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The *cashback* system in tax reform as a progressive instrument for socioeconomic development.

*The cashback system in tax reform as a progressive instrument for socioeconomic development*

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### Summary

This article examines the Consumption Tax Reform from a developmental perspective, as originally enshrined in the 1988 Constitution of the Federative Republic of Brazil (CRFB) and reflected in Constitutional Amendment (EC) No. 132/2023. The primary aspect of this research is the theoretical and practical analysis of how *cashback*, instituted by the Reform, can circumvent regressivity and, consequently, make the relationship between the Fiscal State and the taxpayer more just, progressive, and equitable. The approach will adopt both legal-dogmatic and legal-theoretical methods. Initially, the context surrounding the National Tax System (STN) and socioeconomic development is presented. Then, especially in light of Piketty's theory, it will be understood how progressive treatment impacts structural inequality and how EC No. 132/2023 incorporates fiscal justice and reduces the regressivity of consumption taxation. Next, it will be demonstrated how the progressive tax model redistributes the benefits of globalization and brings the socioeconomic reality closer to that of a Welfare State; furthermore, the proposal for the institution of a Continental Tax within Latin America will be explained. Following this, Tax Reform will be studied as an essential instrument of Economic Law. Regarding the core issue of the research, Mirrlees' theory, applicable to progressivity and the redistribution of resources, will be focused on in order to evaluate the transformative effect of *cashback*.

in the economy.

**Keywords:** Tax Reform. Development. *Cashback*.

### Abstract

This article examines the Consumption Tax Reform from a developmentalist perspective, originally enshrined in the 1988 Constitution of the Federative Republic of Brazil (CRFB) and reflected in Constitutional Amendment (CA) No. 132/2023. The central focus of this research is the theoretical and practical analysis of how the cashback mechanism, established by the Reform, may address tax regressivity and, consequently, foster a fairer, more progressive, and equitable relationship between the fiscal state and the taxpayer. The methodological approach will adopt both the legal-dogmatic and legal-theoretical methods.

Initially, the article presents the broader context surrounding the Brazilian National Tax System (STN) and socioeconomic development. Subsequently, especially in light of Piketty's theory, it seeks to understand how progressive tax treatment affects structural inequality and how CA No. 132/2023 incorporates fiscal justice and mitigates the regressivity of consumption taxation.

Following that, the article demonstrates how a progressive tax model redistributes the benefits of globalization and brings the socioeconomic reality closer to the ideal of a Welfare State; it will also explore the proposal for establishing a Continental Tax within Latin America. Subsequently, the Tax Reform will be analyzed as an essential instrument of Economic Law.

With regard to the core aspect of this study, the focus will be on Mirrlees' theory, applicable to progressivity and resource redistribution, in order to assess the transformative impact of cashback on the economy.

**Keywords:** Tax Reform. Development. *Cashback*.

### 1. Introduction

Constitutional Amendment No. 132/2023 extensively altered and reconfigured the National Tax System (STN), adapting the standard.

constitutional to the pressing needs of the current state of affairs in the country. Furthermore



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Beyond a formal amendment to the CRFB (BRAZIL, 1988), the Consumption Tax Reform inaugurates a sustainable socioeconomic archetype, whose results will be gradually reaped until its Full implementation by 2033, as well as reorganizing revenue collection among political entities, strengthening inter-federative governance.

The Fiscal State is being given new operational and regulatory contours and challenges. Strategic. The fiscal reform is inspired by pillars that correlate and restructure the National Treasury System (STN): simplification, transparency, neutrality and fairness (APPY, CANADO, COELHO, MACHADO and (SANTI, 2018). These are guidelines aimed at making taxation compatible with the economic model. contemporary digital development and enable economic regulation consistent with it. national socioeconomic.

In this context, the Tax Reform broadens the concept of economic growth, a more restricted expression than the term development (FURTADO, 1974). In light of Constitutional Amendment No. 132/2023, Social justice requires combating economic inequality and the concentration of wealth and... assets. Thus, the new tax format is driven by profound transformations in power relations and the priorities of the country's economic system.

From this perspective, a thorough examination of the tax criterion of progressivity is crucial, in order to to understand how income concentration impacts the (in)applicability of the principle of equality. fiscal. On another front, the mission is to interpret the social and economic reasons why the system The Brazilian approach is considered highly regressive, leading to the question: why and how... Reform, in pragmatic terms, contains the basis for, at a minimum, and even if in the medium or long term... within the timeframe, to mitigate fiscal regressivity, which is, in fact, an express target of Article 145, §4, of the Brazilian Federal Constitution. inserted by Constitutional Amendment No. 132/2023?

In this regard, it is essential to elucidate the function of progressivity in concerning the balance and equity that underpin the Welfare State. The discussion It proves to be complex due to interdependent factors, which will be examined in the course of this study. investigation. Therefore, it is necessary to investigate the Latin American socioeconomic arrangement, even to provide the research with sociological foundations and, in the end, propose a tax that can To connect and benefit the Latin American region as a whole.

This article also addresses the reasoning that the study of Brazilian Tax Reform is multidisciplinary. In view of this, it is stated that Economic Law is a branch of law that encompasses regulatory activity in the economy. In effect, public regulation of the economic market also This is corroborated by the institution of a change in the tax collection system regarding consumption.

In this context, it can be inferred that it is an integral part of the discussions about the Reformation. A closer relationship between Law and Economics, with the aim of establishing a Fiscal State. more socially just and equitable. This perception demonstrates, from a legal-theoretical point of view, the



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materialization of the dictates of the Brazilian Economic Order, based on adherence to social values.

elected by the constituent power. This, then, is a new guise for the constitutionalist movement.

