

MUNICIPAL ECOLOGICAL TAXATION: ANALYSIS OF FISCAL INCENTIVES FOR TAX ON SERVICES (ISS) IN BRAZILIAN MUNICIPALITIES

TRIBUTAÇÃO ECOLÓGICA MUNICIPAL: ANÁLISE DOS INCENTIVOS FISCAIS DO IMPOSTO SOBRE SERVIÇOS (ISS) NOS MUNICÍPIOS BRASILEIROS

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Abstract

This research analyzes the municipal ecological taxation to promote sustainable development. This study aims to analyse how Brazilian municipalities with a population of over 500,000 people apply tax incentives of services of any nature (ISSQN) observing whether the parameters for sustainable development were enforced. Data were collected from 49 municipalities and the specific legislation adopted was analyzed using Google. The analysis revealed that,

Resumo

Esta pesquisa analisa a tributação ecológica municipal com o intuito de promover o desenvolvimento sustentável. O trabalho teve como propósito examinar como os municípios brasileiros com mais de 500 mil habitantes aplicam incentivos fiscais do Imposto sobre Serviços de Qualquer Natureza (ISSQN), verificando se foram utilizados critérios de desenvolvimento sustentável para incentivar o referido tributo. Foram coletados dados de 49 municípios e analisadas as legislações



among the data collected, the tax incentives related to ISSQN aimed exclusively at economic development is significant. On the other hand, only 10% of analyzed municipalities indicate in their legislation, in the context of ISSQN, actions aligned with the Sustainable Development Goals (SDGs), as described in Agenda 2030, especially regarding environmental protection. Therefore, the inclusion of such actions in government strategies and plans was not observed.

Keywords: environmental Taxation; ISS; tax incentive; sustainable development; sustainable development goals.

específicas adotadas, utilizando o Google como ferramenta de busca. A análise revelou que, entre os dados coletados, a existência de incentivos fiscais relacionados ao ISSQN voltados exclusivamente ao desenvolvimento econômico é significativa. Por outro lado, apenas 10% dos municípios brasileiros com mais de 500 mil habitantes indicam em suas legislações, no contexto do ISSQN, ações alinhadas aos Objetivos do Desenvolvimento Sustentável (ODS), conforme descritos na Agenda 2030, especialmente com relação à proteção ambiental. Portanto, não se observou a inclusão de tais ações em estratégias e planos governamentais.

Palavras-chave: desenvolvimento sustentável; incentivo fiscal; ISSQN; objetivos do desenvolvimento sustentável; tributação ambiental.

Introduction

The tax on services of any kind (ISSQN), or just Services Tax (ISS), is constitutionally defined as a responsibility of municipalities, and Ancillary Legislation 116/2003 established parameters, criteria and rates. In addition, they determine conditions for instituting tax incentives attributed to this tax, such as exemptions, reductions, discounts and other types of tax benefits. Its essence is to tax the provision of services in economic activities such as medical, legal and construction services, among others. Therefore, it is a tax with a fiscal characteristic, i.e., predominantly raising money for public coffers.

Associating the ISS with the granting of tax incentives is a challenge, as the regulation of this matter places restrictions on this purpose. Thus, local public administrations can only grant tax benefits up to the minimum rate set by law.

However, focusing on the development of actions that meet the specific needs of emerging sectors can be a viable recovery, transformation and resilience strategy for municipalities to optimize regulations and stimulate the creation of local economic activities regarding expansion. In this sense, financial and tax measures become essential, such as the adoption of specific tax incentives for the construction services sector related to ISS, in order to comply with the 2030 Agenda guidelines for sustainable cities

ISS is a significant tax levied on most services provided to people in society. It can be used to encourage sustainable behavior in the economic, social and environmental dimensions.

Regarding the environmental dimension, it should be noted that studies on ecological ISS require further research, as in the bibliographic survey, only two studies were found in the Capes catalog of theses and dissertations. As for publications in journals, four scientific articles on this topic were identified between 2014 and 2022, available on the Google Scholar and SciELO platforms.

In view of the above, a gap in the literature on ecological ISS and the application of this tax by Brazilian municipalities to promote sustainable development, especially in relation to the Sustainable Development Goals (SDG) of the 2030 Agenda was identified. Thus, the following question was elaborated: How have Brazilian municipalities with more than 500,000 inhabitants applied ISS tax incentives to encourage sustainable behavior? Based on this concern, this study analyzed the application of tax incentives by these municipalities.

This study looked more closely at the ISS in the environmental dimension of sustainability, as there has been little research on the subject. From the point of view of municipal tax collection and based on services rendered, the ISS is a significant tax. Therefore, it can be used as a mechanism to encourage environmentally sustainable behavior. Examples include construction service practices that use recycled materials and emit little CO₂, use of solar panels, selective waste collection, appropriate flood planning and rainwater harvesting.

