that led to taxation on consumption.

The scenario presented above is particularly useful at a time when the societies of both countries have been discussing and questioning their current tax-collecting models.

The discussion must contemplate both the technical aspects that have been presented here and the social structure in which such changes may be applied in the future. Theoretical issues as to whether or not taxes should be used as instruments for income distribution must address each country's social and economic reality, especially if the income distribution patterns are as irregular as those that have been presented in this study.

It would be unfair to allow the tax structure to take all the blame for the unjust distribution of income observed in Brazil. However, its role as a perpetuator of this inequality must be taken into account. Therefore, further discussions that contemplate the possibility of solving the problem of income distribution must necessarily include a review of the current tax system.

The urgent need for the public sector to adapt to the new reality of a globalized and integrated world also calls for a review of the existing tax structures. The challenge that must be met consists of changing the tax structure in such a way as to reduce taxation on production and the cost of tax administration.

**TABLE I - STATE SALES TAX RATES AND VENDOR DISCOUNTS**

STATE	STATE SALES TAX RATE	RANK	VENDOR DISCOUNT	MAX/MIN
ALABAMA	4.0%	37	5.0%-2.0%(1)	
ALASKA				
ARIZONA(10)	5.0%	19	1.0%	\$10,000/year(max)
ARKANSAS	5.125%	18	2.0%	\$1,000/month(max)
CALIFORNIA(3)	5.75%	16	None	
COLORADO	2.9%	46	3.33%(4)	
CONNECTICUT	6.0%	8	None	
DELAWARE				
FLORIDA	6.0%	8	2.5%	\$30/report(max)
GEORGIA	4.0%	37	3.0%-0.5%(1)	
HAWAII	4.0%	37	None	
IDAHO	5.0%	19	None(5)	
ILLINOIS	6.25%	6	1.75%	\$5/year(min)
INDIANA(2)	5.0%	19	1.0%	
IOWA	5.0%	19	None	
KANSAS	4.90%	33	None	
KENTUCKY	6.0%	8	1.75%-1.0%(1)	
LOUISIANA	4.0%	37	1.1%(9)	
MAINE	5.0%	19	None(5)	
MARYLAND	5.0%	19	1.2%-0.9%(1)	
MASSACHUSETTS	5.0%	19	None	
MICHIGAN	6.0%	8	0.5%(6)	\$6/monh(min)
MINNESOTA	6.5%	3	None	
MISSISSIPPI	7.0%	1	2.0%	\$50/month(max)
MISSOURI	4.225%	36	2.0%	
MONTANA				
NEBRASKA	5.0%	19	2.5%-0.5%(1)	
NEVADA	6.5%	3	1.25%	
NEW HAMPSHIRE				
NEW JERSEY	6.0%	8	None	
NEW MEXICO	5.0%	19	None	
NEW YORK	4.0%	37	3.5%	\$85/month(max)
NORTH CAROLINA	4.0%	37	None	
NORTH DAKOTA	5.0%	19	1.5%	\$255/quarter(max)
OHIO	5.0%	19	0.75%	
OKLAHOMA	4.5%	35	2.25%	\$3,000/month(max)
OREGON				
PENNSYLVANIA	6.0%	8	1.0%	
RHODE ISLAND	7.0%	1	None	
SOUTH CAROLINA	5.0%	19	3.0%-2.0%(1)	\$3,000/year(max)
SOUTH DAKOTA	4.0%	37	None	
TENNESSEE	6.0%	8	2.0%-1.15%(1)	\$25/report(max)
TEXAS	6.25%	6	0.5%(7)	
UTAH	4.75%	34	1.5%	
VERMONT	5.0%	19	None(5)	
VIRGINIA(3)	3.5%	45	4.0%-2.0%(8)	
WASHINGTON	6.5%	3	None	
WEST VIRGINIA	6.0%	8	None	
WISCONSIN	5.0%	19	0.5%	
WYOMING	4.0%	37	None	
DIST. OF COLUMBIA	5.75%	16	1.0%	\$5,000/month(max)
U.S MEDIAN	5.0%		2.0%-1.5%(1)	28 states allow vendor discounts

(1) In some states, the vendors' discount varies by the amount paid. In AL and SC, the larger discounts apply to the first \$100. In GA and NE, the larger discount applies to the first \$3,000. In TN and KY, the larger discounts apply to the first \$2,500 and \$1,000, while MD applies the larger discount to annual collections of \$6,000. The lower discounts apply to the remaining collections above these amounts.

