

# Decentralization, Tax Administration, and Taxation: Evidence from Brazil's Rural Land Tax\*

A. Bragança<sup>†</sup>   D. Britto<sup>‡</sup>   A. Fonseca<sup>§</sup>   D. Moura<sup>¶</sup>   B. Sampaio<sup>||</sup>  
A. Sant'Anna<sup>\*\*</sup>   D. Szerman<sup>††</sup>

April 2024

## Abstract

This paper evaluates a program that partially decentralized the administration of rural land taxes to local authorities in exchange of increases in their share of tax revenues. Using microdata from tax returns, we find that the program led to an expansion of tax revenues by 20% after five years. Decentralization expanded tax revenues mainly by increasing reported land values. Using satellite data, we find that partial decentralization did not influence farmer behavior significantly. A cost-benefit exercise indicates that partial decentralization had large returns. Overall, the findings indicate that cooperation between local and central authorities can increase property taxation in contexts with incomplete information and weak enforcement capacity.

*JEL codes:* H26, H71, H77, O23.

*Keywords:* Decentralization, Tax Administration, Property Taxation, Fiscal Federalism.

---

\*The authors thank Dirk Foremny, Bladimir Carrillo, Thiago Scot, Giuseppe Trevisan, Paulo Vaz and seminar participants at the University of Barcelona, University of Bocconi, UFRJ, LACEA-LAMES, and Zurich Conference on Public Finance in Developing Countries for their helpful comments and suggestions. All data work for this project involving confidential taxpayer information was done at Federal Revenue of Brazil (*Receita Federal do Brasil*, RFB) facilities, on RFB computers, by RFB employees, and at no time was confidential taxpayer data ever outside of the RFB computing environment. The results have been reviewed to ensure that no confidential information is disclosed. The views expressed here do not necessarily reflect those of the Federal Revenue of Brazil, BNDES, Amazon or the World Bank. All errors are our own.

<sup>†</sup>World Bank, e-mail: [amorimbraganca@worldbank.org](mailto:amorimbraganca@worldbank.org).

<sup>‡</sup>Bocconi University, e-mail: [diogo.britto@unibocconi.it](mailto:diogo.britto@unibocconi.it).

<sup>§</sup>Federal Revenue of Brazil, e-mail: [alexandre.fonseca@rfb.gov.br](mailto:alexandre.fonseca@rfb.gov.br).

<sup>¶</sup>London School of Economics, e-mail: [davipnm@gmail.com](mailto:davipnm@gmail.com).

<sup>||</sup>Universidade Federal de Pernambuco, e-mail: [breno.sampaio@ufpe.br](mailto:breno.sampaio@ufpe.br).

<sup>\*\*</sup>BNDES and UFF, e-mail: [andre\\_albuquerque@id.uff.br](mailto:andre_albuquerque@id.uff.br).

<sup>††</sup>Amazon, e-mail: [dimitrijoe@gmail.com](mailto:dimitrijoe@gmail.com).

# 1 Introduction

Property taxes represent a much lower proportion of the overall tax revenues in developing countries than in developed ones (Brockmeyer et al., 2021). Increasing property taxation could help those countries to meet the goal of simultaneously increasing tax revenues and making the tax system more progressive (OECD, 2023). However, limited administrative resources and weak enforcement capacity often constrain developing countries ability to change its tax structure (Gordon and Li, 2009; Besley and Persson, 2014; Slemrod, 2019). While there is increasing evidence on strategies to overcome these challenges for other types of taxes (e.g, Carrillo, Pomeranz and Singhal (2017), Brockmeyer et al. (2019), Perez-Truglia and Troiano (2018), Naritomi (2019), Basri et al. (2021)), there is much less evidence on the effectiveness of strategies to increase property taxation.<sup>1</sup>

This paper studies the effects of a reform that partially decentralized the administration of Brazil's rural land tax (*Imposto Territorial Rural*, ITR). ITR is a progressive tax on landholdings created in the 1960s whose revenues have been historically low due to informational constraints and low enforcement capacity (Assunção and Moreira, 2001; Fendrich et al., 2022).<sup>2</sup> To tackle these issues, a reform enacted in 2008 authorized the Federal Revenue of Brazil (*Receita Federal do Brasil*, RFB) to sign decentralization agreements with municipalities. Under these agreements, municipalities agreeing to collect information on land values and audit properties for RFB increase their share of ITR revenues from 50 to 100 percent. The reform maintained the RFB's authority in selecting taxpayers to be audited audits and to impose fines to prevent local officials from being captured.<sup>3</sup>

We investigate the effects of this partial decentralization on tax revenues using microdata

---

<sup>1</sup>One exception is the work of Brockmeyer et al. (2021) who studies the effects of increasing tax rates and tax enforcement on the collection of property taxes in Mexico City.

<sup>2</sup>ITR due is the product of the value of the land, the share of the property not covered by forests, and the tax rate. The tax rate is increasing on property size and decreasing on the intensity of land use. All parameters are self-reported. See section 2.1 for details.

<sup>3</sup>The reform also made RFB responsible for providing IT infrastructure to the municipalities that sign decentralization agreements.

on 120 million tax returns from the period 2002-2021. This data enables us to estimate the effects of the decentralization on different margins and across different types of properties. To identify causal effects, we explore the fact that municipalities often sign decentralization agreements with Brazil's Federal Revenue Service, but fail to fully implement the program. Using this feature, we build a staggered differences-in-differences design comparing municipalities that signed agreements in a given year and implemented the program and municipalities that signed agreements in the same year, but did not implement the program. This design ensures that treatment and controls municipalities are relatively similar, mitigates the concern that time-varying shocks correlated with tax revenues and the timing of entry in the program drive the results, and deals with the negative weighting problem identified in the recent literature on staggered differences-in-differences designs (e.g., [Goodman-Bacon \(2021\)](#))

We obtain four main results. First, we document that the partial decentralization reform increased ITR revenues by more than 20% after five years. The effects increase over time and are relatively homogeneous across treatment cohorts. Extrapolating the effects found for the earlier treatment cohorts to the full sample suggest that partial decentralization generates more than 40% growth in ITR revenues after ten years. These effects are quite similar across properties from different sizes and slightly larger in regions more intensive in crop cultivation.

Second, we find that increases in reported land values of properties that already paid land taxes explain most of the increases in revenues caused by the program. We do find other margins that are influenced by partial decentralization. At the intensive margin, taxable area (the share of the properties not covered by forests) increases and the effective tax rate (based on reported size and land use) decreases. At the extensive margin, the number of tax paying properties goes up. However, albeit statistically significant, these effects are economically small and do not explain the large increase of tax revenues observed as a consequence of the partial decentralization. We further provide evidence that the increase

in reported land values is not caused by taxpayers bunching at the minimum land values reported by municipalities to RFB, but rather by a shift in the distribution of reported land values. This is suggestive that the increase in reported land values is not driven simply by improvements in the quality of information about tax parameters, but by a combination of better information and tougher enforcement.

