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### Tax saving strategies: Udi Bolos' Case

### Estrategias de ahorro de impuestos: el Caso de Udi Bolos

### Estratégias para a economia de impostos: o Caso da Udi Bolos

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#### Abstract

**Purpose:** Udi Bolos' case discusses tax planning and the best taxation regime to be adopted by a small company.

**Methodology:** This case uses tax contents and also presents discussions about tax evasion and tax avoidance, showing elements of an ethical-accounting dilemma experienced by many family businesses.

**Results:** Entrepreneur at Udi Bolos, Mr. Marcelo, seeking to reduce his costs, receives two divergent opinions from two accountants: to act within tax legality or to withhold tax. After a careful analysis, the owner realized it is possible to obtain legal savings for the business with a good tax planning.

**Contributions of the Study:** The present case encourages students' critical reflection on taxation regimes in order to reduce the tax burden paid by companies, being useful for

learning concepts in disciplines associated with tax and cost analysis. In addition, ethical reflections are carried out on the accountant's role in the provision of information and manipulation of economic and financial data.

**Keywords:** tax planning; small and medium enterprises; tax education's cases.

### Resumen

**Objetivo:** El caso de Udi Bolos analiza la planificación fiscal y el mejor régimen fiscal que debe adoptar una pequeña empresa.

**Metodología:** Este caso utiliza contenido tributario y presenta discusiones sobre evasión y elusión fiscal, destacando elementos de un dilema ético-contable experimentado por muchas empresas familiares.

**Resultados:** El empresario de Udi Bolos, el Sr. Marcelo, que busca reducir sus costos, recibe dos opiniones divergentes de dos contadores: actuar dentro de la legalidad fiscal o evadir. Después de un análisis cuidadoso, el propietario se dio cuenta de que es posible, con una buena planificación fiscal, obtener ahorros legales para el negocio.

**Contribuciones del Estudio:** El presente caso alienta la reflexión crítica de los estudiantes sobre los regímenes tributarios para reducir la carga tributaria que pagan las empresas, siendo útil para aprender conceptos en disciplinas asociadas con el análisis tributario y de costos. Además, se llevan a cabo reflexiones éticas sobre el papel del contador en el suministro de información y la manipulación de datos económicos y financieros.

**Palabras clave:** planificación fiscal; pequeñas y medianas empresas; caso para la educación fiscal.

### Resumo

**Objetivo:** O caso da Udi Bolos discute sobre o planejamento tributário e o melhor regime de tributação a ser adotado por uma empresa de pequeno porte.

**Metodologia:** Este caso utiliza conteúdos tributários e apresenta discussões sobre evasão e elisão fiscais, evidenciando elementos de um dilema ético-contábil vivenciado por muitos negócios familiares.

**Resultados:** O empresário da Udi Bolos, Sr. Marcelo, em busca de diminuir os custos, recebe opiniões divergentes de dois contadores: agir dentro da legalidade fiscal ou sonegar. Após uma análise cuidadosa, o proprietário percebeu que é possível, com um bom planejamento tributário, obter economias para o negócio dentro da legalidade.

**Contribuições do Estudo:** O presente caso estimula a reflexão crítica dos discentes sobre os regimes tributários, com o intuito de reduzir a carga de impostos paga por empresas, sendo útil para a aprendizagem de conceitos em disciplinas associadas à legislação tributária e à análise de custos. Além disso, são realizadas reflexões éticas sobre o papel do contador no fornecimento de informações e na manipulação de dados econômico-financeiros.

**Palavras-chave:** planejamento tributário; pequenas e médias empresas; caso para ensino tributário.

## 1 Introduction

Brazilian small and medium companies play an important role in country's economy. According to reserches made by Brazilian Support Service to Micro and Small Enterprises<sup>1</sup>, over than 50% of open institutions in this country are inserted in the category of small and medium companies.