This is a social research of descriptive-exploratory nature that examined legislation and regulations related to the object studied in order to broaden knowledge on the subject. The data collected was then described, allowing to identify how the surveyed municipalities have implemented ecological municipal taxation. The research adopted a qualitative and quantitative approach, as it reviewed and discussed the concepts of environmental taxation, ecological ISS and the constitutional foundations for the application of extrafiscal taxation. It also analyzed the content of regulations on ecological tax incentives related to ISS. The quantitative axis of the study took the form of mathematical calculations and statistical data analysis tools.

Therefore, in order to understand the general panorama of the application of tax incentives by Brazilian municipalities, this study analyzed municipalities with more than 500,000 inhabitants. This resulted in the selection of 49 municipalities, given the impossibility of analyzing the regulations and legislation of all 5,570 Brazilian municipalities.

The methodological approach of this research has two stages. The first involved bibliographical research, which looked for related topics in scientific texts on the Google Scholar platform and the SciELO database. The period adopted was 2016 to 2022, which helped to build the study's theoretical foundation. In the second stage, documentary research was adopted, consisting of a survey on tax incentive regulations regarding ecological ISS. Google was used to locate such legislation, by searching the name of the municipality and verifying the existence of ISS tax incentives. The legislation obtained was analyzed using a form that indicated how municipalities involved in the study adopt tax incentives related to ISS from an ecological perspective.

The article is structured as follows: introduction, followed by a section on the theoretical basis of municipal taxation and the legal foundations for applying tax incentives. The methodology applied in the research is then presented, followed by the third section, which presents the results. Finally, there are conclusion and references.

1 Theoretical foundation

This section presents the theoretical framework of the study. It discusses the fundamentals of local taxation as an incentive for sustainable behavior and its connection with commitments of the Sustainable Development Goals (SDG).

Previous studies on sustainable incentives for environmental taxation were also presented, which showed the application of tax extrafiscality as a justification for the adoption of ecological taxation. Specifically, research that focused on Brazilian municipalities and investigated the Green (ecological) IPTU and the ecological ISS were addressed.

1.1 Foundations of municipal taxation as an incentive to meet commitments of the Sustainable Development Goals

Based on the SDG, it is possible to integrate targets relating to the adoption of taxation to encourage or achieve commitments signed by global players and countries. These commitments were established through an agreement signed by 163 nations in 2015, to comply with guidelines established by the United Nations (UN). The 2030 Agenda established 17 objectives correlated with targets to be achieved by the signatory countries to promote sustainable development (UN, 2015). According to Bazzoli and Silva (2021), the SDG are global in nature and

universally applicable, i.e. their implementation actions must be adapted to national and sub-national realities, in which sustainable cities and communities are fully aligned with the 2030 Agenda.

It is worth remembering that, among the 17 SDG, SDG 11 addresses the need for resilient and sustainable cities, with the aim of ensuring not only safe housing, but also an equally safe transport system, as well as increasing sustainable urbanization, reducing negative environmental impacts in cities. The studies by Azevedo (2017), Oliveira (2018), Teixeira *et al.* (2020) and Duarte (2022) address this commitment integrated with environmental public policies. They can encourage cities to become sustainable through activities such as: changes in forms of consumption, production and efficiency in the low-carbon energy system, competence in water management, preservation of natural resources, protection of the ecosystem and biodiversity, development of clean technologies for local waste management, monitoring and control of the effects of climate change, improvements in housing conditions and universal access to green areas.

The thematic focus of this work is the use of the extrafiscal nature of the ISS to induce environmentally sustainable behavior. It is therefore necessary to understand the constitutional and legal bases of the tax and, consequently, whether it can be used for extra-fiscal purposes. The ISS is levied on services of any nature, according to the constitutional provision in Article 156, III (Brazil, 1988). The constitutional indication is regulated by Ancillary Legislation 166/2003, which indicates the calculation basis, the place of incidence and collection of the tax and the maximum and minimum rates. In addition to these characteristics, the attached list specifies the services subject to this tax.

In turn, municipalities can create their own ordinary laws regulating the ISS, as long as there is no incompatibility with the provisions of Ancillary Legislation 166/2003. It is the responsibility of each municipality, based on their respective ordinary laws, regulated by decree, to explain tax incentives by means of rate reductions, partial or total tax exemptions.

Among the services listed in the annex are those related to engineering and construction services. These services have a significant impact on environmental conservation and are also an important sector of economic activity from the point of view of economic development and building sustainable cities.

However, according to Beltrand (2019), 12% of total freshwater consumption is in construction, as well as 49% of electricity consumption, including residential, commercial and public buildings (EPE, 2016). The author also states that the impacts of greenhouse gas emissions are immense in the cement sector.

According to the Ministry of the Environment, civil construction accounts for 50% of the solid waste produced in Brazil (CBCS, 2014). It is therefore necessary for the sector to consider the preservation of natural resources and comply with international and constitutional principles and standards.

Therefore, it is important to induce sustainable behavior in municipal construction through extrafiscal taxation in order to incorporate negative externalities. To do this, not only fees should be used (Oliveira; Fernandez Filho, 2021), but also municipal taxes (Duarte, 2022; Azevedo, 2017).

Oliveira and Fernandez Filho (2021) state that extrafiscal taxation can be used as an instrument of environmental prevention. However, the authors point out the need to understand the principles of Tax Law and Environmental Law in order to better assimilate the legal contours governing environmental taxation.