– Neoconstitutionalism or contemporary constitutionalism – which does indeed extend to norms

tax provisions contained in the CRFB (Brazilian Federal Constitution).

Furthermore, as a specific objective of this work, it is sought, through the

Based on Mirrlees' theoretical notes, understand how the *cashback* foreseen in EC No. 132/2023 works.

It relates to a redistributive and progressive system, and how this reasoning intertwines with the republican objective of promoting national development.

Regarding the methodology, the legal-dogmatic and legal-

Theoretical. Starting from the dogmatic conception, the most substantial aspects of Constitutional Amendment No. 1 were explored.

132/2023 relating to socioeconomic development, progressivity and *cashback*. As for what

Regarding the legal-theoretical method, the developmentalist bias given by the doctrine was investigated.

Brazilian based on an analysis of the socioeconomic situation in Brazil and the concept of

development highlighted by the Constitution as a whole, a circumstance that naturally reflected- if in the Tax Reform.

## **2. Contextualization of the National Treasury System and national development**

The National Treasury System (STN) is not limited to the set of regulations that establishes and governs tax collection to channel resources to finance public needs. It is elementary to explain that it is not unknown,

With this statement, the importance of fiscal purpose is highlighted. However, the aim is to demonstrate that the scope

The tax model is not limited to revenue collection. Studies on Tax Reform regarding

Consumption encompasses non-fiscal aspects.

From this perspective, the National Treasury System (STN) constitutes a tool for social justice capable of combating

To reduce inequalities and boost economic growth, in order to bring the nation's reality closer to reality.

for effective economic and social development. With this purpose, the Framework Reform

The tax regulations did not neglect to address the developmental issue in alignment with the

optimizing revenue collection.

From this perspective, it is emphasized that socioeconomic development is related to...

It has a direct relationship with the powers that regulate and interfere in the market, and is also impacted by the objectives.

of public policies, which presuppose obtaining resources to satisfy the

collective needs. In this respect, the economic system is formed by the mechanisms of

regulations aimed at increasing the efficiency in the use of scarce resources (FURTADO, 2003).

To understand the approach, it is important to highlight that Brazilian underdevelopment dates back...

historically, the colonial economy was based on the export of primary products, such as sugar.

Gold and coffee, however, without sustaining an autonomous industrial development process. How



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As a consequence of this process, the economic system culminated in structural inequality, with Low social mobility and strong external dependence are factors that today strongly influence... country's economy (FURTADO, 2003).

Since 1988, the significant perception that the CRFB (Brazilian Federal Constitution) confers on the canon has been well-known. developmentalist. It suffices to observe that the Brazilian constitutional text has chosen development. to the categories of objective and fundamental principle of the Republic. Even so, this provision, in itself... However, this alone is insufficient for a real fight against substantial inequality and economic concentration. Nor does it guarantee the well-being of the population.

The CRFB is classified as directive, analytical, with principle-based norms (SILVA, 2005). This finding reflects the fact that the fundamental norms of the Constitutional State are endowed with a strong set of guiding and inspiring principles for concrete actions. With the tone Developmentalism is no different. Notwithstanding such high protection guaranteed at the highest level. According to the Constitution, there is also a picture of economic and social crises that plague... particularly the most vulnerable social strata.

However, one cannot deny all the epistemological efforts to raise awareness about the difference between economic growth and economic development – as already indicated in the introduction. Although they are commonly confused, both are, in fact, legally and economically distinct. distinct.

In this respect, economic development is characterized solely by economic growth. which does not take into account the real needs of the people and perpetuates itself in a state of equilibrium. In another sense, the notion of national development brought by the 1988 Constitution is one of breaking away. This balance and the ability to positively modify proportions, from a dynamic perspective. Therefore, development is understood as a positive imbalance (SOUZA, 2005).

The consumer reform reinforces the developmental purpose to be implemented in within the scope of the National Treasury Secretariat (STN). Within this framework, Constitutional Amendment No. 132/2023 established the National Development Fund. Regional measures to mitigate the alarming social inequality not only in Brazil, but also in... throughout Latin America. Levels of social inequality are strongly influenced by Concentration of income and wealth in the hands of a minority.

It is recognized that the economic criterion of income alone cannot be considered for evaluation. the levels of inequality. This is because there are other significant variables (such as gender and race), which, likewise, are important (SEN, 2008) when examining the absence of equality. However, the This research focuses on the income factor, as it aims to understand the role of progressivity. in a more equitable tax system.

Regarding the levels of social inequality in the various Brazilian regions, in terms of income. Regarding wealth concentration, the Northeast and North are the most unequal regions. In the Northeast, the top 1%



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The richest earn 36.7 times more than the poorest 50%; while in the North this ratio is 31.6.

Sometimes. In the Midwest, there is the highest average monthly income, while the Northeast shows the lowest. (CEBRAP; ABCD, 2024).

According to the aforementioned Report (2024), Brazilian social inequality is evidenced by the income discrepancy between the richest 1% and the poorest 50%. Despite the Reducing extreme poverty and unemployment, and improving incomes, considering the aggregate. Nationally, there is a greater concentration of income, that is, the ratio of income of the top 1% The ratio between the richest and the poorest 50% increased by 1.3%, reaching 31.2 times (CEBRAP; ABCD, 2024).