Once Brazil has a very complex tax legislation, micro and small enterprises may really benefit from a good tax planning, which is quite relevant for this kind of company, since it is guided by legal methods to achieve a decrease of tax burden (Fabretti, 2000).

In this regard, it is noticed that micro and small enterprises need an aid from accounting area professionals to get an appropriate assistance. That way, it is possible to avoid the payment of dispensables taxes and charges and it also provides the observance of deadlines for tax obligations.

Therefore, tax planning by counting on the accounting area professionals' assistance is a practice that must be implemented by small and medium companies in order to obtain economic benefits.

## 2. The case

Mr. Marcelo is the owner of a cake production company in the city of Uberlândia. After analyzing his company's income, he realized it was necessary to reduce the amount of taxes paid. Once he didn't master well the accounting area, he decided to look for aid from an accountant.

Mr. Marcelo's idea of becoming owner of a cake production company began after his second child is born. That time, Marcelo and his wife Júlia had considered the expansion of their family income was necessary. Mrs. Júlia was a woman with great skills for confectionery, so she used to make cakes to her family and her friend's birthdays, for example. Thus, due to existence of her hobby and their family financial need, the couple has decided to rent a commercial establishment downtown, in Uberlândia. The business location has been chosen by considering the large stream of people who used to pass by the area.

However, the rental price of a property on this location in the city was pretty expensive. In addition, it was also required to buy raw materials and furnitures and to bear the costs of water and energy. Therefore, by considering all expenses and upfront investments, the selling of their family car was needed to obtain an initial capital and, accordinly, to start a new business.

After the whole structure was settled, the company Udi Bolos started serving the town community of Uberlândia in 2007. The beginning was not easy, since sales were only enough to handle with the internal costs of the company. This fact made Mr. Marcelo and his wife consider many times the closure of the business. However, with dissemination about the quality of cake produced by the company, it was possible gradually noticing an

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<sup>1</sup> The original in Portuguese, "Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (Sebrae)", refers to a Brazilian organization without profitable purposes and whose creation aims to stimulate the development of entrepreneurship in country by offering support to micro and small enterprises (N.T).

increase of its customer portfolio, an expansion of its manufacturing and an improvement of its billing. At the end of 2008, the company was already delivering its products to other nearby cities.

Currently, the company is able to produce, on average, 900 cakes per month. Therefore, Udi Bolos has two production lines: homemade cakes and also the more “sophisticated” ones, which are addressed to sorts of events, like weddings and birthday parties, among other celebrations.

Homemade cakes are sold for R\$ 12,00, while cakes addressed to parties have their price defined by final weighing, considering that it costs R\$ 70,00 per kilo. They have a diversity in options of forms and flavors and count on specific and thematic options too.

Therefore, company’s main billing corresponds to manufactured cakes, which represent 75% of sales in total. Also, the business has many partnerships with event companies and even with bakery stores and supermarkets.

To have an idea of the revenue generated by the company per month, it is known that it produces about 675 manufactured cakes, each one with three kilos on average. Consequently, the gross revenue obtained per month is R\$ 141.750,00.

Concerning to homemade cakes, on the other hand, there is an average sale of 225 units for month, which results, then, a R\$ 2.700,00 revenue. By adding up the revenues obtained from both types of cakes, Udi Bolos may raise R\$ 144.450,00 at the end of the month. Nevertheless, after making all expense deductions from the company’s revenue, its result comes to R\$ 131.520,00 as the net value in total. This amount arises from following deductions: expenses with energy, water and gas, R\$ 2.280,00; with rent, R\$ 2.800,00; with local radio and TV advertisements, R\$ 500,00; with raw material, R\$ 1.350,00, and with taxes, R\$ 5.980,00.

## 2.1. The accounting dilemma

The company Udi Bolos didn’t have its own accountant and Mr. Marcelo, the company’s owner, didn’t master well the accounting area and then he had several doubts about taxation matters. He had just a brief notion about how to elaborate a balance sheet, an income statement<sup>2</sup> and a cash flow, since he had taken a short course at the Brazilian Support Service to Micro and Small Enterprises a few years before deciding to open his own cake company.