Third, we use satellite-based information to document that the program did not lead to changes in observed land use. Neither the area covered by pastures neither the area cultivated with different crops is affected by the partial decentralization. Because differences in land use are a key source of distinctions in agricultural productivity, this is *prima facie* evidence that the increase in taxation caused by the program did not have substantial efficiency costs.

Fourth, we find that the program is highly cost-effective. The estimates reported above indicate that the typical municipality participating in the program increased tax revenues by BRL 940,000 annually. The overall increase in ITR collection explains 57% of this growth in municipal revenues, whereas the increase in the share of the ITR revenues transferred to the municipalities explains 43%. In contrast, information on implementation costs obtained from RFB indicates that the reform increased costs related to tax administration by BRL 90,000-130,000 annually. Given the small efficiency costs documented previously, these numbers imply that the program has a high benefit-cost ratio either from the perspective of individual municipalities or from the perspective of the public sector as a whole.

Our work contributes to the growing body of empirical research on taxation on developing countries.<sup>4</sup> Within this literature, there is limited work on property taxes. One exception is Brockmeyer et al. (2021) who document that higher tax rates and more stringent

---

<sup>4</sup>See Pomeranz (2015), Carrillo, Pomeranz and Singhal (2017), Perez-Truglia and Troiano (2018), Naritomi (2019), Brockmeyer et al. (2019), Brockmeyer et al. (2021), Londoño-Vélez and Ávila-Mahecha (2021), Basri et al. (2021), Balan et al. (2022), Carrillo et al. (2023), among others for examples of work in this literature.)

enforcement both lead to increased collection of property taxes in Mexico City, but that increases in rates generate much smaller efficiency costs than increases in enforcement.<sup>5</sup> Similar to them, we document that higher enforcement increase the collection of property taxes, but, different from them, finds that the efficiency costs of increasing enforcement are quite low. This difference is likely explained by the fact that under-reporting (as opposed to tax delinquencies in their work) is the main challenge for increasing property taxation in our context.

We contribute to this literature by showing that cooperation between local and central authorities can increase tax revenues in contexts with incomplete information and weak enforcement capacity. This finding adds to long standing debates on fiscal centralization (see [Oates et al. \(1972\)](#) and [Bardhan and Mookherjee \(2000\)](#)) for opposing views on the topic and [Balan et al. \(2022\)](#) for recent evidence on this issue). They also add to a growing body of literature documenting high returns of better tax administration (see [Basri et al. \(2021\)](#) for recent evidence).

## 2 Institutional background

This section provides an overview of the main facts about the rural property taxation in Brazil and discuss some features of its decentralization that are relevant to our study.

### 2.1 Rural land taxation in Brazil

Land taxation in Brazil begins with the first republican constitution of 1891. However, a specific tax on rural land only arises in the 1930's. In the 1960s, the ITR was at different

---

<sup>5</sup>[Caldeira, Ehrl and Moreira \(2023\)](#) studies the same partial decentralization program we study in this paper using aggregate data. They find that the program more than doubled revenues from rural land taxes in participating municipalities. We advance their work by using an identification strategy that better deals with time-varying shocks that simultaneously affect the entry in the program and ITR revenues and by using more more detailed data that enables us to understand different margins of adjustment to the partial decentralization.

times, in the power of the three tiers of government. which, by itself, makes a good tax administration unlikely. The tax power ended up with the Federal Government but with the entire tax revenue turned in to the municipalities where the land was located.<sup>6</sup> It is important to acknowledge that Brazil is a very unequal country, where 1% of the largest rural properties concentrates 48% of the total rural land. (IBGE (2017))

Since its creation, there has been a widespread dissatisfaction with the ITR's results not only in tax revenue but also in terms of extrafiscal outcomes<sup>7</sup>. In fact, the revenue collected from the ITR remained around 0.15% of GDP in the period 1970 to 1985, dropping to 0.11% of the GDP in the period 1985 to 1990, according to Blanco and Reis (1996).

Since 1996, the tax has been levied by self declaration. The ITR due is calculated as shown in equation 1.

$$ITR_{due} = (Value\ of\ the\ land) \cdot \left( \frac{taxable\ area}{total\ area} \right) \cdot (tax\ rate) \quad (1)$$

where  $ITR_{due}$  is the amount of ITR to be paid. The value of the land (*Valor da Terra Nua - VTN*) is the value of the bare land. The taxable area is the total area of the property less the areas occupied by forests and of ecological interest.<sup>8</sup>

The tax rate of the ITR goes from 0,03% up to 20% according to the size of the property and to the degree of utilization (*Grau de Utilização - GU*) as shown in table 1. The GU is calculated by the percentage ratio of the area actually used for rural production<sup>9</sup> in

---

<sup>6</sup>In other words, the tax design created a clear disincentive to the creation and maintenance of an adequate administration of a tax on rural property, which requires a broad registry and an onerous inspection.

<sup>7</sup>The ITR is sometimes pejoratively referred to as “the ten reais tax” in allusion to the minimum value of the tax, which is the amount collected by a significant portion of taxpayers. The tax has also failed in achieving results in terms of reducing non used land and in landscapes preservation

<sup>8</sup>The non taxable areas are the parts of permanent preservation, legal reserve, Private Natural Heritage Reserve (RPPN), of ecological interest, of environmental easement, covered by native, primary or secondary forests in medium or advanced stage of regeneration and flooded for purposes of constituting a reservoir for hydroelectric plants authorized by the Power Public

<sup>9</sup>Area effectively used by rural activity is the area planted, of pasture, of extractive exploration or used for farming or aquaculture activities

relation to the total usable area of the property.<sup>10</sup> Small properties are exempted from the tax, when the owner do not have another rural or urban property.

Table 1: Tax Rates of the ITR

Property Area (ha)	Degree of Utilization - GU (%)				
	Over 80	65 - 80	50 - 65	30 - 65	Up to 30
Up to 50	0.03	0.20	0.40	0.70	1.00
50 - 200	0.07	0.40	0.80	1.40	2.00
200 - 500	0.10	0.60	1.30	2.30	3.30
500 - 1000	0.15	0.85	1.90	3.30	4.70
1000 - 5000	0.30	1.60	3.40	6.00	8.60
Over 5000	0.45	3.00	6.40	12.00	20.00

Notes: This table presents the tax rates of the ITR according to the Federal Law n° 9,393/1996. The tax rate is defined by the total area of the property and the degree of land use.