Caliendo (2019) teaches that taxation in a democratic state governed by the rule of law is projected onto The field of achieving public policies and fundamental rights. The fiscal framework is A mechanism for protecting the environment, supporting families, and promoting culture. It is about... a new perspective on taxation, with a holistic view of development (SEN and KLIKSBERG, (2010). Consequently, it can be inferred that the revenue, considered in isolation, is not sufficient, after all. It has an instrumental character in fulfilling public needs. Consequently, The contemporary constitutional fiscal state must adapt tax policy to the objectives of justice. social and developmental in *a broad sense*.

From this perspective, the roles of the Public Authorities as active agents of justice become evident. fiscal: to ensure the effectiveness of fundamental rights and guarantees, to guide social behavior and Economic goals include mitigating social inequalities and combating income concentration in the country. In short, These functions aim to reduce structural inequality, which is consolidated as part of the system that... It sustains the social and institutional relations of the country.

Therefore, there is no way to achieve socioeconomic development without combating income inequality that has concentrated over the years. Notwithstanding the adoption of Despite the lack of redistributive public policies, the absence of social equality is a fact. To change this state of affairs, the real scenario cannot be ignored. It is the State's responsibility to know it in detail. The discordant reality, and then how to combat it.

Therefore, rethinking the national tax archetype, under the guidance of progressive fiscal justice. and fairness is a requirement that must be imposed.

### **3. Understanding the criteria of progressivity and regressivity**

Tax progressivity is one of the tenets of contemporary tax law. and part of the logic of equal treatment, in a material or substantial sense, which must be dispensed to taxpayers (MACHADO, 2010).

Taxpayers with greater ability to pay are taxed more heavily. rigorous compared to those with less economic ability. The progressive sense



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It is geared towards fiscal justice because it takes into account the social inequalities that arise, in particular, from income concentration.

In this vein, progressivity is consistent with the principle of equality, insofar as... Those with greater ability to pay should pay higher taxes. Only in this way will it be... equally taxed. Therefore, equality encompasses the idea of proportionality between the incidence of taxes. tax and the ability to pay, based on the marginal utility of wealth (MACHADO, 2010).

In turn, Paulo de Barros Carvalho (2019) links progressivity to the notion that The larger the tax base, the higher the tax rates will be. Therefore, it is projected that... Progressivity based on the principle of ability to pay.

Furthermore, the progressive tax must be implemented based on authorization. constitutional, in order to avoid the indiscriminate use of the progressive technique as an instrument of inducement of accounts, deviant behavior, or even compromising the effectiveness of the Fiscal State by if a context of excessive tax burden is created (BASSO and DELGADO, 2022).

Within this framework, when addressing progressivity in income tax, Piketty (2015) notes that progressive tax treatment has a dynamic impact on the aggregate structure. of inequality. At a global level, nation-states are seeking to escape the progressive system and, As a result, there is strong competition to reduce, in particular, the taxation on profits. business and exempt interest, dividends and other income from the ordinary tax regime, to which They submit their labor income.

In this aspect, tax regressivity stands out, particularly at the top of the income brackets. in most countries and stems from the dominance of capital income (interest, dividends, gains on capital). capital, profits, shares, *royalties*), which are the primary factors of accumulation. patrimonial and the concentration of wealth.

In a regressive taxation model, the tax burden is borne much more by... lower-income taxpayers. Consequently, although taxation on capital manifests itself, Formally progressive, it is not enough to compensate for inequality, a trend that may be Seen in European nations and the United States.

In Brazil's situation, the level of regressivity generated by taxes on goods and consumption is... This is not offset by direct taxes, which have a greater impact on the economy (OLIVEIRA, 2023). The circumstance that direct taxation is not capable of generating a greater economic impact. It proves that direct taxes are not capable of mitigating the effects generated by the regressivity of... Indirect taxation. This perspective reflects an unfair tax system from a fiscal standpoint, because... Lower-income classes bear a proportionally higher burden than higher-income classes.

The new Brazilian fiscal pact established mandatory progressivity for the Income Tax.





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Inheritance and Gift Tax (ITCMD), under the jurisdiction of the States and the Federal District.

(Article 155, §1, VI, of the CRFB) (BRAZIL, 1988). Regarding the regulation of the Reform

Regarding consumption taxes, Complementary Law No. 214/2025 (BRAZIL, 2025) ensures the possibility

since the Selective Tax on alcoholic beverages is calculated using progressive tax rates,

based on the production volume of the alcohol product.

Considering that Constitutional Amendment No. 132/2023 stipulated – as already explained – that the rule

While taxation should mitigate regressive effects, an interesting question arises: how?

Progressivity is a key instrument of the Tax Reform to combat inequality.

socioeconomic issues, income concentration, and thereby enabling pathways towards development.

A more socially just country?

For an analytical reasoning of the problem, it is essential, from the outset, to establish a

a solid theoretical framework that allows for understanding tax progressivity as a means aimed at

promoting tax justice.

The work of Rawls (2000) is then discussed, which represents a clear attempt to harmonize

the dogmas of freedom and equality, which, unlike what thought defends

Extreme libertarianism and the theory of justice do not contradict each other; rather, they complement each other (SEN, 2008).

Rawlsian theory rests on two principles: equality of basic liberties; difference and equality of

opportunities.

In light of the principle of equal liberty, every individual possesses a set of freedoms.

basic principles, which should be broad. The principle of difference and equality of opportunity implies...

in the recognition and acceptance of unequal treatment, provided that this is done to promote the common good.

social being. The two commandments give shape to equitable justice, which is very close to

Piketty's ideas.

In the international arena, progressivity is seen as an indispensable mechanism for

equitable distribution of the tax burden and reduction of socioeconomic inequalities, above all

by the Organisation for Economic Co-operation and Development (OECD) (CUNHA, 2018).