In view of the above, it is agreed that it is possible to reduce the ISS rate for construction services that include sustainable projects, as indicated by an ordinary law created by the respective municipal entity to help preserve and conserve the environment and meet the international requirements of the UN's 2030 Agenda (Duarte, 2022).

Federative entities that wish to establish tax incentives through revenue forgone, such as changes in rates or exemptions, must comply with Ancillary Legislation No. 101/2000, concerning fiscal responsibility and the management of public revenues. Thus, municipal entities cannot grant tax incentives without adhering to budgetary legislation and Ancillary Legislation No. 101/2000, known as the Fiscal Responsibility Law (Brazil, 2000). According to Article 14, the tax revenue forgone must be accompanied by an estimate of its budgetary impact from the fiscal year it begins and for the two subsequent years.

It must be demonstrated that the granted exemption will not affect the targets and fiscal results of the budgetary guidelines law. There should also be no compensatory measures, such as increasing another tax rate or base to offset the value of the revenue forgone (Brasil, 2000).

Once the requirements of the Fiscal Responsibility Law are met, as well as the consideration of the budgetary impacts related to the revenue forgone, it is possible to create extrafiscal incentives. According to Rodrigues (2008), the forgone revenue of a tax serves an extrafiscal purpose. Its elements are modified to induce specific behaviors, such as the possibility of reducing ISS rates to encourage sustainable civil constructions.

Therefore, to create a law that addresses tax forgiveness through the reduction of ISS rates for a specific service, it is necessary to draft a specific law that

outlines the type of incentive offered by the municipality. Additionally, an estimate of the tax impact from the year of its implementation and for the following two years must be included, along with a compensatory measure for another tax or proof that the forgone revenue will not affect budgetary targets (Pinto, 2017; Rodrigues, 2008; Brasil, 2000).

ISS tax incentives are constitutional and can be used as a strategy to meet the commitments of SDG 11, which pertains to adopting sustainable practices in cities. In the construction services sector, these incentives can benefit taxpayers who voluntarily adopt technologies to reduce water consumption, implement efficient energy systems, and manage solid waste efficiently. There is also the use of sustainable materials in buildings, such as LED lights, eco-friendly bricks, reclaimed wood, paints made from non-petroleum and synthetic-free raw materials, among others.

1.2 Previous studies on sustainable incentives in environmental taxation

Studies on extrafiscal taxation as a means of environmental protection and encouragement of sustainable development have been increasing, as this topic has attracted interest from academics, government agents, and members of the business sector. In Brazil, the Brazilian Business Council for Sustainable Development (CEBDS) has been charting paths and presenting proposals to the Ministry of Economy since 2017 for the creation of a carbon market. The proposal is based on good governance, emphasizing a stable institutional arrangement and the gradual implementation of this model, as it involves technical challenges to be put into practice in Brazil. It is necessary to protect competitiveness, so the State should promote public information about the carbon market to Brazilian companies. Additionally, it is essential for entrepreneurs, in partnership with the Brazilian government and based on solid foundations, to develop a carbon pricing proposal. An open letter signed by more than 400 companies expressed agreement with the need and interest in implementing a carbon market in the country (CEBDS, 2018).

It is worth noting that research on ISS is still limited. This paper references the studies by Azevedo (2017), Gonçalves and Reymão (2019), Pozzetti, Souza, and Santos (2019), Endo (2020), and Duarte (2022), which contributed to support the empirical analysis.

Azevedo (2017) studied the Green IPTU. Although it did not focus on ISS, it used the same logic of ecological taxation applied to ISS. The referenced thesis

is the only one fully available in the Sucupira Platform databases as of the end of this research (October 2022) that addresses ecological IPTU.

Azevedo's (2017) work also analyzed the criteria and tax benefits related to IPTU in the municipality of Salvador. In the end, it proposed components of ecological taxation for that municipality. To do this, a comparison of the instrument was made with two taxpayers of the referred tax. The findings of this research showed that, although the importance of sustainable development dimensions is recognized, most urban planning actions do not incorporate sustainable development dimensions. The study revealed that the model provided in Salvador's Green IPTU legislation hindered taxpayers' access to the IPTU tax benefit due to the volume of legislative requirements, which was a limiting factor for recommending it as a public policy mechanism for sustainable development.

Endo (2020) proposed a public policy for ecological IPTU and ISS for the city of Curitiba in the state of Paraná (PR) aligned with sustainable development. To do this, a bibliographic review on the topic was conducted, as well as an analysis of cases of implementation of these taxes as ecological taxes. According to the author, Brazil is a country with a high tax burden, making the creation of new taxes for environmental protection unnecessary. Furthermore, according to Endo (2020), due to the number of municipalities in Brazil, IPTU and ISS are initiatives to achieve sustainable development, even though these taxes are rarely used for this purpose.

Gonçalves and Reymão (2019) and Barros (2014) analyzed the possibility of implementing ecological ISS as an incentive for sustainable development. Both studies conclude that Brazil still needs to explore the use of ISS as a driver for sustainable behavior, as it is a tax that currently contributes little to this goal despite its potential.