The truth is that at the same time Mr. Marcelo was considering outrageous to pay so many taxes, he was also afraid of having problems with Brazilian Federal Revenue.<sup>3</sup> So, as an attempt of reducing his company’s tax burden, he decided to look for a consultancy with some accountants.

The first accountant Mr. Marcelo contacted was called José. He had been working in the accounting area for over than 15 years and he was a very honest man, always alert to legislative and tributary changes. He was always trying to transmit transparency to his

<sup>2</sup> The original in Portuguese, “Demonstração do Resultado de Exercício (DRE)”, is one of the most important obligations of a company according to Brazilian legal provisions about business law. It means a financial demonstration that aims to join the main informations about the activities of the company to reveal the existence of profit or damage, for example. In English, other possible nomenclatures to this same idea are: “profit and loss account”, “profit and loss statement”, “revenue statement”, “statement of financial performance”, “earnings statement”, “operating statement” or “statement of operations”. (N.T.)

<sup>3</sup> In Portuguese, by using an informal language, it is common associating this government body to the figure of a “Lion”, according to presented in the original sentence. (N.T.)

clients about the services provided.

The accountant José showed Mr. Marcelo a breakdown about the possibilities that could be adopted in Udi Bolos in order to reduce its tax burden, which was representing the biggest expense of the company.

At first, Mr. Marcelo was afraid to open the company's accounts but as long as it was necessary and inevitable, he realized there was not other choice.

After some analysis, the first accountant advised Mr. Marcelo to implement a tax planning, which involves, in turn, to manage legal instruments in order to reduce a company's tax burden. That way, the owner of the cake manufacturing business should use tax incentives and accelerate the optimization of expenses, both provided for by Brazilian law. In this term, this would be able to make decline the calculation basis of the Income Tax to Legal Entity (ITLE)<sup>4</sup> and the Social Contribution on Net Profit (SCNP)<sup>5</sup>. Therefore, José presented his client the three taxation regimes existing in Brazil: Real Profit, Presumed Profit and Arbitrated Profit.

In the beginning, Mr. Marcelo was understanding nothing of that technical parlance but, after the accountant's explanation, he could better comprehend the calculation made.

José has explained:

— In Real Profit, the taxation of Income Tax to Legal Entity would be imposed under the accounting calculation of results and with the fiscal adjustments defined by legislation. This tax would be calculated every three months. On the other hand, if your company embraced the taxation regime based on Presumed Profit, the taxation of Social Contribution on Net Profit and also of Income Tax to Legal Entity would be simpler, since this type of tributary contribution is possible and applicable to Legal Entities that have presented a total gross revenue equal to or less than R\$ 78.000.000,00 during the calendar year<sup>6</sup> prior to calculation. Finally, there is the National Simple taxation too. It is a regime destined to micro and small enterprises, which will collect taxes every month through the issue of a single tax-revenue document.

While José was explaining, Mr. Marcelo was getting confused with all these possibilities never imagined before so he betrayed this feeling through a gesture of scratching his own head. Then, he asks:

— Alright, José, so... what is the best option, the one I should choose for my company?

José answers:

— After examining these three taxation regimes for your company, I can tell you that the more suitable type in this case would be the National Simple one because, by analyzing all the business billing, this would be the one responsible for reducing your factory's tax burden. Let's see together here the calculation charts (1, 2, 3) I have made below.

<sup>4</sup> The original in Portuguese, "Imposto de Renda de Pessoa Jurídica (IRPJ)", refers to one of the category of tributary incidence on Brazilian companies. (N.T.).

<sup>5</sup> The original in Portuguese, "Contribuição Social sobre o Lucro Líquido (CSLL)", is one of the type of Brazilian federal tax imposed to Brazilian companies on their net liquid during a period of time. (N.T.).