With the aim of integrating the Brazilian State into more modern fiscal practices, with regard to

To ensure fairer taxation of large multinational corporations, Law No. 15.079/2024 was enacted (BRAZIL,

2024). The rule aims to combat the erosion of the tax base, a strategy of which many

Multinational companies resort to this to transfer profits to countries with lower or non-existent taxation, without

that the locations where they actually carry out their activities collect the taxes in the proper manner. Starting from

The moment a global minimum tax rate is established, a fairer taxation of... is guaranteed.

profits, regardless of the jurisdiction where the legal entity is registered.



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### **3.1 Globalization, tax progressivity and the Welfare State**

Currently, it is observed that the globalization of trade exerts impacts

Positive and negative aspects in the world economy. Beyond market expansion, there's the issue of productive efficiency.

And despite the reduction in costs for consumers, challenges emerge, especially regarding

Equitable legal treatment to be given to the various social actors.

The phenomenon of globalization has shifted productive forces to nations with lower labor costs.

smaller (emerging economies). In this context, it is observed that global competition puts pressure on

A business sector is focused on reducing labor costs, resulting in the precariousness of less-than-ideal activities.

qualified (PIKETTY, 2013). Commercial globalization exerts significant pressure on these

functions, which, theoretically, would justify an increase in tax progressivity to mitigate

this negative effect.

Consequently, progressive taxation constitutes a strategic instrument.

indispensable for the redistribution of the benefits of globalization. Therefore, globalization is considered to be...

In itself, it is not a curse, because, for example, in terms of the universalization of science and...

Technology offers significant advantages (SEN, 2010). The major problem and challenge in the 21st century is

to redistribute the benefits generated by global expansion and, thus, to effectively structure the

Welfare State.

From an epistemological perspective, a proper understanding of the Welfare State

This presupposes the recognition of the market's inability to promote its own self-regulation.

This finding necessitates active intervention by the State, especially through

investments in essential public policies in the education, health and employment sectors, as well as

through the structural regulation of the economic order (KEYNES, 1996).

In nations classified as still underdeveloped, the free market does not solve the problems.

structural problems of socioeconomic inequality (FURTADO, 2003). This occurs because the

Underdevelopment is not a natural phase of economic evolution, but rather...

The result of a historical construction of dependency and marginalization.

Furthermore, economic growth is not capable of improving the population's standard of living.

if income remains concentrated in the hands of an elitist minority (FURTADO, 1966). For this reason

For this reason, the importance of redistributive public policies, such as progressive taxation, is highlighted.

and investments in education and health, fundamental elements for the realization of the Welfare State.

Social Being. In the case of Latin America, specifically, Celso Furtado (1974) advocates that policies

Structural and compensatory measures should be used together to implement the good.

social interaction.

According to Piketty (2015), in the Welfare State, the progressive tax

It plays a relevant role as an enabling instrument for a more social model.





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equitable, fair and balanced.

In this context, the adoption of a progressive tax on income and inheritance represents

A relevant political innovation in addressing inequalities and the concentration of wealth.

Piketty's (2015) proposal for a global taxation of capital, although utopian in light of

The resistance of nation-states to relinquish their fiscal sovereignty proves fundamental as

Theoretical starting point for reflection on alternative models of tax justice at scale.

global.

According to the author's conception, the tax on capital could be instituted in stages.

starting on a continental or regional scale, in order to organize cooperation between regional instruments. This is

what has been happening with automatic transmission systems.

Information about bank accounts is currently being debated on an international scale, especially between

The United States and the countries of the European Union. Furthermore, there are already partial forms of taxation on...

capital in most countries, particularly in North America and Europe, and this should

– according to Piketty – to serve as a guide for other nations.

### **3.2 Development in Latin America and the Continental Tax on Capital**

Amartya Sen and Bernardo Kliksberg (2010) provide an ethical, social, and economic analysis of

Latin America. The authors reveal the social divides in that continent, in such a way that

Development and economic growth are not intertwined in the Latin American region, because it is...

one of the most unequal in the world.

The structural absence of equality is reinforced by levels of extreme poverty and...

social segregation, based on a still very exclusionary developmental model and

making the equitable distribution of income impossible.

In the Latin American state of affairs, the absence or deficiency of real opportunities

They hinder the social mobility of the population, preventing them from fully exercising their capabilities.

human beings. Sen and Kliksberg (2010) therefore disagree with the purely economic conception of

development, as they believe in the importance of the role of ethics in development policies.

They justify, with this reasoning, that the developmentalist vision in Latin America should be guided by...

Human dignity should not be limited solely to purely economic goals.

From this perspective, the importance of providing a foundation becomes evident.

sociological approach to Law (FEITOSA, 2017), recognizing that legal norms are not constituted

in an autonomous system detached from social reality, however, on the contrary, they reflect and

They shape the structures of power, inequality, and institutional reproduction.

Following the same logic, Bercovici (2005) highlights the need to assign social contours to

Economic freedom and private property, understanding them not as absolute prerogatives.

of the individual, however, as legal institutions subordinated to the collective interest, to the principle of



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social function and the constitutional objectives of social justice and reduction of inequalities. It is about... therefore, from a theoretical movement that advocates overcoming normative formalism and claims a critical and material understanding of Law, grounded in its historical and economic implications. and social.

There is a structural problem in Latin America, where a structure can be identified. economic system that keeps nations in a state of underdevelopment or development. (FURTADO, 2003). Moreover, this difficulty is congenital, in the sense that, from the very beginning Since colonization, the Latin American continent has played the role of exporter of *commodities*. which limited the industrial development of the region (FURTADO, 1974).