Duarte (2022), in turn, analyzed how Brazilian municipalities with more than 500,000 inhabitants support sustainable development through ecological ISS concerning services related to civil construction. According to the study, few municipalities apply ecological ISS tax incentives in civil construction with an environmental sustainability perspective. According to the classification by the author, among the 49 municipalities surveyed, only the municipality of Salvador/BA applies tax incentives aimed at sustainable civil construction.

Barros (2014) and Gonçalves and Reymão (2019) conducted research on general bases of ISS application as an ecological tax, while Endo (2020) specifically addressed the city of Curitiba/PR. Duarte (2022) analyzed the application of ecological ISS tax incentives related to civil construction by Brazilian municipalities.

The literature review identified five works on tax incentives related to ecological ISS or related topics. This indicates a limited amount of research in this area.

2 Methodology

Using a qualitative and quantitative approach, this research investigated how Brazilian municipalities with more than 500,000 inhabitants are using ISS tax incentives. This social study reviewed and discussed concepts such as environmental taxation, ecological ISS and the constitutional foundations for applying tax extrafiscality. It is also characterized by being quantitative, since it analyzes data on the researched object using mathematical calculations and statistical analysis.

The study examined the legislation of municipalities with more than 500,000 inhabitants and, based on the information obtained, transformed it into percentage data for discussion. As for the nature of the research, it is an applied analysis, as it has practical application and utility for local authorities. In terms of objectives, the research was descriptive-exploratory because, after obtaining the primary sources, they were classified, analyzed, described, and interpreted. As already mentioned, this study examined the ISS legislation of Brazilian municipalities with more than 500,000 inhabitants. In addition, the research is also exploratory, due to the absorption of theoretical references through readings of scientific materials such as books, articles, dissertations and theses, which have enabled knowledge of the research object.

For the development of this study, bibliographical and documentary research was adopted as the procedure. The bibliographic survey on the themes of this research was carried out by searching for scientific production on the Google Scholar platform and the SciELO database, from 2016 to 2022. As a result, 95 papers were identified, five of which dealt with municipal tax incentives related to ISS. The documentary research stage consisted of identifying legislation by locating tax incentive laws, using the name of the municipality and the indication of ISS tax incentives as search criteria. To guide the analysis of the legislation collected, the following search criteria were formulated: (1) type of incentive; (2) whether it was drawn up by means of an ordinary or ancillary legislation; (3) the duration of the law; (4) whether it specifies fiscal responsibility requirements; and (5) the percentage reduction in the ISS rate. Based on these parameters, each piece of legislation was analyzed to see whether ISS tax incentives existed.

The empirical stage of the study began with the collection of population data from Brazilian municipalities with more than 500,000 inhabitants. This search

was conducted on the website of the Brazilian Institute of Geography and Statistics (IBGE), with reference to the 2010 Demographic Census and the 2020 estimates.

According to the data collected, Brazil has 5,570 municipalities (IBGE, 2021). This number made it unfeasible to carry out research on the entire territory. For this reason, we opted to analyze municipalities with more than 500,000 inhabitants, in an intentional and stratified sample. This was similar to the sample adopted by Azevedo and Portella (2019). Thus, the ISS legislation of 49 Brazilian municipalities with more than 500,000 inhabitants, considered the most populous in the country, was researched. In addition, and considering the time factor, this slice made it possible to survey and analyze ISS legislation.

3 Analysis and discussion of results on ISS tax incentives applied by Brazilian municipalities with more than 500,000 inhabitants

In this study, municipal ISS tax incentives aimed at sustainable development were analyzed. To this end, the legislation of municipalities with more than 500,000 inhabitants was reviewed to determine whether the sustainable development goals were met by each municipal entity in creating their respective laws. The duration of the incentive application, the similarities and differences in its implementation, and the type of incentive applied were also analyzed.

It is observed that, even though ISS is primarily a fiscal tax, there is the possibility of using its extrafiscal nature to encourage behaviors related to social rights, economic development, and environmental protection.

Many municipalities use ISS to induce various behaviors, including economic, cultural, and social behaviors, as well as those aimed at sustainable development. Table 1 shows the legislations and the nature of the tax incentives of each of the municipalities surveyed.

Table 1. Legislations and Nature of Tax Incentives in Brazilian Municipalities with More than 500,000 Inhabitants

City	Nature of incentives	Legislation of incentives
Osasco/SP	Incentive for economic development	Ancillary Legislation No. 380/2019
Fortaleza/CE	Incentive for the founding of the Federal University of ABC	Ancillary Legislation No. 205/2015
Natal/RN	Social incentive	Ancillary Legislation No. 115/2010