## 2.2 The Decentralization of the Rural Property Tax

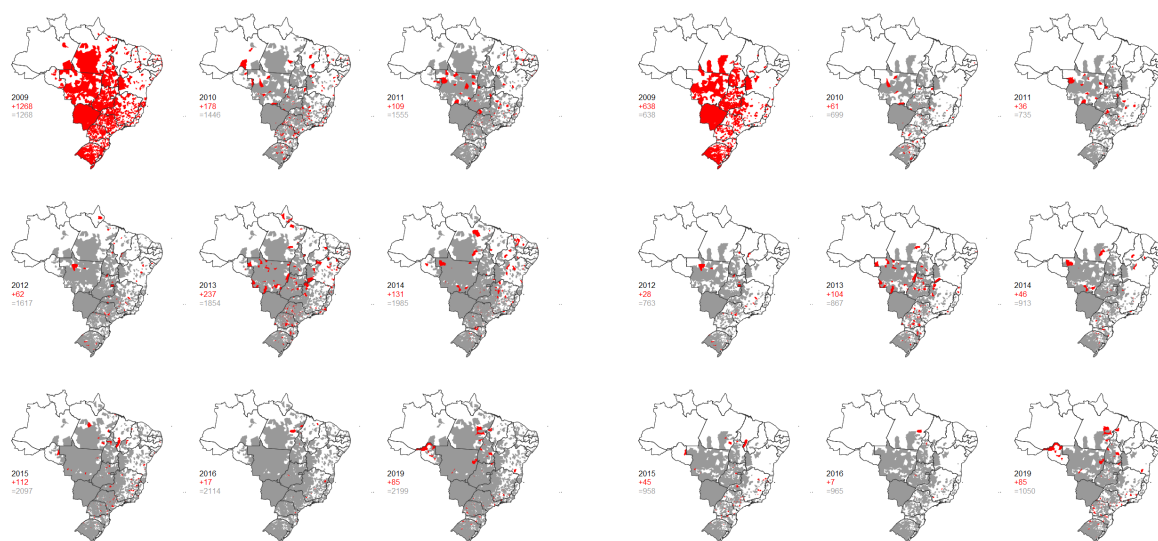
A Constitutional Amendment opening the possibility of municipalities to inspect and collect the ITR was approved in 2008<sup>11</sup>. In order to join the agreement and start collecting and inspecting the tax and, on the other hand, start keeping 100% of the tax collection, the municipality had to attend some requirements. They had to assess and publish the minimal value of its rural land<sup>12</sup> and to provide infrastructure and personnel to the task. The municipality employees also had to undergo training carried out by the RFB, before being able to use the system.

<sup>10</sup>The total usable area is considered to be the part of the property suitable for agricultural, livestock, poultry, aquaculture or forestry. It is the total area of the property, excluding the non-taxable areas and the areas occupied with useful and necessary improvements intended for rural activity.

<sup>11</sup>The decentralization of the ITR arises with the Constitutional Amendment N° 42/2003. The amendment was regulated by Law N° 11,250/2005 but, only in 2008, with decree n° 6.433/2008 the ITR Management Committee was established, in other to regulate the requirements and conditions necessary for the conclusion of the agreements, municipalities were able to sign the agreement.

<sup>12</sup>The minimal value has to be assessed by engineers according to technical criterias and the value of the land has to be classified in 6 different categories

Figure 1: Evolution of the Decentralization Agreements



(a) All municipalities

(b) Municipalities that were not excluded

Notes: The figure shows the evolution of the decentralization agreements. In panel (a) all municipalities are included whereas in (b) only municipalities that were not excluded are shown.

The decentralization of the ITR is not a simple transference of tax power<sup>13</sup> and the design of the agreement also presents provisions to prevent the capture of the tax by local elites. In fact, only the collection and auditing of the tax is transferred to municipalities that sign the agreement in exchange for receiving 100% of the tax revenue. The legislation remains with the Federal Government and the Federal Tax Administration - RFB is still the one to choose who is going to be audited and the order taxpayers are going to be audited, based in the expected tax notice.

In 2017<sup>14</sup>, the Federal Tax Administration started revising the agreements and excluded 1,149 municipalities, in total, that were not complying with the obligations of the agreement. In most of the cases, these municipalities did not even had trained personnel with access to the system used to manage the tax. In Figure 1, it can be seen the evolution of the decentralization agreements according to the year the municipality signed the agree-

<sup>13</sup>The tax power remained with the federal government

<sup>14</sup>In 2016, a new regulation of the decentralization agreements was published and municipalities had one year to adjust under the penalty of exclusion



ment. In 2021, out of the 5,570 municipalities of Brazil, the ITR was decentralized in 1,260 (22,6%). The total ITR revenue of that year was R\$ 1,950 (USD 360 million) and the decentralized municipalities administered 86.7% of that tax. The total ITR revenue corresponds only to 0.02% of the GDP and [Fendrich et al. \(2022\)](#) estimates that the total tax collection should be almost four times the current value.

### 3 Data

In this section, we present the main administrative databases used in this paper and discuss the procedures employed to merge and to unidentify the confidential information.

#### 3.1 Land Tax Returns

We use the universe of individual land tax returns administered by the Federal Revenue of Brazil - RFB (*Imposto Territorial Rural - ITR* from 2002 to 2021, totaling over 120 million returns. The returns identify the property by a unique tax id number (*Número do Imóvel na Receita Federal - NIRF*) and the owner by the unique tax id of natural people (*Cadastro de Pessoa Física - CPF*) and of legal entity (*Cadastro Nacional da Pessoa Jurídica - CNPJ*). The NIRF, CNPJ and CPF were unidentified to protect the confidential taxpayer information.

The ITR return is filled on a yearly basis and brings information of the municipality the property is located, the size of the property, the areas of construction, native forest, crops, pasture, the number of animals and the ITR tax rate and the amount due.

In table 2, we have the descriptive statistics of the data. It calls attention the reduction of the number of properties paying 10 BRL, the minimum tax due. Although the reduction began prior to the municipalization, it accelerates after that.

Table 2: Descriptive Statistics

	2000	2005	2010	2015	2020
<i>Tax descriptives</i>					
Total ITR due (R\$)	30,403.29	42,032.57	80,619.71	183,962.09	292,989.08
Mean ITR due per property (R\$)	65.25	81.03	138.58	295.28	481.99
Number of declarations	849.28	957.27	1083.88	1168.43	1110.76
Share of exempt properties	0.45	0.46	0.46	0.47	0.45
Share paying 10 R\$	0.33	0.31	0.27	0.21	0.16
Average land value (R\$)	38,715.89	53,899.51	91,192.53	190,356.78	306,185.7
Average tax rate (%)	0.19	0.21	0.25	0.26	0.26
Share of taxable land	0.75	0.78	0.78	0.75	0.72
<i>Land use</i>					
Share Agriculture	0.15	0.16	0.17	0.17	0.19
Share Pasture	0.30	0.27	0.244	0.21	0.2

**Notes:** This table presents the mean values by municipality for each variable for the years shown. *Share of paying 10 R\$* is the share of the properties that pay R\$ on ITR, the minimum value. *Average land value* is the average assessed value accepted by the tax authority in R\$, this is the value of the land without any improvements.