When examining the situation in one of the most paradoxical regions of the world, one glimpses... that income concentration and unequal wealth distribution reveal that development is not This is only substantiated by GDP growth, which, in the Brazilian case, grew by 3.4%. compared to the previous year, resulting in a GDP per capita of R\$ 55,247.45 in 2024, which represents a real increase of 3.0% (IBGE Agency, 2025).

However, it is inevitable to question whether such economic growth was, in fact, capable of translating into an effective improvement in the living conditions of the population as a whole, especially given the persistent social and regional disparities that characterize the country.

Empirical data shows that, despite economic growth, this growth is not... This translates automatically into social development. This phenomenon occurs due to... Asymmetrical distribution of income and wealth, which constitutes a significant barrier to... access for vulnerable populations to the benefits resulting from the expansion Economic. Thus, the existence of structural inequalities limits the capacity for growth. The economic goal is to promote social inclusion and improve living conditions in an equitable manner.

For this reason, Celso Furtado (1978) already warned that growth in Latin America was not It solves the problem of inequality, since the benefits of expansion are appropriated by one A minority, while the majority of the population remains marginalized. Given this scenario, the Furtado (1998) advocates a new developmental model that prioritizes human development. and income distribution.

Piketty (2014) teaches that effective redistributive mechanisms are needed to mitigate The accumulation of capital perpetuates inequalities and favors social mobility only for the elites. Economic. In the Latin American region, tax collection is based on regressive tax systems. where the tax levied on consumption is high, especially when compared to the tax levied in income, inheritance, large fortunes and assets.

One can then reflect, drawing inspiration from Piketty's theory, on the creation of Latin America. of a Continental Tax on Capital. This tax would consist of a strategic instrument with



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potential to reduce regional inequalities and make countries in the region more competitive.  
internationally.

Through an International Treaty, a progressive tax would be formally created.  
concerning large fortunes and assets, with the aim of, through the coercive power of the State  
The Constitution grants the Public Authority the power to transfer resources concentrated in the hands of a minority.  
population for the implementation of more varied social investments, such as public policies of  
expansion and democratization of fundamental rights to health, education, housing, leisure, and  
work, food, social security, transportation, and infrastructure, for example.

The institution of the Continental Capital Tax would prevent the outflow of capital to  
Neighboring countries with more lenient tax systems. This requires cooperation between countries.  
Latin Americans would enable the creation of a harmonious system, in which evasions and avoidances  
Undue tax evasion would be avoided and, if it occurred, severely punished.

The roles of the Continental Capital Tax are to promote the redistribution of wealth,  
To stimulate sustainable development and, in the case of Brazil, to strengthen the principle of cooperation.  
international rights enshrined in the CRFB (BRAZIL, 1988), in its article 4, clauses and respective paragraph.  
unique, according to which the Brazilian State must seek economic, political, social and cultural integration.  
of the peoples of Latin America, aiming at the formation of a Latin American community of nations.

The formalization of the proposed tax would occur through a multilateral instrument.  
cooperative, in which the calculation bases and progressive rates are determined. Then,  
During the internalization phase, each signatory member would receive the treaty in the form of their respective agreements.  
legislative processes. Furthermore, it would be up to a regional tax authority to oversee,  
Monitoring and enforcement of international standards.

It is well known – and this is not the focus of this research – that there is a range of practical difficulties for  
To implement the aforementioned tax. However, these preliminary outlines are only the first steps.  
towards socioeconomic change in Latin America through the tax system.

### **3.3 Economic Law and Tax Reform**

The Consumption Tax Reform reinvigorates the foundations of the Democratic State.  
Right, insofar as it promotes a more equitable and transparent tax structure. Accordingly.  
Piketty (2014) asserts that the regulation of the capitalist economic system – which is constantly changing –  
constantly demands strong and effective democratic institutions capable of mitigating privileges.  
concentrated in a restricted segment of society and aimed at reducing social inequalities in a way  
systemic.

It is worth explaining, first of all, the way in which the social product is distributed among the  
The number of members in a community is undoubtedly one of the most defining aspects of its structure.  
economic, in particular, in economies not yet classified as developed.



(FURTADO, 1978).

In social scenarios where industrialization has not yet fully consolidated or the  
The economy operates under traditional structures, the distribution of the set of goods and services generated by  
A community is guided by patterns distinct from those observed in developed economies.  
The way in which the social product is distributed can reveal structural inequalities, since, in  
In less developed economies, the concentration of income and wealth tends to be more pronounced.

Beyond its fiscal (revenue-collecting) function, it has already been stated that the STN is a substantial mechanism.  
to the redistribution of wealth within society. This importance is further reflected in  
Developing economies, such as the Brazilian state, whose taxation has historically shown itself to be...  
regressive, as it impacts consumption and affects the poorest class more severely.

In general, tax reforms aim to make taxation more progressive and  
consistent with the principles of equality and proportionality. Regarding the Brazilian Reform, the  
The new fiscal pact foresees the replacement of consumption taxes with a unified VAT, with two  
Two main aspects: the Contribution on Goods and Services (CBS), which falls under federal jurisdiction; and the Tax on Goods.  
and Services (IBS), a shared responsibility between States, the Federal District and Municipalities  
(BRAZIL, 1988).

PEC No. 132/2023 therefore proposes the simplification and reduction of the tax burden on goods.  
and services considered essential, with the aim of benefiting the lower-income population.

In March 2025, the Federal Government presented the Bill to the National Congress.  
No. 1,087/2025, which proposes, among other aspects, without creating a new tax, to increase the rate.  
general income tax reform, so that, if approved, citizens with high incomes, who  
Currently, they pay little tax in proportion to what they earn, but they will start contributing more.  
highest minimum percentage.