Recife/PE	Social incentive	Law No. 18207/2015
São Paulo/SP	Incentive for economic development	Law No. 15931/2013
Curitiba/PR	Incentive for economic development	Ancillary Legislation No. 64/2007
João Pessoa/PB	Incentive to combat Covid-19	Decree No. 9642/2020
Duque de Caxias/RJ	Incentive for economic development	Law No. 2137/2008
Florianópolis/SC	Incentive for sustainable development	Ancillary Legislation No. 432/2012
Cuiabá/MT	Incentive for economic development	Ancillary Legislation No. 136/2005
Belém/PA	Incentive for culture and sports	Law No. 7850/1997
Belo Horizonte/MG	Incentive for economic development	Law No. 7638/1999
Rio de Janeiro/RJ	Incentive for culture and sports	Law No. 553/2013
Porto Alegre/RS	Does not apply	Does not apply
Aracaju/SE	Incentive for economic development	Ancillary Legislation No. 120/2013
Sorocaba/SP	Incentive for economic development	Law No. 12099/2020
São Luís/MA	Incentive for culture and sports	Law No. 5876/2014
Vila Velha/ES	Incentive for economic development	Law No. 5241/2011
Juiz de Fora/MG	Does not apply	Does not apply
Porto Velho/RO	Incentive for economic development	Ancillary Legislation No. 374/2009
Campinas/SP	Incentive for economic development	Law No. 16174/2021
Feira de Santana/BA	Incentive for economic development	Law No. 3742/2017
Londrina/PR	Incentive for economic development	Law No. 10994/2010
Campo Grande/MS	Incentive for economic development	Law No. 6097/2018
Niterói/RJ	Incentive for culture and sports	Law No. 3182/2015
Ananindeua/PA	Incentive for economic development	Law No. 2181/2005
Guarulhos/SP	Incentive for culture and sports	Law No. 7306/2014
Santo André/SP	Incentive for economic development	Law No. 10255/ 2019
Maceió/AL	Does not apply	Does not apply
Jaboatão dos Guararapes/PE	Social incentive	Law No. 554/2011
Macapá/AP	Does not apply	Does not apply
São José dos Campos/SP	Does not apply	Does not apply
Teresina/PI	Incentive for culture and sports	Law No. 3389/2004
Caxias do Sul/RS	Incentive for culture and sports	Law No. 4592/1996
São Bernardo do Campo/SP	Does not apply	Does not apply

Ribeirão Preto/SP	Incentive for economic development and innovation	Ancillary Legislation No. 245/2012
Manaus/AM	Incentive for economic development	Law No. 2565/2019
Aparecida de Goiânia/GO	Incentive to combat Covid-19	Law No. 3546/2020
São Gonçalo/RJ	Does not apply	Does not apply
Uberlândia/MG	Incentive for economic development	Ancillary Legislation No. 588/2014
Joinville/SC	Economic incentive regarding the environmental dimension	Ancillary Legislation No. 365/2011
Serra/ES	Incentive for economic development	Law No. 4965/2019
Goiânia/GO	Does not apply	Does not apply
Contagem/MG	Incentive for economic development	Ancillary Legislation No. 268/2018
Salvador/BA	Incentive for sustainable development	Law No. 9620/2022
Nova Iguaçu/RJ	Economic incentive focused on the technology base	Law No. 3280/2001
Brasília/DF	Economic incentive focused on the technology base	Ancillary Legislation No. 963/2020
Campos dos Goytacazes/RJ	Does not apply	Does not apply
Belford Roxo/RJ	Social incentive	Ancillary Legislation No. 103/2009

Source: adapted from Duarte (2022, p. 68).

Table 1 indicates that 19% of the municipalities, a total of nine, do not have ISS tax incentives. On the other hand, 81% of the surveyed sample, or 40 municipalities, apply tax incentives and behavioral inducements through ISS.

According to the nature of the tax incentives, the most commonly used by municipalities are those aimed at economic development, with the goal of attracting businesses to set up their operations in the municipality. These incentives are applied in 22 Brazilian municipalities. Fewer municipalities have other types of incentives, followed by social incentives that promote civil construction for low-income populations. The oldest legislation was created in 1997 by two municipalities, one for economic development incentives in Ananindeua/PA and another for cultural and sports incentives in Belém/PA. The most recent legislation was created in Salvador/BA in 2022, related to sustainable civil construction, and is the only legislation on this topic among municipalities with more than 500,000 inhabitants.

It was observed that 24 municipalities have legislation with tax incentives addressing some of the Sustainable Development Goals of the 2030 Agenda. However, most of these incentives are focused on creating new jobs and economic growth per se.

incorporated the requirements of the Fiscal Responsibility Law into their ISS tax incentive laws.

Municipalities comply with the requirements of tax incentive laws, stating that the revenue collected from the tax can be reduced by up to 1% compared to the revenue from the respective tax in the previous calendar year. Another legal provision found in these laws stipulated that the compensatory credit must be a percentage of the revenue generated by the tax incentive. Other municipalities indicated compliance with the Fiscal Responsibility Law explicitly in the annual public budget.

This research, however, did not aim to analyze the municipal public budget but only the municipal legislation. Moreover, due to the indication of compliance in the Budget Law, for the purposes of this analysis, these municipalities were counted as those that met the requirements established by the Fiscal Responsibility Law.

Additionally, among the 49 municipalities surveyed, none disclosed the amount in Brazilian reais of the ISS revenue renunciation. Thus, it is observed that there is no specific report among the accounting statements that explains the revenue renunciation performed by municipalities related to the tax incentives offered concerning ISS, as noted by Azevedo (2017).