### 3.2 Additional Datasets

For this study, the FAO-GAEZ v3 (Food and Agriculture Organization - Global Agro-Ecological Zones) dataset was used to assess the suitability of soy and maize pastures, to control for increases in land value caused by soy production. Additionally, we use the Mapbiomas dataset, which provides us with information on land use and land cover changes yearly, for robustness checks on the pasture and crop data. For robustness tests on other taxes, IPTU and ISS, we use data from the National Treasury (*Tesouro Nacional*), FINBRA (Municipalities Finance), which provides the yearly tax levied by each municipality. For analysis of land usage, we use the MapBiomas dataset, which extracts, with satellite images, how land is used yearly in each of the Brazilian municipalities.

## 4 Empirical Strategy

As discussed in Section 2, the legislation does not force municipalities to become responsible for the collection of land taxes. The legislation merely authorizes the RFB to sign “decentralization” agreements with municipalities, thereby implying the decision to sign these agreements is endogenous.

We deal with this issue by comparing municipalities that signed decentralization agreements in year  $t$  and implemented the minimum infrastructure to collect these taxes (treatment) with municipalities that signed decentralization agreements in year  $t$ , but were not able to implement the minimum infrastructure to collect land taxes and therefore had their agreements denounced by RFB (control group). Because treatment and control municipalities showed interest in signing agreements in the same period, this comparison reduces concerns that municipalities anticipated their revenues from land taxes would change differentially and entered the program because of this.

Formally, we pool municipalities that signed agreements on different periods and estimate the following dynamic differences-in-differences equation:

$$\log(y_{ict}) = \sum_{k=-6}^{-1} \beta_k T_{ic} + \sum_{k=0}^5 \beta_k T_{ic} + \gamma' \mathbf{X}_{ict} + \lambda_i + \lambda_{tc} + \epsilon_{ict}, \quad (2)$$

in which  $y_{ict}$  represents ITR revenues of municipality  $i$ , of treatment cohort  $c$  in the period  $t$ ,  $T_{ic}$  is an indicator that municipality  $i$  made an agreement with RFB in period  $c$  and was never denounced.  $X_{it}$  is a vector of controls,  $\lambda_i$  is a municipality fixed effect,  $\lambda_{tc}$  is a cohort  $\times$  year fixed effect, and  $\epsilon_{ict}$  is an idiosyncratic error term.

The parameters of interest in equation (2) are the  $\beta_k$ . The inclusion of cohort  $\times$  year fixed effects implies that these parameters are a weighted average of within-cohort treatment effects (ATT) obtained for each  $k$ . These weights are strictly positive, depending solely on the relative size of the different cohorts. Therefore, despite treatment occurring in different

time periods, our empirical design does not suffer from the negative weighting problem identified in the recent literature on differences-in-differences designs with staggered entry (e.g., [Goodman-Bacon \(2021\)](#)).

The  $\beta_k$  estimated for  $k < 0$  test whether ITR revenues were evolving similarly in treatment/control municipalities before decentralization agreements were signed. The  $\beta_k$  estimated for  $k \geq 0$ , on their turn, test whether ITR revenues changed differentially in treatment/control municipalities after these agreements were signed, that is, it tests whether decentralization affected ITR revenues.

One concern with our empirical design is that treatment/control municipalities might face different shocks after agreements are signed. These shocks might in turn influence the dynamics of ITR revenues. To mitigate this concern, we include as controls a series of municipality characteristics (the log of revenues from other municipality taxes in 2002, the log of ITR revenues in 1997, and soy and maize suitability) interacted with time dummies. This ensures that shocks related to these characteristics do not influence our empirical design.

Our treatment group is composed by 1,074 municipalities that signed agreement and were not excluded. In the control group, we assigned the 1,149 municipalities that signed the agreement and were later excluded. [Table 3](#) reports descriptive characteristics of the treatment/control groups. The treatment group has higher initial ITR revenues and agricultural suitability, slightly higher collection of local taxes, similar GDP, and slightly lower number of public workers.

Table 3: Treatment and Control Group Characteristics

	Treatment	Control	Diff. (1-2)	p-value
	(1)	(2)	(3)	(4)
Municipality GDP	809531.86	682388.61	127143.24	0.65
Public workers per capita	0.04	0.05	-0.00	0.00
Public workers per capita (“estatutários”)	0.03	0.03	-0.00	0.87
Previous Year ISS (per Capita)	22.13	18.25	3.87	0.17
Previous Year IPTU (per Capita)	7.88	6.73	1.15	0.06
Previous Year ITR (per Capita)	5.38	2.14	3.23	0.00
Maize Productivity	8084.93	8197.25	-112.32	0.27
Soybean productivity	4244.20	4109.69	134.51	0.00

**Notes:** This table reports descriptive statistics of the estimating sample. Column 1 reports means for treatment municipalities, column 2 reports means for control municipalities, column 3 reports the differences in these means, and column 4 reports the p-value associated with this difference.

## 5 Results

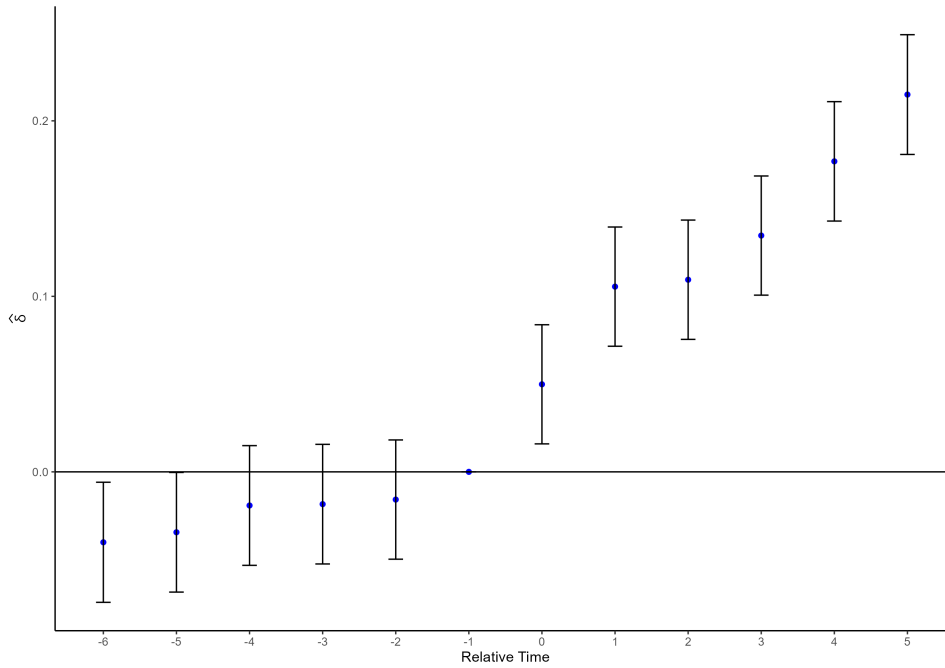
### 5.1 ITR revenues

Figure 2, Panel A reports the coefficients obtained from estimating (2). Before the decentralization agreements were signed, there was no noticeable difference in the evolution of ITR revenues between treatment and control municipalities. However, immediately after the agreements are signed, ITR revenues begin to increase faster in treatment municipalities relative to control municipalities. We observe a relative increase in ITR revenues in control municipalities of 5% in the year the agreements were signed. The effects increase over time to over 10% one to three years and to roughly 20% four to five years after the agreements after the agreements were signed. The appendix provides evidence that these results are robust to different specifications. We find that the results are robust to the choice of controls (Figure A.1), to different weighting procedures (Figure A.2), and to using the differences-in-differences estimators proposed by Callaway and Sant’Anna (2021) and Sun and Abraham (2021) (Figure A.3).