<sup>6</sup> The original in Portuguese, "ano-calendário" (or also "ano-base"), is a technical expression that concerns to the reference date used to calculate expenses and revenues of a company. Therefore, it alludes to the year when tax events (those that will become required the tributary payment) took place. (N.T.).

**Chart 1***Income Tax based on Real Profit*


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Profit before IT -----	R\$ 144.450,00
+ Additions-----	R\$ 0
- Exclusions -----	R\$ 0
Adjusted net profit -----	R\$ 144.450,00
- Tax offsetting 30% -----	R\$ 0
= Real Profit -----	R\$ 144.450,00
IT 15%-----	R\$ 21.667,50

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Source: *self elaboration.*

**Chart 2***Income Tax based on Presumed Profit*


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Gross Revenue -----	R\$ 144.450,00
% Activity-----	32%
= Presumed Profit -----	R\$ 46.224,00
(+) Other revenues -----	R\$ 0
= Calculation Basis -----	R\$ 46.224,00
ITLE (15%) -----	R\$ 6.993,00
Additional -----	R\$ 0
Total ITLE -----	R\$ 46.224,00

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Gross Revenue -----	R\$ 144.450,00
% Activity -----	12%
= Presumed Profit -----	R\$ 17.334,00
(+) Other revenues -----	R\$ 0
= Calculation Basis -----	R\$ 17.334,00
SCNP (9%) -----	R\$ 1.560,06
Total SCNP -----	R\$ 15.773,94

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Source: *self elaboration.*

**Chart 3***Income Tax based on National Simple*

Gross Revenue (accumulated during the last 12 months) -----	R\$ 1.733.400,00
Tax Rate (7,3%) -----	R\$ 126.538,20
Installments to deduct -----	(R\$ 44.550,00)
(R\$ 81.988,20 / R\$ 1.733.400,00) x 100 = Effective tax rate (4,73%)	
National Simple to pay 144.450 x 4.73% -----	R\$ 6.832,49

Source: *self elaboration.*

After seeing all these demonstrations, as Mr. Marcelo was not so happy to what he was told, he would like to have access to other, more “simplified” methods, which could help him with the decrease of his financial disbursements. Therefore, he looked for another accountant for a consultancy in order to find a second opinion.

The second accountant found by Mr. Marcelo was called Arthur. He didn’t have a permanent office, then he used to see his clients in his own home garage. Arthur has been working in the accounting area for ten years and he used to always point out to his clients shortcuts and gaps in order to follow an easier way.

Therefore, Arthur has suggested Mr. Marcelo to change the invoices issued after the sale of cakes. He has also added that certain accounting informations of the company were not needed to provide as a source of income tax return to tax authorities of the country. For that, Arthur has made the following recommendation:

— Mr. Marcelo, look, there is an infallible technique that people in general call “shimmed invoice”<sup>7</sup>.

Mr. Marcelo asks, showing interest:

— And how exactly does it work? Please tell me more...

So the accountant continues the explanation:

— You must issue fiscal documents with different indicatives between copies, it means that you will issue an invoice containing half the invoiced value. The other half will be paid from the outside (“off”, on the margins of the official invoice) by your customer. This is the shimmed invoice that turns possible, then, the under-billing.

— And wouldn’t there be another similar technique that would also work? — Mr. Marcelo asks.

— Another possible strategy to use would be the income omission, in which the invoice issue in the act of selling the cakes would’nt be necessary. That way, the company Udi Bolos could provide to its customers a discount as an incentive to purchase the cakes only in cash. In this situation, there wouldn’t be financial banking movement and then the Federal Revenue would have more difficulty to identify this manipulation and this income omission. — the accountant Arthur declares.

After this explanation, Mr. Marcelo is a little bit suspicious and then asks:

— But what you told me is a little dangerous and risky, isn’t? What if I get caught?