Only seven cities met all the legal requirements related to the tax incentive: Osasco/SP, Campinas/SP, Santo André/SP, São Luís/MA, Salvador/BA, Sorocaba/SP, and Aracaju/SE. The latter, for example, implemented the incentive through an ancillary legislation with an explicit duration of ten years. The Annex of the Law includes the calculation of the financial impact of the incentive and proof that the revenue renunciation will not affect the budgetary targets. The ISS incentive reduction was implemented by decreasing the rate from 5% to 2%. The municipality of Salvador/BA implemented the tax incentive through an ordinary law with a duration of five years and demonstrated compliance with the Fiscal Responsibility Law by indicating that the requirements were met in the Budget Law (Salvador, 2022).

Due to the data collection of the legislation from the municipalities in the sample, it was possible to observe similarities in the application of ISS tax incentives. Therefore, to better understand the types of tax incentives established by the municipalities, they were grouped into five segments: (1) incentives for economic development; (2) incentives for culture and sports; (3) social incentives related to the construction of buildings and houses for low-income populations; (4) other incentives; and (5) incentives for sustainable development.

Based on the identification of the nature of the tax incentives assigned to ISS in the sample municipalities, an effort was made to associate how they could be integrated with the Sustainable Development Goals (SDG). This is shown in Table 2 below.

Table 2. Types of tax incentives promoted by municipalities with more than 500,000 inhabitants surveyed in 2021

City	Nature of incentives	Alignment with SDG
Osasco/SP	Incentive for economic development	SDG: 8
Fortaleza/CE	Incentive for the founding of the Federal University of ABC	SDG: 9
Natal/RN	Social incentive	SDG: 10
Recife/PE	Social incentive	SDG: 10
São Paulo/SP	Incentive for economic development	SDG: 8
Curitiba/PR	Incentive for economic development	SDG: 8
João Pessoa/PB	Incentive to combat Covid-19	SDG: 3
Duque de Caxias/RJ	Incentive for economic development	SDG: 8
Florianópolis/SC	Incentive for sustainable development	SDG: 11
Cuiabá/MT	Incentive for economic development	SDG: 8
Belém/PA	Incentive for culture and sports	
Belo Horizonte/MG	Incentive for economic development	SDG: 8
Rio de Janeiro/RJ	Incentive for culture and sports	SDG: 4
Porto Alegre/RS	Does not apply	
Aracaju/SE	Incentive for economic development	SDG: 8
Sorocaba/SP	Incentive for economic development	SDG: 8
São Luís/MA	Incentive for culture and sports	SDG: 4
Vila Velha/ES	Incentive for economic development	SDG: 8
Juiz de Fora/MG	Does not apply	
Porto Velho/RO	Incentive for economic development	SDG: 8
Campinas/SP	Incentive for economic development	SDG: 8
Feira de Santana/BA	Incentive for economic development	SDG: 8
Londrina/PR	Incentive for economic development	SDG: 8
Campo Grande/MS	Incentive for economic development	SDG: 8
Niterói/RJ	Incentive for economic development	SDG: 4
Ananindeua/PA	Incentive for economic development	SDG: 8
Guarulhos/SP	Incentive for culture and sports	SDG: 8
Santo André/SP	Incentive for economic development	SDG: 11

Maceió/AL	Incentive for sustainable development	
Jaboatão dos Guararapes/PE	Does not apply	SDG: 10
Macapá/AP	Social incentive	
São José dos Campos/SP	Does not apply	
Teresina/PI	Does not apply	SDG: 4
Caxias do Sul/RS	Incentive for culture and sports	SDG: 4
São Bernardo do Campo/SP	Incentive for culture and sports	
Ribeirão Preto/SP	Does not apply applies	SDG: 8
Manaus/AM	Incentive for economic development focused on innovation	SDG: 8
Aparecida de Goiânia/GO	Incentive for economic development	SDG: 3
São Gonçalo/RJ	Incentive to combat Covid-19	
Uberlândia/MG	Does not apply	SDG: 8
Joinville/SC	Incentive for economic development	SDG: 11
Serra/ES	Economic incentive with a view to the environmental dimension	SDG: 8
Goiânia/GO	Incentive for economic development	
Contagem/MG	Does not apply	SDG: 8
Salvador/BA	Incentive for economic development	SDG: 11
Nova Iguaçu/RJ	Incentive for sustainable development	SDG: 8
Brasília/DF	Economic incentives focused on the technology base	SDG: 8
Campos dos Goytacazes/RJ	Economic incentive focused on the technology base	
Belford Roxo/RJ	Does not apply	SDG: 10

Source: adapted from Duarte (2022, p. 68).

As a rule, incentives established before the creation of the 2030 Agenda are related to the SDG. This is because discussions on this topic are not new, originating from the 1972 conference on the environment. The SDG compiled guidelines that must be met by 2030, making the alignment of each tax incentive with them clear.