**Figure 1** – Minimum tax rates for high-income brackets

- ✓ Quem ganha R\$ 600 mil por ano (R\$ 50 mil/mês): Nada muda, contribuinte não será afetado e continuará pagando imposto normalmente, sem qualquer alteração.
- ✓ Quem ganha R\$ 750 mil por ano (R\$ 62,5 mil/mês): Terá que pagar pelo menos 2,5% de imposto sobre esse valor. Isso significa um imposto mínimo de R\$ 18,75 mil ao ano.
- ✓ Quem ganha R\$ 900 mil por ano (R\$ 75 mil/mês): O imposto mínimo será de 5% sobre a renda. Isso equivale a R\$ 45 mil ao ano de imposto mínimo a pagar.
- ✓ Quem ganha R\$ 1,05 milhão por ano (R\$ 87,5 mil/mês): A alíquota mínima sobe para 7,5%, resultando em um imposto mínimo de R\$ 78,75 mil ao ano.
- ✓ Quem ganha R\$ 1,2 milhão por ano (R\$ 100 mil/mês) ou mais: Terá que pagar pelo menos 10% sobre sua renda total. Isso significa um imposto mínimo de R\$ 120 mil ao ano.

Source: BRAZIL. Government Agency. Bill to exempt income up to R\$ 5,000 from income tax is presented: understand the impact. March 18, 2025.  
Available at: <https://agenciagov.ebc.com.br/noticias/202503/projeto-de-lei-para-isentar-de-ir-renda-de-ate-r-5-mil-e-apresentado-entenda-o-impacto>.  
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From a legal and constitutional perspective, it is essential to ask whether the measure under analysis would constitute... only a mitigating response to the effects stemming from the historical absence of progressivity and equity in the national tax system, or would it represent an inaugural step in the process of Implementation of a materially effective Tax Reform, guided by the principles of fiscal justice, of equality and ability to pay.

From the perspective of Economic Law, the Reform is situated between two important Aspects: the public regulation of the economic system and the nation's tax framework. The mission of Economic law aims to provide legal treatment to the economy in order to guarantee social justice. (SOUZA, 2005). In this respect, one of the tools of State intervention in the economic field This is achieved through the tax system, which must be designed within the context of economic development and social, since it has direct effects on income distribution and the State's ability to finance public policies.

Eros Grau (2010) argues that Law and Economics are related in complementarity, in such a way that one exerts influence over the other. One of these interfaces It concerns taxation. However, not only in the sense of obtaining revenue derived from private property, through the coercive power of the state, but also in the sense of intervention. The role of Public Authorities in the Economic Order, within the parameters authorized by the CRFB (BRAZIL, 1988).

In Brazil, tax revenues are primarily derived from the imposition of taxes. regressive indirect taxes. The tax burden is not relatively as high as has been claimed, because Whether due to ignorance or bad faith, however, it is markedly regressive. Labor is taxed much more. vigor greater than capital (GRAU, 2010).

In this way, the Tax Reform, a mechanism for economic regulation, makes it possible to redefining the role of the State in neoliberal politics, considering that the CRFB (BRAZIL, 1988) It establishes an economic model of well-being – that is, the Welfare State – drawn up from articles 1 to 3 up to the enunciation of article 170 of the Constitution. The new rules Constitutional tax provisions therefore have the potential to realize the values of social protection. work, environmental protection, consumer protection, and ensuring well-being. social good for all.

#### **4. Tax reform and Mirrlees' theory**

According to Mirrlees *et al.* (2011), the challenge of the tax framework is to achieve social objectives. and economic, while limiting the side effects generated by taxes that reduce well-being- The population's well-being is essential. Revenue collection is crucial to fund public policies that address the needs of the population. Basic rights, such as health, education, and public safety. The biggest difficulty is finding a point. a balance between correcting deviant behavior and economically efficient taxation and



socially.

The Consumption Tax Reform represents a paradigm shift in the economic view of the Federal Government (MINISTRY OF FINANCE, 2025). The regulation of the new system Tax law, regulated by Complementary Law No. 214/2025 (BRAZIL, 2025), is based on three Pillars: technological development and generation of high-quality jobs; sustainability environmental; reduction of social and regional inequalities.

With regard to technological advancement and increased productivity, regulation defines the non-cumulative nature of taxes in production chains, in order to reduce the tax burden on capital goods and investments, including in services used in the activity, encouraging the intensive use of labor of skilled labor. It also establishes the simplification and digitization of the tax system for to enable companies to focus their efforts on innovation and wealth creation, reducing the The complexity of tax compliance. This is a new tax concept relevant to the challenge. Regarding the taxation of the digital economy.

The reform brings advancements in the fields of environment and health, by creating the Tax. Selective pricing of harmful products, offering tax incentives for biofuels, stimulating... A circular economy with credits for the use of recyclables and reduced taxes on forest products. promoting the regeneration of biomes.

As indicated, the central element of this investigation concerns the fact that EC No. Law 132/2023 aims to combat social and regional inequalities by implementing *cashback*, a tool... through which a portion of the proceeds will be returned to low-income families, and thus, This will correct the regressive nature of the tax system. The measure promises to benefit approximately 30 million families and thus extend the concept of social justice (MINISTRY OF FINANCE, 2025).

Mirrlees, along with William Vickrey, received the Nobel Prize in Science. Economics in 1996, for having designed what the optimal design of mechanisms should be. incentive in situations where decision-makers have limited information (NOBEL PRIZE, 1996). Mirrlees (1971) pointed out the difficulties in identifying an optimal income tax, What would your table look like, as well as the ideal degree of progressivity?