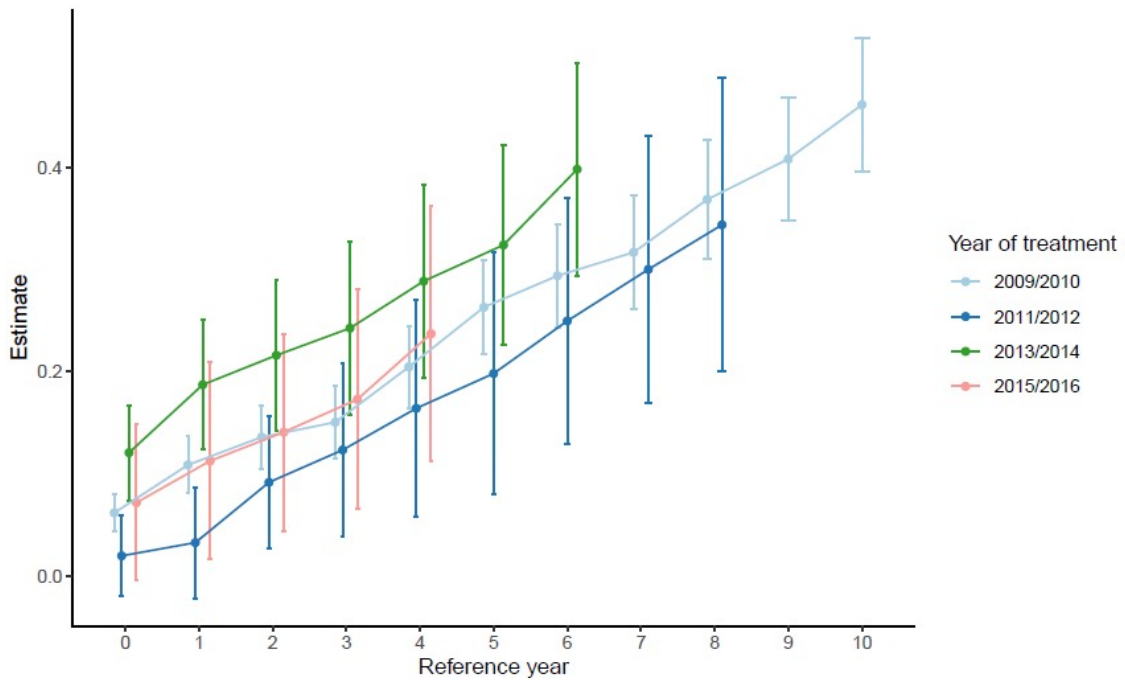
Figure 2, Panel B reports the coefficients obtained from estimating (2) separately for the different treatment cohorts. The effects of decentralization on ITR revenues are very similar across cohorts. Data from cohorts that signed the agreement earlier indicates that treatment effects continue to increase up to one decade after the decentralization agreements were signed – for these cohorts, ITR revenues increased 40% more in treatment municipalities than in control municipalities after one decade. The appendix explores other dimensions of heterogeneity of the results. We find no heterogeneity of treatment effects across farm size (Figure A.4) – the effects are quite similar for farms across four size bins (< 50 hectares, 50-100 hectares, 100-1000 hectares, > 1000 hectares). We do find some weak evidence of heterogeneity across regions (Table A.1) – the effects of decentralization are stronger in the center-west and weaker in the northeast although the differences from the mean effects are not statistically significant.

The effects reported in Figure 2 might reflect the fact that municipalities that sign decentralization agreements and implement them are municipalities in which tax revenues are increasing across the board due to economic growth. To test this hypothesis, we conduct placebo tests using local taxes as the outcome of interest. Figure 3 the results. Panel A examines revenues from the services tax (ISS) and panel B from the urban property tax (IPTU) revenues. Panel A reports small and statistically insignificant increases in ISS revenues in treatment relative to control municipalities. Panel B reports no differences in the evolution of IPTU revenues in treatment and control municipalities. These findings reduces concerns that increases in ITR revenues are reflecting increases in overall taxation.

Figure 2: Effects of decentralization on ITR on revenues



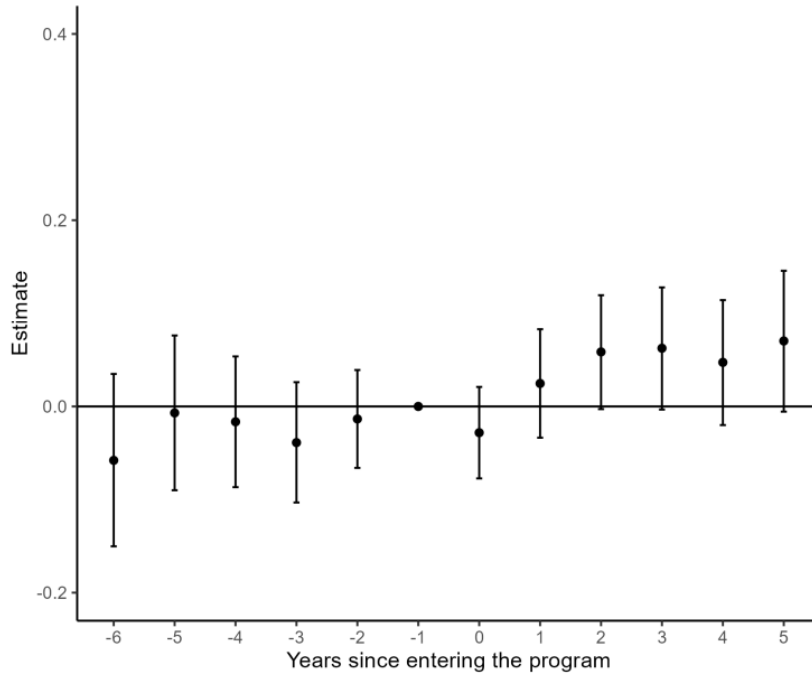
(a) Effect on log(ITR revenues)