In Table 2, incentives were subdivided according to their relation to SDG. Incentives in the category of culture and sports are related to efforts to make the city more inclusive for its citizens, especially by creating opportunities for those with sports aptitudes. Therefore, this incentive is closely related to SDG 4, which focuses on quality education, aiming to promote a more inclusive and equitable education for citizens. Of the listed municipalities, six fulfill this SDG.

It is observed that tax incentives aimed at economic development are intended to fulfill SDG 8, which aims to promote sustained and inclusive economic growth, covering 22 municipalities. However, to achieve this goal, economic development incentive laws must undergo structural changes. For example, current legislation focuses only on the economic growth of the municipality, without including strict rules for qualifying low-income individuals, using sustainable materials, and reducing CO₂ emissions.

According to a law in Campinas/SP, tax incentives apply to companies in the distribution centers, logistics unit for services and products, call centers, service-providing companies, as well as transformation industries defined by the law, such as activities described in the National Classification of Economic Activities (CNAE), subclass 2.3, section C, divisions 10 to 33. Analyzing the types of services listed in divisions 10 to 33 in subclass 2.3, section C, it is observed that Campinas defined transformation industries as those involved in the production of food products, clothing and accessories, wood products, paper products, chemicals, automobiles, and the beverages and tobacco sector (Campinas, 2021).

The Campinas/SP law reduces the ISS rate by 2% if the industry qualifies as an ISS taxpayer and provides full exemption from ISS for civil construction related to these industries' installation in the municipality. Industries fully exempt from the construction of their facilities include those for the production of alcoholic beverages and tobacco, classified by the law as transformation industries.

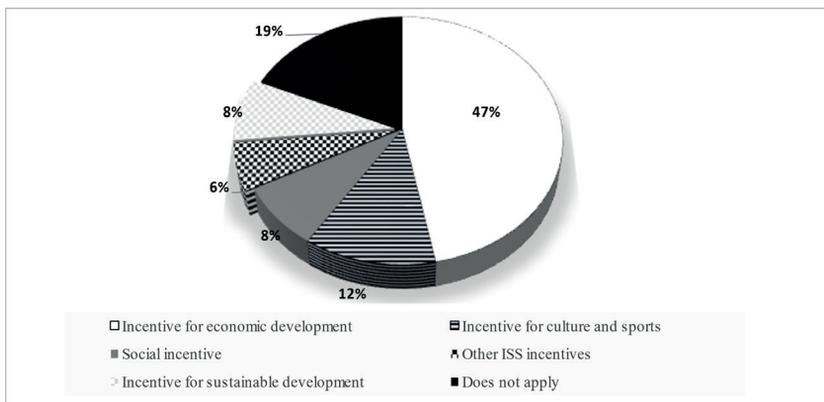
It is known that the federal government, concerned with public health and considering the higher likelihood of diseases such as cancer, increased the IPI rate to discourage cigarette consumption, according to Law No. 12546/2011. However, some municipalities, like Campinas/SP, encourage cigarette and alcoholic beverage production through ISS and other municipal tax exemptions, which contributes to the production of cigarettes and reduction of the final cost of these products, contrary to the disincentive to cigarette use.

Tax incentives classified as social aim to reduce social inequalities, aligning with SDG 10. This incentive seeks positive and favorable counter-benefits for low-income individuals in acquiring property. However, it is necessary to consider the location of these properties effectively promoting incentives that fulfill the right to the city. Therefore, these incentives need to align with SDG 11, which emphasizes creating a sustainable city. Four municipalities with this characteristic were identified.

Incentives related to the COVID-19 pandemic can be classified as those aimed at the health and well-being of citizens, fulfilling the proposed objectives. Two municipalities meet SDG 3.

Sustainable development incentives can be characterized as those aimed at fulfilling SDG 11, focusing on implementing criteria for sustainable cities. Five municipalities directly address this theme. However, achieving these objectives implies urgent improvements from an integrated perspective of the SDG in these municipalities.

These incentives were reordered for analysis in a graph capable of indicating the percentage of tax incentives established by thematic groups based on the surveyed sample. The incentives were grouped according to the type of tax incentive promoted. The goal was to identify the most frequent types of tax incentives created by municipalities with more than 500,000 inhabitants, as shown in Graph 2.



Graph 2. Relation of ISS incentives segmented by areas of application in Brazilian municipalities with more than 500,000 inhabitants.

Source: adapted from Duarte (2022, p. 69).

Municipalities that offer ISS incentives for economic development normally aim to attract companies and industries to set up headquarters in their areas. According to the legislation, the goal is to create new jobs and boost the economy by reducing taxes, including ISS.

The so-called social incentives refer to the reduction of ISS rates for building properties for the low-income population. Each city's municipal legislation establishes bands with ISS discounts proportional to the income of the taxpayer purchasing the property. The tax discount can lead to total exemption or a reduction of up to 2%.

Incentives for culture and sports aim to encourage companies to contribute to cultural or sporting activities, such as plays and futsal competitions for children.

The legislation provides for deductions on ISS payments, proportional to the investment made in these activities, limited to 60% of the ISS amount due, with the aim of promoting culture, health and the well-being of residents.