(2) Utilities are not permitted to take discount.

(3) Rate does not include a statewide local rate of 1.25% in CA and 1.0% in VA.

- (4) Vendor discount applies to the state taxes collected. Discount for local option sales tax varies from 0% to 3.33%.*
- (5) Vendors are allowed to keep any excess collections prescribed under the bracket system.*
- (6) Vendor discount only apply to the first 4.0% of the tax.*
- (7) An additional discount of 1.25% applies for early payment.*
- (8) Discount varies; 4% of the first \$62,500, 3% of the amount to \$208,000, and 2% of the remainder.*
- (9) The vendors discount is scheduled to increase to 1.5% on July 1, 2001 in Louisiana.*
- (10) Tax rate scheduled to increase to 5.6% on 6/1/01.*

**TABLE II -STATE SALES TAX RATES AND FOOD & DRUG EXEMPTIONS**

STATE	TAX RATE	FOOD	PRESCRIPTION DRUGS	NONPRESCRIPTION DRUGS
ALABAMA	4		*	
ALASKA	none			
ARIZONA(4)	5	*	*	
ARKANSAS	5.125		*	
CALIFORNIA(3)	7(2)	*	*	
COLORADO	2.9	*	*	
CONNECTICUT	6	*	*	
DELAWARE	none			
FLORIDA	6	*	*	*
GEORGIA	4	*	*	
HAWAII	4		*	
IDAHO	5		*	
ILLINOIS	6.25	1%	1%	1%
INDIANA	5	*	*	
IOWA	5	*	*	
KANSAS	4.9		*	
KENTUCKY	6	*	*	
LOUISIANA	4	(5)	*	
MAINE	5	*	*	
MARYLAND	5	*	*	*
MASSACHUSETTS	5	*	*	
MICHIGAN	6	*	*	
MINNESOTA	6.5	*	*	*
MISSISSIPPI	7		*	
MISSOURI	4.225		*	
MONTANA	none			
NEBRASKA	5	*	*	
NEVADA	6.5	*	*	
NEW HAMPSHIRE	none			
NEW JERSEY	6	*	*	*
NEW MEXICO	5		*	
NEW YORK	4	*	*	*
NORTH CAROLINA	4	*(5)	*	
NORTH DAKOTA	5	*	*	
OHIO	5	*	*	
OKLAHOMA	4.5		*	
OREGON	none			
PENNSYLVANIA	6	*	*	*
RHODE ISLAND	7	*	*	*
SOUTH CAROLINA	5	4(6)	*	
SOUTH DAKOTA	4		*	
TENNESSEE	6		*	
TEXAS	6.25	*	*	
UTAH	4.75		*	
VERMONT	5	*	*	*
VIRGINIA	4.5(2)	4.0%(7)	*	*
WASHINGTON	6.5	*	*	
WEST VIRGINIA	6		*	
WISCONSIN	5	*	*	
WYOMING(3)	4		*	
DIST. OF COLUMBIA	5.75	*	*	*

\* -- indicates exempt from tax.

Source: Compiled by FTA from various sources.

(1) Some state tax food, but allow an (income) tax credit to compensate poor households.

They are: ID, KS, SD, VT, and WY.

(2) Includes statewide local tax of 1.25% in California and 1.0% in Virginia .

(3) Tax rate may be adjusted annually according to a formula based on balances in the unappropriated general fund and the school foundation fund.

(4) Tax rate scheduled to increase to 5.6% effective 6/1/01.

(5) Food sales are subject to local sales taxes. In LA, food sales will be exempt beginning 7/1/02.

(6) Tax rate on food is scheduled to decrease to 3% on 1/1/02.

(7) Tax rate on food is scheduled to decrease to 3.5% on 4/1/01. Statewide local tax is included.