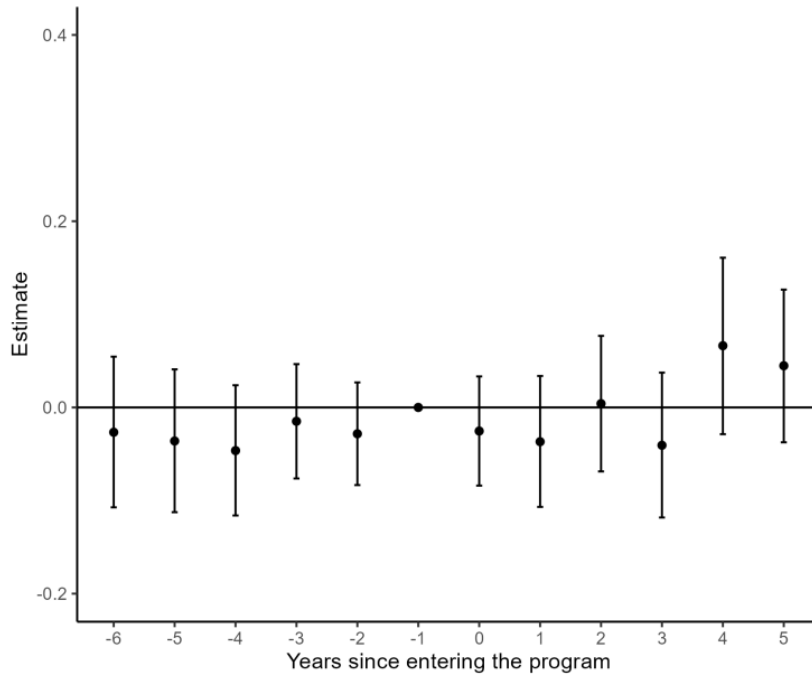
(b) Effects on log(ITR revenues) by cohort

**Notes:** These figures report estimates of the effects of the decentralization agreements on log(ITR revenues) obtained using equation (2). The x-axis shows the relative time since decentralization while the y-axis plot the coefficients and confidence intervals obtained. Panel A reports the average effect across all cohorts. Panel B reports the effects for different cohorts.

Figure 3: Placebo Tests



(a) Effect on log(ISS revenues)



(b) Effects on log(IPTU revenues)

**Notes:** These figures report estimates of the effects of the decentralization agreements on log(ISS revenues) (Panel A) and log(IPTU revenues) (Panel B). Effects are obtained using equation (2). The x-axis shows the relative time since decentralization while the y-axis plot the coefficients and confidence intervals obtained.



## 5.2 Mechanisms

Figure 4, Panels A and B decompose the effects of decentralization on ITR revenues between changes in the average tax rate and the (self-reported) land values.<sup>15</sup> Panel A documents that, after decentralization agreements are signed, tax rates immediately decline by 0.01 p.p. (5%) in treatment municipalities. Panel B documents that, after decentralization agreements are signed, self-reported land values increase strongly in treatment municipalities (25% after five years). The results indicate that the overall 20% increase in ITR revenues is the result of a combination of a 25% increase in self-reported land values and a 5% decrease in tax rates. We interpret these results as an indication that decentralization increased tax revenues operated mainly by inducing taxpayers to report land values closer to the real values. Taxpayers responded to this by changing the reporting of other parameters to reduce rates (possibly because these parameters are more difficult to monitor than land values), but this only mitigates part of the increase in self-reported land values.

Figure 4, Panels C and D decompose the effects of decentralization on ITR revenues between the intensive (average ITR paid) and extensive (number of taxpayers) margin.<sup>16</sup> The figures document that, after decentralization agreements are signed, average ITR paid and the number of taxpayers increase in treatment municipalities. However, increases in average ITR paid are much larger than increases in the number of taxpayers (20% vs. 1%) and explain most of the increases in overall taxation.

Together, the results from Figure 4 indicate that increases in ITR revenues are mostly led by increases in self-reported land values by existing taxpayers. Municipalities might be in-

---

<sup>15</sup>As discussed in section 2, ITR due is a product of self-reported land values and the tax rate. Let  $T_{it}$  denote ITR due and  $V_{it}$  denote the sum of self-reported land values in municipality  $i$  and period  $t$ . Define  $r_{it} = T_{it}/V_{it}$  as the average tax rate. The effect of the decentralization agreements on ITR revenues ( $\log(T_{it})$ ) can be thus written as the sum of the effects on the tax rate ( $\log(r_{it})$ ) and self-reported land values ( $\log(V_{it})$ ).

<sup>16</sup>Let  $T_{it}$  denote ITR due,  $N_{it}$  denote the number of taxpayers, and  $t_{it}$  the average ITR paid. By definition,  $T_{it} = t_{it} \times N_{it}$ . The effect of the decentralization agreements on ITR revenues ( $\log(T_{it})$ ) can be thus written as the sum of the effects on the average ITR paid ( $\log(t_{it})$ ) and the number of taxpayers ( $\log(N_{it})$ ).

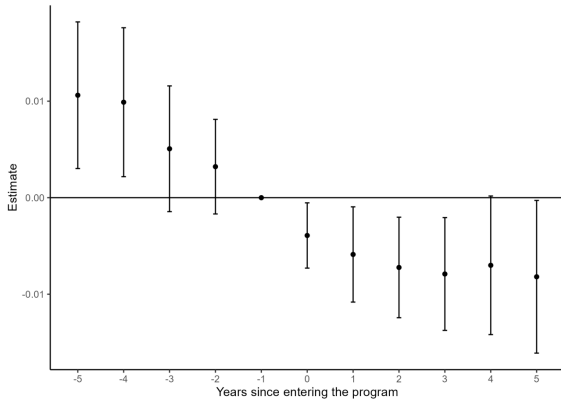
ducing taxpayers to report land values differently either by providing better information to RFB about land values or by increasing the likelihood of audits (or other enforcement measures in general). The two explanations have different implications for the distribution of self-reported land values – the former would generate bunching at the minimum values reported by RFB, whereas the latter would shift the distribution to the right.

Figure 5 tests across these explanations. It plots the distribution of self-reported land values divided by the minimum land value for the treatment and the control groups.<sup>17</sup> There are two noticeable patterns. First, there is bunching on minimum values for both groups, but substantially less in the treatment group than in the control group. Second, the entire distribution of self-reported land values for the treatment group is to the right of the distribution control for the control group. These results provide suggestive evidence that the reform affected taxpayer behavior not only by changing the quality of information that the RFB receives about the taxpayers, but also by changing the overall enforcement. However, because the data on minimum land values is just available for the post-treatment period, these results should be interpreted with caution.

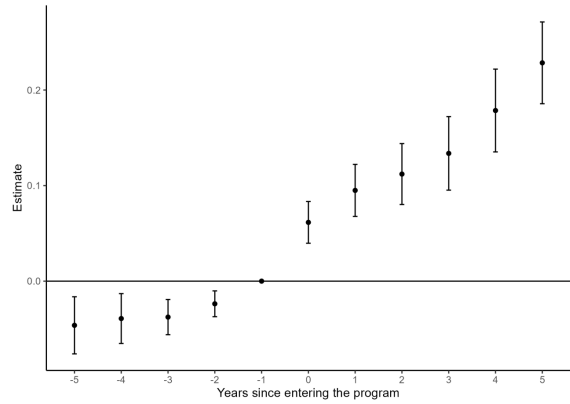
---

<sup>17</sup>The minimum land value is the value of one hectare of land covered with native vegetation. Municipalities that sign decentralization agreements report these values to RFB. RFB relies on other sources of data to construct these values for the other municipalities.