<sup>7</sup> The original in Portuguese is “nota fiscal calçada” and does not have an exact match in English, then that is the reason why it may sound odd in this language. We have chosen the word “shimmed” to allude “shim”: a piece of wood, often used to fix substantial gaps between two surfaces, for example. Given the linguistic boundaries, we admit that perhaps this is not the best accurate expression. However, we believe it is, at least, a reasonable and suitable definition to transmit the general idea of this technical term used in tributary matters. (N.T).

What are the chances? Can I be arrested?

And Arthur answers:

— Well... risk always exists. They might not discover today but maybe tomorrow or another day, that's why the decision is up to you.

At the end, with the two accountants' point of view, Mr. Marcelo realized how much important is to know his company's real financial situation in order to possibly reduce the amount of taxes paid.

By means of cash flow's analysis, both accountants perceived Udi Bolos' inflow and outflow of financial resources. They observed the balance sheet and the income statement, noticing the existence of some failure in these financial statements. In other words, there were divergences between the amounts, as Mr. Marcelo and his wife Júlia sometimes mixed their particular money up with company's resources and consequently its accounts were not completely accurate.

Therefore, in some cases, the financial resources inflow was smaller than the outflow and the income statement didn't show the real economic situation of the company, since the resources were used to couple's private matters and it was not point out in the statements.

After the consultancy with both accountants, Mr. Marcelo was very thoughtful about the best choice to take to his company and also about all the options presented to him in order to reduce the taxes paid. Would it be better to hire the first accountant's services, more experient in accounting area and whose suggestion was the tax planning with the taxation regime of National Simple, or should he hire the second accountant, a more practical professional who has advised him to modify the tax invoices?

At that, Mr. Marcelo has decided to exchange some idea with his wife and also with other colleagues who was running a business too. And what did they suggest? Well, they have said that Mr. Marcelo should do what everybody does. "But that's why the country doesn't evolve", he has thought.

In conclusion, since he enjoyed being "the different one", he decided to do the opposite of the advices received.

### 3 Teaching notes

#### 3.1 Questions to discussion

Following questions are offered to conduct the discussion in order to better comprehend the case. Their answers are suggested later too:

- 1) Relate each accountant's attitudes in the story of Udi Bolos to the practice of tax evasion and tax avoidance.
- 2) If Mr. Marcelo decided to expand his cake manufacturing, changing his situation, from a family business to a big company with many other subsidiaries, would it be possible to keep inserted in the taxation regime of National Simple? Why?
- 3) To obtain an initial capital to start a new business, Mr. Marcelo had to sell a good. Which attitude would you have if you were in this same situation replacing Marcelo?



- a) You would also sell a good to raise a financial resource;
- b) You would seek a bank loan;
- c) You would look for a partner to invest in your company.

Justify your choice by also indicating which alternative would bring more advantages under fiscal point of view.

- 4) Search other strategies and examples of tax evasion and tax avoidance besides the ones mentioned in the story and that could be used by Mr. Marcelo as well.
- 5) By analyzing the story of Mr. Marcelo, a cake company owner, what would you, as an accountant, suggest him to reduce his tax burden? Argue to justify your choices.
- 6) From the final part described above for the story, what kind of outcome would be expected? Present a possible closure to this case based on the related contents.

### **3.2 Educational objectives of the case**

This case was elaborated to discuss some points related to tax aspects and taxation regimes. More specifically, this case aims to: (a): highlight subjects like tax accounting, in order to discuss possibilities of tax decrease by choosing a more suitable taxation regime from the analysis of each circumstance; (b) emphasize the role of accounting area faced with the accounting irregularities, illustrating that way the importance of professional ethics in this branch.

From these objectives, teachers can guide their students through reflection on the importance of the accountant to the maintenance of a company and also on the existing need to adopt a correct taxation regime in order to reduce tax burden.

### **3.3 Sources used to data collection**

All data used in this case to refer to company Udi Bolos are based on values applied to microenterprises in the city of Uberlândia.