**TABLE III - STATE MOTOR FUEL TAX RATES (1/2)**

State	Gasoline			Diesel			Gasohol			NOTES
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	
Alabama	16.0	2.0	18.0	17.0	2.0	19.0	16.0	2.0	18.0	Inspection fee
Alaska	8.0		8.0	8.0		8.0	0.0		0.0	
Arizona	18.0		18.0	18.0		18.0	18.0		18.0	/3
Arkansas /8	20.5	0.2	20.7	22.5	0.2	22.7	20.5	0.2	20.7	Environment surcharge
California/1	18.0		18.0	18.0		18.0	18.0		18.0	Sales tax applicable
Colorado	22.0		22.0	20.5		20.5	22.0		22.0	
Connecticut	25.0		25.0	18.0		18.0	24.0		24.0	
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.5% GRT/5
Florida/2	4.0	9.3	13.3	16.1	9.3	25.4	4.0	9.3	13.3	Sales tax added to excise/2
Georgia	7.5		7.5	7.5		7.5	7.5		7.5	Sales tax applicable(3%)
Hawaii/1	16.0		16.0	16.0		16.0	16.0		16.0	Sales tax applicable
Idaho	25.0	1	26.0	25.0	1	26.0	22.5	1	23.5	Clean water tax/7
Illinois/1	19.0	0.3	19.3	21.5		21.5	19.0		19.0	Sales tax appl. env.fee/3
Indiana	15.0		15.0	16.0		16.0	15.0		15.0	Sales tax applicable/3
Iowa	20.0		20.0	22.5		22.5	19.0		19.0	
Kansas	20.0		20.0	22.0		22.0	20.0		20.0	/8
Kentucky	15.0	1.4	16.4	12.0	1.4	13.4	15.0	1.4	16.4	Environmental fee/4/3
Louisiana	20.0		20.0	20.0		20.0	20.0		20.0	
Maine	22.0		22.0	23.0		23.0	22.0		22.0	
Maryland	23.5		23.5	24.25		24.3	23.5		23.5	
Massachusetts	21.0		21.0	21.0		21.0	21.0		21.0	
Michigan	19.0		19.0	15.0		15.0	19.0		19.0	Sales tax applicable
Minnesota	20.0		20.0	20.0		20.0	20.0		20.0	
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee
Missouri	17.0	0.05	17.05	17.0	0.05	17.05	15.0	0.05	15.05	Inspection fee
Montana	27.0		27.0	27.75		27.75	27.0		27.0	
Nebraska	23.9	0.9	24.8	23.9	0.9	24.8	23.9	0.9	24.8	Petroleum fee/5
Nevada/1	24.0		24.00	27.0		27.0	24.0		24.00	
New Hampshire	18.0	1.0	19.0	18.0	1.0	19.0	18.0	1.0	19.0	Oil discharge cleanup fee
New Jersey	10.5		10.5	13.5		13.5	10.5		10.5	Plus a 2.75%GRT
NewMexico	17.0	1.0	18.0	18.0	1.0	19.0	17.0	1.0	18.0	Petroleum loading fee
New York	8.0		8.0	8.0		8.0	8.0		8.0	Sales tax applicable /3/4
North Carolina	24.3	0.25	24.55	24.3	0.25	24.55	24.6	0.25	24.85	/4 Inspection tax
NorthDakota	21.0		21.0	21.0		21.0	21.0		21.0	
Ohio	22.0		22.0	22.0		22.0	22.0		22.0	Plus 3 cents commercial
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee
Oregon/1	29.0		29.0	29.0		29.0	29.0		29.0	
Pennsylvania	12.0	13.9	25.9	12.0	18.8	30.8	12.0	13.9	25.9	Oil franchise tax
Rhodelsland	28.0	1	29.0	28.0	1	29.0	28.0	1	29.0	LUST tax



**TABLE III - STATE MOTOR FUEL TAX RATES (2/2)**

State	Gasoline			Diesel			Gasohol			NOTES
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	
South Carolina	16.0		16.0	16.0		16.0	16.0		16.0	
South Dakota/1	22.0		22.0	22.0		22.0	20.0		20.0	
Tennessee/1	20.0	1.4	21.4	17.0	1.4	18.4	20.0	1.4	21.4	Petroleum Tax&Envir. Fee
Texas	20.0		20.0	20.0		20.0	20.0		20.0	
Utah	24.5		24.5	24.5		24.5	24.5		24.5	
Vermont	19.0	1.0	20.0	25.0	1.0	26.0	19.0	1.0	20.0	Petroleum cleanup fee
Virginia/1	17.5		17.5	16.0		16.0	17.5		17.5	/6
Washington	23.0		23.0	23.0		23.0	23.0		23.0	0.5% privilege tax
West Virginia	20.5	5.15	25.65	20.5	5.15	25.65	20.5	5.15	25.35	Sales tax added to excise
Wisconsin/5	26.4		26.4	26.4		26.4	26.4		26.4	/5
Wyoming	13.0	1	14.0	13.0	1	14.0	13.0	1	14.0	LUST tax
Dist. Of Columbia	20.0		20.0	20.0		20.0	20.0		20.0	
Federal	18.3	0.1	18.4	24.3	0.1	24.4	13.0	0.1	13.1	/7 LUST tax

SOURCE: Compiled by FTA from various sources.