In this way, in circumstances where the government would not have full knowledge of the With the individual skills of the population, the optimal design would emerge as a balance between efficiency of the economic model and social equity.

In this context, Mirrlees emphasizes the importance of a strategic and long-term approach. The deadline for tax reform is a factor. It emphasizes, therefore, that fiscal changes should not be made in a haphazard way. fragmented or impulsive, lacking the prior studies and knowledge necessary for progress. This Because inadequate planning can generate negative effects for both the economy and the... credibility of the government.





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In the case of Brazil, the need for tax reform was evident, insofar as...

The fiscal model, which was in effect until then, was no longer able to satisfactorily meet the needs of the population. effects of social, political, and economic changes that have occurred throughout history. Given this From this perspective, it became necessary to formulate a long-term strategy focused on restructuring the complex issue of tax reform.

In light of Mirrlees' theory, and considering the changes brought about by the Brazilian Tax Reform...

Regarding consumption, one can inquire how *cashback* impacts progressivity and... redistribution of resources, and how this mechanism will contribute to mitigating inequalities. socioeconomic factors in the country.

#### **4.1 The transformative effect of *cashback***

Initially, it is noted that, in line with the objective of addressing the

To address social inequalities, the Tax Reform incorporates the *cashback mechanism*, intended to Partial reimbursement of taxes collected from low-income families. This instrument aims to mitigate the... The historical regressiveness of the National Treasury System (STN), whose structure imposes proportionally higher burdens on... economically vulnerable segments of the population.

The concept and purpose of the institute are intertwined. According to the Ministry of Finance (BRAZIL, 2024), *cashback* is one of the main drivers of the redistributive effect of the Reform. Consumption tax, whose mission is to promote tax justice and reduce the tax burden on consumers. Low-income families. In effect, it is explained that *cashback* is essential to progressivity because it returns taxes directly to the lowest-income families registered in the Unified Registry, without intermediaries. It is envisioned that this new fiscal tool also restores the social protection that the The Democratic Rule of Law guarantees the family, in accordance with article 227 of the CRFB (BRAZIL, 1988).

Studies by Ipea (OLIVEIRA, 2023) already recommended, with regard to taxes incidents on consumption, the implementation of *cashback*, that is, the return of part of the tax to Low-income families. With the enactment of the Reform, a new paradigm was inaugurated. regulations aimed at promoting tax justice, especially through the introduction of mechanisms Tax refunds for redistributive purposes.

In the context of the dual VAT model – composed of the CBS and the IBS –, the CRFB (BRAZIL, (1988) stipulates that sub-constitutional legislation should regulate the circumstances under which these should be returned. taxes levied on individuals, including the limits and criteria for identifying them. beneficiaries, with a view to reducing income inequality. It is also emphasized that mandatory return of fuel in the supply of electricity and liquefied petroleum gas (LPG) to low-income consumers, including the possibility of restitution at the time of collection. The dual VAT, therefore, is permeated by a series of constitutional limitations (ÁVILA, 2024), which this article does not intend to explore in detail.



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The idea is to understand that the Brazilian Federal Constitution enshrines the logic of tax *cashback*, consolidating it as...  
an instrument for implementing the principle of ability to pay and combating regressivity.  
structural aspects of the Brazilian tax system.

In the Brazilian legal and tax system, it is reiterated that the tax levied on consumption of  
The cost of goods and services falls more heavily on the poorer segment of the population. This is because...  
Consumers (the actual taxpayer in the tax legal relationship) bear, indiscriminately and effectively, the burden.  
with the tax costs on products and services intended for consumption, without considering  
their individual income or productivity. Consequently, it follows that the lower taxpayer  
Purchasing power is disproportionately burdened by the effects of the tax burden, especially  
when compared to someone who earns higher incomes and, consequently, has greater  
contributory capacity.

The *cashback* aims to maximize the efficiency of consumption taxation, starting from...  
reimbursement of part of the amount spent by low-income individuals, who naturally occupy the  
The most vulnerable side of the inequality balance. So, within the logic of fiscal justice, a  
A consumer with less purchasing power continues to pay the same amount as a...  
The taxpayer will be in a more advantageous economic situation, however, part of the tax will be returned to them.  
first.

With the implementation of this type of monetary return to the taxpayer with less  
Regarding income, the derivative constituent legislator oriented the Tax Reform towards the principle  
constitutional principle of contributory capacity. In this respect, it is valid to present Leandro's reasoning.  
Paulsen (2014), according to whom contributory capacity is not manifested solely as a criterion  
of fiscal justice promoting substantive equality, however, primarily, it constitutes a  
The guiding and inspiring principle of all taxation.

Therefore, article 145, sole paragraph, of the CRFB (BRAZIL, 1988) stipulates that, whenever  
If possible, taxes will be personal and graduated according to the economic capacity of the individual.  
taxpayer, with the tax administration having the option to identify, respecting individual rights and in accordance with  
In terms of the law, assets, income, and economic activities. However, there is a caveat.  
justified by the preceding paragraph: the best interpretation should broaden the application of the principle.  
from the ability to pay to all types of taxes, not just taxes (PAULSEN, 2014).

Regarding progressiveness, its concept and connection to the objective have already been explored.  
ethical and socioeconomic development of the country. At this point in the scientific analysis, it is  
It is fundamental to understand the link between progressivity and the transformative effect of the *cashback* instituted by  
Tax Reform.