### **3.4 Recommended use of this case**

This case can be used as an instrument of teaching-learning to undergraduate students in the course of accounting sciences, specially in classes and subjects related to tax legislation and tax accounting, for example.

### **3.5 Suggestions to the lesson plan**

- 1) First of all, teachers will guide their students to study the Accounting Standards Committee<sup>8</sup> 32 before each class. This document concerns to taxes applied to profit.

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<sup>8</sup> The original in Portuguese, “Comitê de Pronunciamentos Contábeis (CPC), refers to a Brazilian entity with autonomy to study, prepare and issue technical standards about procedures in accounting area in order to regulate these matters with more uniformity between decisions. (N.T).

Then, already in class, teachers and students discuss together this mentioned material from the analysis of the case.

- 2) After the presentation of the case to class, students will be divided in groups. Each group will try to answer the questions presented in the case study.
- 3) Class time will be divided in two different moments. During the first stage, the students must have a discussion among their own group and think of proposal of solutions to the case. During the second stage, all students must be organized around in a circle in the classroom to discuss the possible solutions they have previously found.
- 4) It is important that teachers make a conclusion of the main ideas pointed out by students and show their own view about the proposed subject.

### 3.6 Theoretical discussions and about the case

According to Frabetti (2006), tax planning, also known as tax avoidance, is relevant to define the organization's structure of internal costs since it makes easier the observance of an obligation and minimize internal costs with taxes without directly damaging government revenues. There are two kinds of tax avoidance: the one that comes from provisions existing in law itself and the other one that is a result from legal loopholes. In the case of tax avoidance due to law, a legal instrument itself allows or even encourages the saving with taxes through tax incentives. By contrast, tax avoidance by legal loopholes uses non legally-forbidden resources or yet, elements that make possible avoiding the incidence of a tax event with legal provisions itself to obtain less tax burden then.

In accordance with report *Estatistics about Revenue in Latin America* (2010), by the Organization for Economic Cooperation and Development (OECD), held during the period of 1990 and 2010, Brazil has the highest tax burden in all Latin America and for this reason it is needed looking for legal means to avoid tax incidence and reduce or at least defer taxation in this country. The use of tax planning becomes a fundamental instrument for companies to maintain competitiveness in the market.

Internal cost decrease and proceeding simplification are the two focus of tax planning. Internal cost minimization is obtained by considering tributary, operational, contractual and administrative aspects. It is worth highlighting that the complexity of events related to tax policies is an important determinant of the company needs and this will interfere in the moment they decide to elaborate a tax planning. (Siqueira, 2011).

Tax avoidance aims to adopt proceedings made inside the companies in order to obtain a decrease of internal cost with taxes through legal means, since an elevated tax burden contributes to reduce corporate profits. According to Gonçalves and Oliveira (2013), tax planning can be used by all companies regardless of their size.

Previous researches, like the one by Gonçalves, Nascimento and Wilbert (2016), have pursued Brazilian companies that were listed in B3 (Stock Exchange, Capital Market and Over-the-Counter Market - OTC) in the year of 2014, in order to analyze if the fact of some companies receive public subsidies reflects on the rate of tax avoidance and their wealth generation to society. The study could determine that companies which have received subsidies have also presented less effective rate of taxation over their profit. With less performance and less taxation over it, in consequence they have a low rate of return of

resources with their activities to society.

International studies also highlight the need of obtaining a tax planning in order to manage the corporate process. In this respect, Daengs (2018) has tried to relate tax avoidance to income tax with regard to the company Pt. Triperkasa Aminindah, in order to decrease tax expenses to be paid.

When implementing tax avoidance, companies need to adopt a taxation regime in accordance with the existing demands and intended results. In regard to this, in Brazil, the most used taxation regimes are: Real Profit, Presumed Profit and National Simple. Each corporation must consider its own particularities, operations meanings and types of activity developed there to define the most saving ways of taxation. After all, a correct and suitable tax framework may provide benefits to a business management.