/1 Tax rates do not include local option taxes. In AL, 1 - 3 cents; HI, 8 to 11.5 cent; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 1.75 to 7.75 cents; OR, 1 to 2 cents; SD and TN, one cent; and VA 2%.

/2 Local taxes for gasoline and gasohol vary from 5.5 cents to 17 cents (average is 13.4¢). Plus a 2.07 cent per gallon pollution tax.

/3 Carriers pay an additional surcharge equal to AZ-8 cents, IL-6.3 cents (g) 6.0 cents (d), IN-11 cents, KY-2% (g) 4.7% (d), NY-22.21 (g) 23.21 (d).

/4 Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9%; and NC, 17.5¢ + 7%.

/5 Portion of the rate is adjustable based on maintenance costs, sales volume, or cost of fuel to state government.

/6 Large trucks pay an additional 3.5 cents.

/7 Tax rate is reduced by the percentage of ethanol used in blending (reported rate assumes the max. 10% ethanol).

/8 The Arkansas gasoline & gasohol tax rate will increase to 21.5 cents on July 1, 2000. Kansas tax will increase by

**TABLE IV - STATE TAX RATES ON BEER**

State	Excise Tax rates (\$ per gallon)	Sales Tax Applied	Other Taxes
Alabama	\$0.53	Yes	\$0.52/gallon local tax
Alaska	0.35	n.a.	
Arizona	0.16	Yes	
Arkansas	0.23	Yes	under 3.2%-\$0.16/gallon; \$0.008/gallon and 10% on-premise tax
California	0.20	Yes	
Colorado	0.08	Yes	
Connecticut	0.19	Yes	
Delaware	0.16	n.a.	
Florida	0.48	Yes	2.67¢/ 12ounces on-premise retail tax
Georgia	0.48	Yes	\$0.53/gallon local tax
Hawaii	0.92	Yes	\$0.53/gallon draft beer
Idaho	0.15	Yes	over 4% - \$0.45/gallon
Illinois	0.185	Yes	\$0.16/gallon in Chicago and \$0.06/gallon in Cook County
Indiana	0.12	Yes	
Iowa	0.19	Yes	
Kansas	0.18	--	over 3.2% - {8% off- and 10% on-premise}, under 3.2%-4.25% sales tax.
Kentucky	0.08	Yes*	9% wholesale tax
Louisiana	0.32	Yes	\$0.048/gallon local tax
Maine	0.35	Yes	additional 5% on-premise tax
Maryland	0.09	Yes	\$0.2333/gallon in Garrett County
Massachusetts	0.11	Yes*	0.57% on private club sales
Michigan	0.20	Yes	
Minnesota	0.15	--	under 3.2% -\$0.077/gallon. 8.5% sales tax
Mississippi	0.43	Yes	
Missouri	0.06	Yes	
Montana	0.14	n.a.	
Nebraska	0.23	Yes	
Nevada	0.09	Yes	
New Hampshire	0.30	n.a.	
New Jersey	0.12	Yes	
New Mexico	0.41	Yes	
New York(1)	0.135	Yes	\$0.12/gallon in New York City
North Carolina	0.53	Yes	\$0.48/gallon bulk beer
North Dakota	0.16	--	7% state sales tax, bulk beer \$0.08/gal.
Ohio	0.18	Yes	
Oklahoma	0.40	Yes	under 3.2%-\$0.36/gallon;\$1.00/case on-premise and 12%on-premise
Oregon	0.08	n.a.	
Pennsylvania	0.08	Yes	
Rhode Island	0.10	Yes	\$0.04/case wholesale tax
South Carolina	0.77	Yes	
South Dakota	0.27	Yes	
Tennessee	0.13	Yes	17% wholesale tax
Texas	0.19	Yes	over 4%-\$0.198/gallon, 14% on-premise and \$0.05/drink on airline sales
Utah	0.35	Yes	over 3.2% - sold through state store
Vermont	0.265	no	6% to 8% alcohol - \$0.55; 10% on-premise sales tax
Virginia	0.26	Yes	
Washington	0.261	Yes	
West Virginia	0.18	Yes	Yes
Wisconsin	0.06	Yes	
Wyoming	0.02	Yes	
Dist. Of Columbia	0.09	Yes	8% off- and 9% on-premise sales tax
U.S.Median	\$0.188		

SOURCE: Compiled by FTA from various sources.