Incentives for sustainable development, in turn, promote ISS reductions to foster the municipality's economic development, with a focus on the social aspect and the creation of new jobs. In addition, the incentive law is concerned with environmental protection, establishing requirements to reduce environmental impacts resulting from economic activity, such as the use of solar panels to generate clean energy. However, tax incentives aimed at environmental protection need to be elaborated on the basis of laws that take into account the needs of each municipality. For example, tax incentives for installing solar panels are important from the point of view of environmental conservation. Likewise, selective waste collection and proper maintenance of manholes are essential measures. These are initial examples of important incentives for municipalities, which can improve with new contributions.

The city of Florianópolis/SC, in addition to offering incentives, has created the *Fundo Municipal de Inovação* (FMI – Municipal Innovation Fund) to promote new studies and projects. Its aim is to provide financial support for innovative programs and projects regarding sustainable development. Such support refers to studies, projects, technological services and events aimed at developing the municipality. The income of this municipal plan comes from donations of federal and state governments, the municipal budget, the return of funds from the sustainable development incentive law, and also companies and individuals. According to the law, the FMI's resources will be earmarked for the development of plans and projects, with at least 20% destined for encouraging small and micro-enterprises, up to 10% for digital inclusion projects and up to 10% to guarantee funding for innovative ventures approved by the Florianópolis City Council. This is a creative initiative to stimulate the sustainable development of cities.

Other incentives have been classified in this way because they do not fit into the subgroups previously presented. Examples include ISS incentives for the Fundação Universidade Federal do ABC and ISS incentives with rate reductions for services to combat the Covid-19 pandemic.

This research found that incentives aimed exclusively at economic development were the most used by Brazilian municipalities with more than 500,000 inhabitants. These incentives did not consider sustainable aspects, which resulted in the immediate applicability of international discussions and conferences. Economic development is concerned with qualitative aspects, such

as the employability of residents. However, it disregards the integration among environmental impacts potentially generated for future generations. Corroborating this statement, Gonçalves and Reymão (2019) and Pinto (2017) point out that the environment is a crucial factor for human existence on the planet, generating the need for incentives not just based on economic growth, but on sustainable economic development. It is therefore essential that tax incentives direct business activities in line with environmental protection.

The second highest frequency observed referred to municipalities that do not have ISS tax incentives. Although it is an important instrument for sustainable development, Porto Alegre/RS, Maceió/AL, Goiânia/GO, São José dos Campos/SP, São Bernardo do Campo/SP, Juiz de Fora/MG, Macapá/AP, Campos dos Goytacazes/RJ and São Gonçalo/RJ have not instituted ISS tax incentives.

The third highest frequency was for incentives for culture and sports, while the fourth was for tax incentives for sustainable development, with a total of five municipalities.

Conclusion

This study found that the ISS is a predominantly fiscal tax, but Brazilian municipalities often use it as an instrument to induce behaviors, which should be implemented in their bills for incentives that include environmental protection counterparts.

It was observed that municipalities with more than 500,000 inhabitants use some type of tax incentive related to the ISS, due to its significant role as a behavior inducer at the municipal level.

The sample of Brazilian municipalities apply ISS tax incentives in four main areas: incentives for economic development, incentives for culture and sports, social incentives and incentives for sustainable development.

It was observed that none of the municipalities studied in this research, despite the consent of Ancillary legislation 166/2003, amended by Law 157/2006, Article 8-A, reduced the ISS rate to less than 2%.

Of the 49 municipalities surveyed, 26 do not comply with the requirements of the Fiscal Responsibility Law or do not explicitly state this in the annual public budget. Furthermore, it was observed that 53% of the municipalities surveyed do not incorporate the established requirements of fiscal responsibility into their laws.

As stated by Duarte (2022) and Gonçalves and Reymão (2019), the ISS is

a significant vector for policies that promote sustainable development. However, municipal laws need to reflect local reality. The implementation of the SDG is not just about extraordinary initiatives. For many municipalities, promoting sustainable development includes activities such selective waste collection, public lighting that does not harm marine animals, as well as encouraging environmental education capable of reducing waste incorrectly disposed on the streets, among other actions, etc.

This article found that only 10% of Brazilian municipalities with more than 500,000 inhabitants include in their ISSQN legislation actions related to the SDG commitments described in the 2030 Agenda, especially those related to environmental protection, i.e. these actions were nearly not found in government plans and strategies.

This study noted that few municipalities have ISS tax incentives aimed at sustainable development, especially from an environmental perspective. Therefore, new studies need to be conducted to understand the environmental impacts of each Brazilian municipality, so that it will be possible to discuss, change or propose ISS tax incentives according to local realities.

Further work is also needed to discuss the use of the ISS as an inducer of sustainable behavior, especially in line with the reality of each Brazilian city. This calls for new research that delves deeper into the reality of cities and how to overcome environmental difficulties through the ecological ISS.

In addition, future research could broaden the studies on tax incentives on construction to promote sustainable cities, covering the environmental impacts of construction and the building processes of low-income properties. Understanding how to improve incentives to promote sustainable cities is crucial for future generations, considering the social and environmental inequalities affecting cities.

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