Souza (2013) has perceived that it is viable to adopt National Simple in micro and small enterprises when there are profitability and variables which allow the decrease of expenses with taxes. By contrast, Pessôa, Costa and Maccar (2016) have identified that National Simple is not the best taxation regime to be adopted by companies which have large retail chains as customers because these ones are forced by market not to adopt National Simple. Besides, it has been noticed that, for some sectors, National Simple didn't offer tax advantages and a disadvantage observed in that study about micro and small enterprises was their impossibility to pay federal taxes in an unified way. Finally, the need of elaborating a tax planning has been concluded in order to examine the feasibility of choosing National Simple as a taxation regime, since there might be some situations in which doing that won't be a worthwhile way to decrease the expenses of micro and small enterprises.

According to Siqueira (2011), each business area will present its differences in tax legislation. One of the strategies adopted by companies is the use of immunity to obtain benefits. Export-oriented companies have as strategy the non-generation of debts relating to following taxes: Tax over Merchandise and Services Circulation, Tax over Services of Any Nature and Tax over Industrialized Product<sup>9</sup>. It is worth highlighting that, if the extinguishment of tax liability happens, the strategical actions also substantially influence the flow cash of the company. Thus, an alternative to use is the tax offsetting of the transaction.

Moura (1971) defines one of the main strategies of tax avoidance: tax incentives. According to him, they are "tax measures which exclude in total or in part tax liability and are enforced by federal government with the purpose of economically developing a certain sector of activity" (p. 135).

On the other hand, there is also tax evasion, known as every action or omission which involve, by consciously illicit attitudes, not totally paying Federal Revenue a tranche of tax that the enforcement of a legal provision considers due (Fabretti, 2006). That way, in accordance with Act n° 4.729/1965, tax evasion involves omitting or making false statement; inserting inexact elements or omitting incomes or operations of any nature; and/or changing invoice or any document. (Brasil, 1965).

### 3.7 Forwarding proposals to questions

- 1) In this case study, two accountants were presented to support Mr. Marcelo with

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<sup>9</sup> In sequence, the originals in Portuguese are: "Imposto sobre Circulação de Mercadorias e Serviços (ICMS)", "Imposto Sobre Serviços de Qualquer Natureza (ISSQN)" e "Imposto sobre Produtos Industrializados (IPI)" and they refer to some of the types of taxes existing in Brazil. (N.T).

his business management and with the decrease of taxes paid by cake company Udi Bolos. That way, it was possible confirming that they, José and Arthur, have presented different attitudes in relation to decision takings and have suggested different measures of tax reduction to Mr. Marcelo, owner of Udi Bolos. Therefore, it is possible establishing some correlation between the accountants represented in the story and the practices of tax avoidance and tax evasion. The first accountant, José, has adopted a compatible attitude with tax avoidance, an accounting practice adopted in order to use legal measures to reduce the taxes to be paid. For that, by presenting all the calculation of taxation regimes: Real Profit, Presumed Profit and National Simple, the accountant José showed Mr. Marcelo how to implement a smart tax management through tax planning. After analyzing the whole structure of the cake company, the accountant José has pointed that the best choice to be adopted in the factory would be National Simple, which would provide the minimization of tax burden. Another example that may indicate the suggestion made by this professional concerns to the practice of tax avoidance is the moment when he advises the owner of cake manufacturing company to use tax incentives in order to accelerate the utilization of expenses determined in law and this would be responsible for reducing tax burden. All these characteristics demonstrate a conscious act of tax reduction by using law permissions. By contrast, the second accountant, Arthur, has tried to help Mr. Marcelo through simpler conducts, however he was guided by practices of tax evasion, according to what has been identified. In other words, by encouraging Mr. Marcelo, owner of Udi Bolos, not to declare some sales and not to issue invoices, Arthur was insinuating a tax evasion (measure adopted after the incidence of tax event of tax obligation), which is not an act permitted by law.