\* Sales tax is applied to on-premise sales only. (1) Tax rate scheduled to decrease to 12.5 cents per gallon 4/1/01.

**TABLE V - STATE TAX RATES ON DISTILLED SPIRITS**

State	Excise taxes (\$ per gallon)	Sales Taxes applied	Other Taxes
Alabama	see footnote(1)	Yes	
Alaska	\$5.60	n.a.	under 21% - \$0.85/gallon
Arizona	3.00	Yes	
Arkansas	2.50	Yes	under 5% - \$0.50/gallon, under 21% -\$1.00/gallon; \$0.20/case and 3% off- 14% on-premise retail taxes over 50% - \$6.60/gallon
California	3.30	Yes	
Colorado	2.28	Yes	
Connecticut	4.50	Yes	under 7%- \$2.05/gallon
Delaware	3.75	n.a.	under 25% - \$2.50/gallon
Florida	6.50	Yes	under 17.259% - \$2.25/gallon, over 55.780% - \$9.53/gallon 6.67¢/ounce on-premise retail tax
Georgia	3.79	Yes	\$0.83/gallon local tax
Hawaii	5.92	Yes	
Idaho	see footnote(1)	Yes	
Illinois	4.50	Yes	under 20%-\$0.73/gallon; \$0.50/gallon in Chicago and \$2.00/gallon in Cook County
Indiana	2.68	Yes	under 15%-\$0.47/gallon
Iowa	see footnote (1)	Yes	
Kansas	2.50	no	8% off-and 10% on-premise retail tax
Kentucky	1.92	Yes*	under 6% -\$0.25/gallon; \$0.05/case and 9% wholesale tax
Louisiana	2.50	Yes	under 6%-\$0.32/gallon
Maine	see footnote (1)	Yes	
Maryland	1.50	Yes	
Massachusetts	4.05	Yes*	under 15%- \$1.10/gallon, over 50% alcohol - \$4.05/proof gallon; 0.57% on private club sales
Michigan	see footnote(1)	Yes	
Minnesota	5.03	--	\$0.01/bottle (except miniatures) and 8.5% sales tax
Mississippi	see footnote(1)	Yes	
Missouri	2.00	Yes	
Montana	see footnote (1)	n.a.	
Nebraska	3.00	Yes	
Nevada	2.05	Yes	under 14%-\$0.40/gallon and under21%-\$0.75/gallon.
New Hampshire	see footnote (1)	n.a.	
New Jersey	4.40	Yes	
New Mexico	6.06	Yes	
New York	6.44	Yes	under 24% - \$2.54/gallon; \$1.00/gallon New York City
North Carolina	see footnote(1)	Yes*	
North Dakota	2.50	--	7% state sales tax
Ohio	see footnote(1)	Yes	
Oklahoma	5.56	Yes	\$1.00/bottle on-premise and 12% on-premise
Oregon	see footnote(1)	n.a.	
Pennsylvania	see footnote (1)	Yes	
Rhode Island	3.75	Yes	
South Carolina	2.72	Yes	\$5.36/case and 9% surtax
South Dakota	3.93	Yes	under 14%-\$0.93/gallon, 2% wholesale tax
Tennessee	4.00	Yes	\$0.15/case and 15% on-premise; under 7%-\$1.10/gallon.
Texas	2.40	Yes	14% on-premise and \$0.05/drink on airline sales
Utah	see footnote (1)	Yes	
Vermont	see footnote (1)	no	10% on-premise sales tax
Virginia	see footnote(1)	Yes	
Washington	see footnote(1)	Yes*	
West Virginia	see footnote(1)	Yes	
Wisconsin	3.25	Yes	
Wyoming	see footnote (1)	Yes	
Dist.ofColumbia	1.50	Yes	8% off-and 9% on-premise sales tax
U.S.Median	\$3.30		

Source: Compiled by FTA from various sources.

\* Sales tax is applied to on-premise sales only.

(1) In 18 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees and net liquor profits.