In summary, the concept of progressivity as a criterion for taxation is reaffirmed.  
based on the tiered application of tax rates on equally balanced economic bases



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graduated according to the intensity of the manifestation of contributory capacity. From this

As a premise, progressive tax rates allow taxpayers in better economic situations –

and therefore, with a greater capacity to bear the tax burden – contribute to a more onerous extent than

the others, not only in absolute terms, but also in percentage terms, are higher, reflecting

a more intense tax burden due to the greater wealth revealed (PAULSEN, 2014).

Given these perceptions, what would be the point of intersection between the institution of *Cashback* and tax progressivity?

The *cashback* mechanism contributes to increased progressivity through two major factors. reasons. Initially, it reduces the net tax burden on lower-income groups and more vulnerable, since, although the tax is collected at the time of purchase, part of the value is subsequently returned to the taxpayer.

Furthermore, *cashback*, despite not formally modifying the tax rates on... consumption (which would require legal regulation, according to the principle of tax legality), in In practical terms, it affects the application of these rates according to the income bracket of taxpayer. To reiterate: the tax rates remain uniform and unchanged, but the practical effects The results of the partial refund of the tax reveal progress towards tax justice, according to as stipulated by Constitutional Amendment No. 132/2023. Therefore, the IBS and CBS, both non-cumulative and with rates Unique offers become more progressive when linked to *cashback*.

It should be noted that the partial refund mentioned is still close to distributive justice, without interfering with the prices of the goods and services themselves. In light of this analysis, *cashback* is a fair measure and Innovative in the tax universe, as it directly affects the end consumer, and not the structure. of the economic chain.

Thus, bringing the discussion to the concern about the need for taxation. As Mirrlees' strategic idea, *cashback* is one of several positive changes brought about by Brazilian tax reform on consumption touches on the point of equilibrium between preserving the economic efficiency of the market and provides greater equity in the distribution of the tax burden.

Therefore, Constitutional Amendment No. 132/2023 is based on the theory of optimal taxation developed by Mirrlees, therefore, although the establishment of uniform rates in consumer taxes is recognized, the The reform introduced a smart and innovative tool – *cashback* – without interfering with production. economically, however, it acts positively on the individual (lower-income taxpayer).

## Final considerations

The research highlighted the importance of understanding the economic regulatory function that The role that the National Treasury (STN) should play is that of promoting social justice and development. socioeconomic. In this respect, it was explained that revenue collection is undeniably essential because



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It is an instrument that enables the achievement of public policies and fundamental rights; however...

The Brazilian tax model should be structured to combat historical inequalities and foster...  
sustainable economic growth.

As noted, the Tax Reform establishes systemic changes with the aim of...  
combating the remnants of underdevelopment rooted in a colonial past that prioritized...  
export of primary products, without promoting autonomous industrialization. Notwithstanding the  
promulgation of the 1988 Constitution, which enshrined development as an objective.  
Fundamentally, the country still faces significant challenges in overcoming structural inequality.  
Through Constitutional Amendment No. 132/2023, the National Regional Development Fund was established, which  
This reflects the effort to mitigate persistent social and economic inequalities, especially in  
Northeast and North regions.

Contemporary tax theory seeks to demonstrate that progressivity should constitute  
fundamental guiding principle of tax collection, even in the face of the recognized  
predominance of a regressive system – especially in the Brazilian context – structured  
mostly about consumption taxation, without due consideration of inequalities.  
existing income in the country.

Internationally, progressivity is considered essential to reduce  
inequalities, as highlighted by the OECD. In Brazil, the recent Law No. 15.079/2024 (BRAZIL,  
2024), which establishes a minimum tax on large multinational corporations, demonstrates the concern of  
The state is implementing fairer tax practices and combating the erosion of the tax base. Regarding  
From this perspective, this article aimed to examine how the Tax Reform succeeded in predicting the  
Progressivity as a tool to combat inequality and promote development.  
socioeconomic.

Furthermore, it was explained that global competition puts pressure on cost reduction, which justifies...  
an increase in tax progressivity to mitigate the negative effects of globalization on  
The most vulnerable workers. Thus arises the need for state intervention to correct shortcomings.  
market-based policies, such as progressive taxation, are employed through redistributive measures.  
Social investments are essential elements for achieving social well-being.

This research also highlighted that social exclusion and income inequality are...  
characteristics that define the Latin American region, due to a historical process of  
Dependency and marginalization. As a solution, progressive taxation was proposed, potentially  
effective in reducing inequality and the concentration of wealth. Therefore, it was presented, in  
Thesis: the creation of a Continental Tax on Capital as a means of promoting social justice.  
in Latin America.

The Consumption Tax Reform is currently being implemented, with the objective



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to simplify and make the system more progressive, replacing consumption taxes with VAT.

unified (IBS and CBS) and proposing an increase in the Income Tax rate for taxpayers

with high gains. These measures help to circumvent the regressive tax burden, which

It prioritizes capital over labor, contradicting the welfare state model.

Social rights as provided for in the Brazilian Federal Constitution.

This article established a connection between Mirrlees' theory and Constitutional Amendment No. 132/2023.

It can be deduced that the challenge of tax design is to balance efficient revenue collection with minimization.

of negative impacts on the well-being of the population. The primary aspect was to expose that *cashback*

Designed for low-income families, it is an instrument to reduce the regressivity of the tax system.

and promoter of social justice. Therefore, Constitutional Amendment No. 132/2023 is transformative in introducing the

*Cashback* in the dual VAT model and applying Mirrlees' principles, reconciling efficiency.

economic reform and redistribution of resources to combat historical socioeconomic inequalities.

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