- 2) To qualify for National Simple, subsidiaries cannot be attached to the outside. Once this requirement is fulfilled, there are no other reasons not to placing the company in this taxation regime, unless the subsidiaries show a billing which makes the annual company income higher than R\$ 4.800.000,00, since this fact would remove the company from the category as micro and small enterprise, a fundamental condition to the application of National Simple taxation regime. In turn, this type of regime is known by issuing the Revenue Document of National Simple<sup>10</sup> through an electronic system which will calculate the amount of taxes to be paid every month and whose deadline to tax collection is until the twentieth day of subsequent month.
- 3) Raising funds is fundamental to run a new business.
  - a) Before selling a good to raise financial resources, it is extremely important analyzing whether it won't be necessary in the future for your business management. If the good intended to be sold doesn't have this applicability and its presence won't be required and missed later, it is a good possibility to think when prospecting new resources to start a business.

<sup>10</sup> The original in Portuguese is "Documento de Arrecadação do Simples Nacional (DAS)" and refers to a payment slip issued by Brazilian companies who follow the taxation regime of National Simple, already explained by the authors through this article. (N.T.).

- b) It would be quite important to Mr. Marcelo evaluating if, to start its activities, the company would need to seek a bank loan indeed, for this fact demands a solid financial education and discipline to be able to pay off the expenses incurred with that loan made. This financial planning is not always successful when a newly-formed company already incurs debts and at the same time is not able to leverage sales and have profit with the trading of its product. To be successful in financial resources raising through bank loans, it is essential having a previous planning of the exact monetary value required to start that new business. Besides, it is important being able to identify the existing deadlines to pay off the debts too. From a fiscal perspective, loans in general influence in income tax calculation of a company and, depending on the taxation regime adopted, as in the case of Real Profit, there is a tax benefit of the debt because it is deductible to calculation basis of income tax.
- c) When looking for a partner to invest some capital in cake factory, this person will have rights and duties in the business with their investment. That way, from a fiscal view, adopting this measure would be advantageous to Mr. Marcelo, for not only the profits would be divided among the owners of the business but also the taxes to be paid would be apportioned according to each corporate participation. Therefore, a company with a partner may avoid the payment of Social Security<sup>11</sup> and also Income Tax through the use of tax avoidance techniques, since partners will be paid with the division of profits and not with pro-labore (remuneration for work executed by partners during the performance of professional activities related to the company).
- 4) Some examples of strategical practices of tax avoidance are:
- Capacity of managing pro-labores and company dividends – being able to anticipate the dividends is a way to reduce tax burden over entrepreneur;
  - Payment of taxes in time – collect taxes on time avoids fine application and interests, which means that taxes to pay won't have an additional in its final value;
  - Outsourcing of some internal sectors – that will help the reduction of expenses with payroll and as well the decrease of taxes and charges with social security from labor relations.

Some examples of controversial practices of tax evasion are:

- Making false statements or statements with duplicity to authorities;
  - Refuse invoices relating to provision of services executed;
  - Mislead the tributary inspection by offering inexact informations.
- 5) Students are expected to mentioning examples of practice of tax avoidance. They can mention other types of this resource and tax planning or, yet, they can

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<sup>11</sup> If the Tax Income is linked to the activity of Federal Revenue, on the other hand, the Social Security is a social benefit offered in Brazil under the fulfillment of some requirements and specificities and through a government organization called National Institute of Social Security (in Portuguese: “Instituto Nacional de Seguridade Social – INSS”). (N.T).

improve the practices presented by the person who will offer the case study.

- 6) This is a personal question. Students are expected to realizing the risks related to tax evasion and being aware that it is a duty of all society to change this behavior although this remains a measure frequently adopted by many business.

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<sup>12</sup> Unless the first one, “Daengs, A. (2018) [...]”, all the other references were originally written in Portuguese and then their titles were translated to English and also all the indirect quotes based on them throughout the text. (N.T). Besides, we have opted to maintain in Portuguese the proper nouns, as journal names, for exemple. (N.T.)