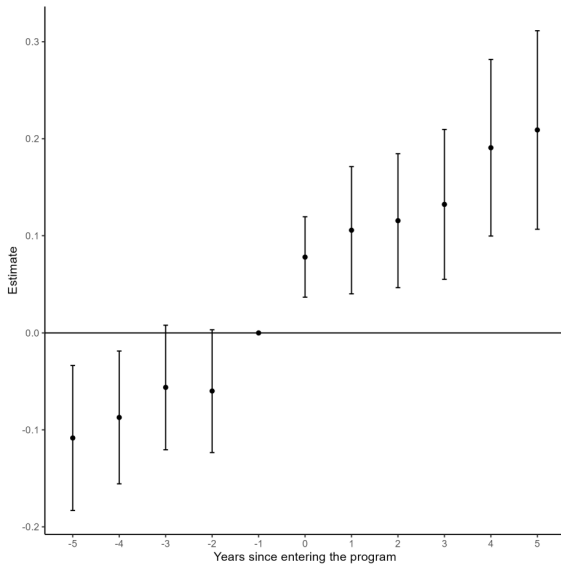
Figure 4: Decomposing the effects of decentralization on ITR revenues



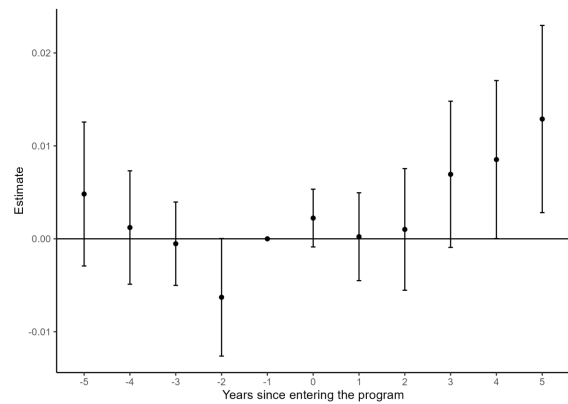
(a) Average Tax Rate



(b) log(Self-Reported Land Values)



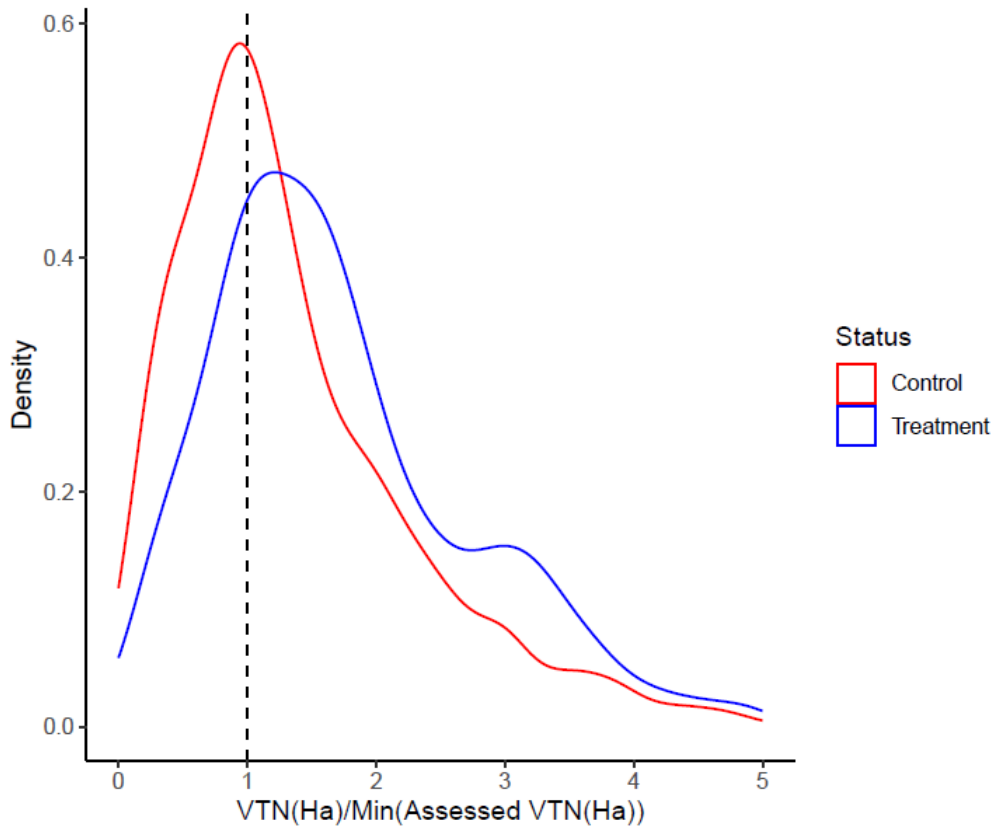
(c) Average ITR



(d) log(Number of Properties)

**Notes:** These figures report estimates of the effects of the decentralization agreements on different outcomes obtained using equation (2). The x-axis shows the relative time since decentralization while the y-axis plot the coefficients and their respective 95% confidence intervals. Panel A reports the effect of the decentralization agreements on the (log) of self-reported land values. Panel B reports the effects of the decentralization agreements on on the average tax rate. Panel C reports the effects of the decentralization agreements on the number of paying properties. Panel D reports the effects of the decentralization agreements on the average ITR paid.

Figure 5: Self-reported versus minimum land values



**Notes:** The figure plots the distribution of self-reported land values divided by the minimum land value for the treatment and the control group.

### 5.3 Efficiency Costs

Figure 6 uses remote sensing data to investigate whether decentralization influences taxpayers' land use choices. Whether the land is used as pastureland or as cropland is an important dimension of intensification in Brazil's agriculture [Bragança \(2018\)](#); [Bustos, Caprettini and Ponticelli \(2016\)](#). Examining decentralization's effects on land use is therefore important to determine whether it influenced taxpayers behavior and therefore whether its efficiency costs were significant. We find that decentralization neither influenced the share of pastureland (Panel A) nor the share of cropland (Panel B).<sup>18</sup> This pro-

<sup>18</sup>We consider three different mutually exclusive land uses: cropland, pastureland and forests. We omit forests from the analysis as it is just the residual of cropland and pastureland.

vides suggestive evidence that the efficiency costs of decentralization are negligible. This is possibly linked to the fact that, even after the increase caused by decentralization, the effective ITR rates continue quite low and therefore unlikely to affect behavior considerably.

## 5.4 Cost Benefit

We monetize the costs and benefits of decentralization to compute its cost-benefit ratio. We focus on year 2021 – the last period in our data. Table 4 reports the results.

Combining the mean ITR revenues in 1,260 municipalities with active decentralization agreements with our estimates, we estimate that the reform increased municipal tax revenues by BRL 940,000 (USD 188,000). The overall increase in ITR collection explains 57% of this growth (BRL 557,000), whereas the increase in the share of the ITR revenues transferred to the municipalities explains 43% (403,000).