**TABLE VI - OTHER TOBACCO PRODUCTS TAX**

State Tax	Rate/Base(1)	State	Tax Rate/Base(1)
Alabama		Minnesota	35% Wholesale Price
Cigars (2)	1.5¢-20.25¢/ 10 cigars	Mississippi	15% Manufactures Price
Tobacco/Snuff	0.6¢-4.4¢/ ounce	Missouri	10% Manufactures Price
Alaska	75% Wholesale Price	Montana	12.5% Wholesale Price
Arizona		Nebraska	15% Wholesale Price
Cigars (2)	6.5¢-64.0¢/ 10 cigars	Nevada	30% Wholesale Price
Tobacco/Snuff	6.5¢/ounce	New Hampshire (3)	21.6% Wholesale Price
Arkansas	23% Manufactures Price	New Jersey	24% Wholesale Price
California (3)	66.50% Wholesale Price	New Mexico	25% Product value
Colorado	20% Manufactures Price	New York	20% Wholesale Price
Connecticut	20% Wholesale Price	North Carolina	2% Wholesale Price
Delaware	15% Wholesale Price	North Dakota	28% Wholesale Price
Florida		Ohio	17% Wholesale Price
Tobacco/Snuff	25% Wholesale Price	Oklahoma	
Georgia		Cigars(2)	9.0¢-30.0¢/ 10 cigars
Little Cigars	2.0¢/10 cigars	Tobacco/Snuff	30%-40% factory list price
Other Cigars	13% Wholesale Price	Oregon	65% Wholesale Price
Hawaii	40% Wholesale Price	Rhode Island	20% Wholesale Price
Idaho	40% Wholesale Price	South Carolina	
Illinois	18% Wholesale Price	Cigars(2)	2.5¢-20.0¢/10cigars
Indiana	15% Wholesale Price	Tobacco/Snuff	5%-36% Manufacture Price
Iowa	22%Wholesale Price	South Dakota	10% Wholesale Price
Kansas	10% Manufactures Price	Tennessee	6% Wholesale Price
Louisiana		Texas	
Cigars	8%-20% Manufacture Price	Cigars (2)	1.0¢-15.0¢/10 cigars
Tobacco/Snuff	33% Manufactures Price	Tobacco/Snuff	35.213% Manufactures Price
Maine		Utah	35% Manufactures Price
Chewing Tob./Snuff	62% Wholesale Price	Vermont	41% Manufactures Price
Smoking Tob./Cigars	16% Wholesale Price	Washington	74.9% Wholesale Price
Maryland	15% Wholesale Price	Wisconsin	20% Wholesale Price
Massachusetts	25% Wholesale Price	Wyoming (4)	20% Wholesale Price
Michigan	16% Wholesale Price		

Source: Compiled by FTA from various sources.

(1) The volume based tax rates were converted to cents per 10 cigars or per ounce for consistency.

(2) Tax rate on cigars varies, based on the selling price.

(3) Tax rate is adjusted annually by the state, effective July 1st each year.

(4) or 10% of retail price.

**TABLE VII - STATE EXCISE TAX RATES ON CIGARETTES**

STATE	TAX RATE (¢ per pack)	RANK	STATE	TAX RATE (¢ per pack)	RANK
Alabama (1)	16.5	43	Nebraska	34	26
Alaska	100	2	Nevada	35	25
Arizona	58	14	New Hampshire	52	17
Arkansas (2)	31.5	29	New Jersey	80	6
California	87	4	New Mexico	21	37
Colorado	20	38	New York (1)	111	1
Connecticut	50	19	North Carolina	5	49
Delaware	24	32	North Dakota	44	21
Florida	33.9	27	Ohio	24	32
Georgia	12	46	Oklahoma	23	36
Hawaii	100	2	Oregon	58	14
Idaho	28	31	Pennsylvania	31	30
Illinois (1)	58	14	Rhode Island	71	10
Indiana	15.5	44	South Carolina	7	48
Iowa	36	24	South Dakota	33	28
Kansas	24	32	Tennessee (1) (2)	13	45
Kentucky (2)	3	50	Texas	41	23
Louisiana	24	32	Utah	51.5	18
Maine	74	9	Vermont	44	21
Maryland	66	11	Virginia (1)	2.5	51
Massachusetts	76	7	Washington	82.5	5
Michigan	75	8	West Virginia	17	41
Minnesota	48	20	Wisconsin	59	13
Mississippi	18	39	Wyoming	12	46
Missouri (1)	17	41	Dist. Of Columbia	65	12
Montana	18	39			
U. S.	S.	Median	34.0		

Source: Compiled by FTA from various sources.

(1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; TN, 1¢; and VA, 2¢ to 15¢.

(2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and 0.05¢ in TN. In AR, a \$1.25/1,000 cigarette fee is imposed.

(3) Tax rate will increase to \$1.11 per packet on March 1, 2000.

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