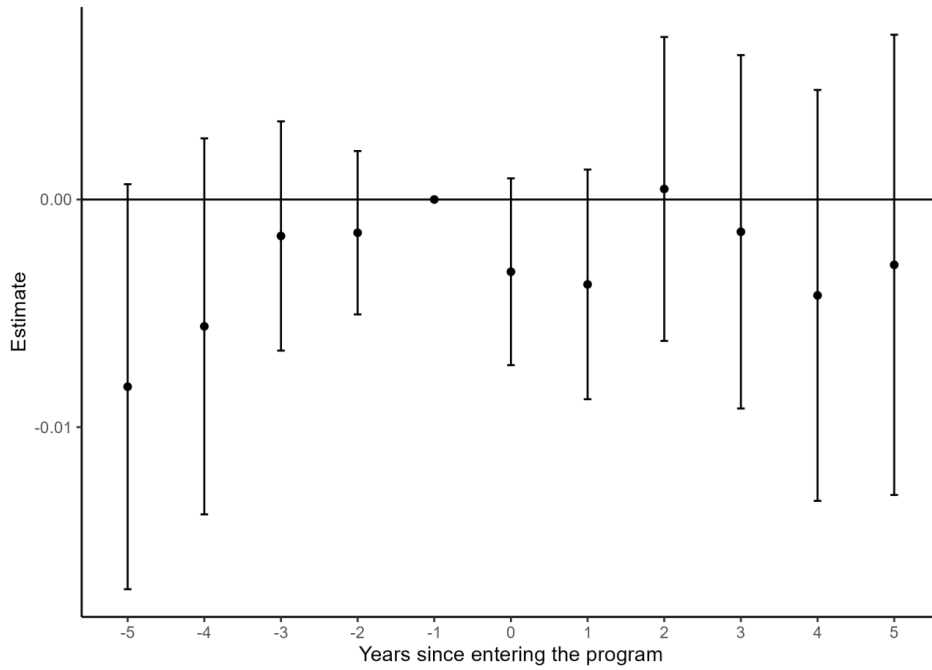
We compare these benefits with the costs of implementing the decentralization agreements.<sup>19</sup> These implementation costs were obtained from interviews with the officials from RFB responsible for ITR administration. We consider two types of costs – the costs of assessing land values and the costs of the personnel involved in ITR collection at the local level (usually 1/2 of the time of a public employee). While there is some heterogeneity in the costs depending on local characteristics, RFB officials estimate these costs to be roughly between BRL 90,000-130,000.

These numbers imply that ITR decentralization had a cost/benefit ratio of 7-10 from the perspective of the municipalities and 4-6 from the perspective of the public sector.

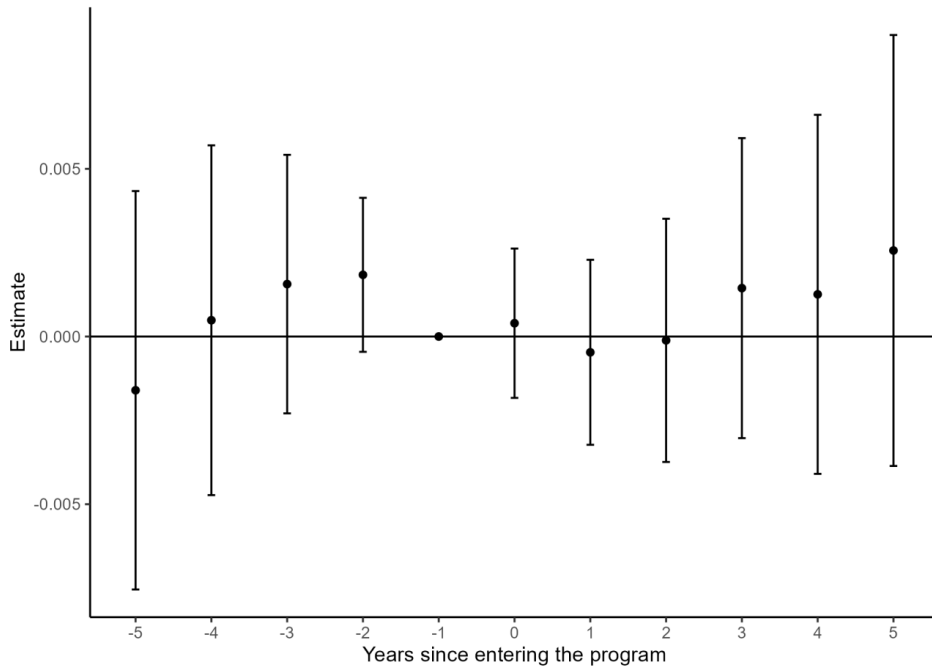
---

<sup>19</sup>We ignore efficiency costs as our findings indicate these costs are negligible.

Figure 6: The Effects of Decentralization on Land Use



(a) Fraction of land used for pasture



(b) Fraction of land used for agriculture

**Notes:** These figures report estimates of the effects of the decentralization agreements on the shares of pastureland (Panel A) and cropland (Panel B). Effects are obtained using equation (2). The x-axis shows the relative time since decentralization while the y-axis plot the coefficients and their respective 95% confidence intervals.

Table 4: Cost Benefit Analysis (2021)

<b>Description</b>	<b>Amount (BRL)</b>
Total Revenue Gain by Municipality (1260)	940,000
Average increase in revenue collection by municipality	537,000
Tax transference from federal to municipality	403,000
Cost of Assessing Land	50,000
Cost of Land Tax Administration by Municipality	40,000 - 80,000
Total Cost by Municipality	90,000 - 130,000
Total Net Gain in Tax Revenue by Municipality	407,000 - 850,000
Total Per Capita Gain in Taxes (Including transference)	55
Net Per Capita Gain in Taxes	28

**Notes:** This table reports the cost benefit analysis for the year 2021.

## 6 Conclusion

This paper evaluated the effects of a program that partially decentralized the administration of rural land taxes to local authorities in Brazil. Using microdata from tax returns, we find that the program led to an expansion of tax revenues by 20% after five years. While taxpayers responded to the decentralization in different margins, we find that it expanded tax revenues mainly by increasing self-reported land values. This increase in self-reported land values seems to be at least partially connected to increased enforcement. Using satellite data, we further found that partial decentralization did not influence farmer behavior significantly. A cost-benefit exercise indicates that the reform had large returns.

Our findings have important implications for policy design. First, the robust response of tax revenues (almost 50% in one decade) indicates that partial decentralization schemes in which central governments use local officials for information collection and enforcement purposes, while keeping oversight responsibilities might be an effective way for increasing taxation in developing countries (Balan et al., 2022). Second, the negligible response

of taxpayer behavior suggests that the current ITR rate is below the optimal rate. Third, the findings that taxpayers respond to the tax mainly by reporting land values that are closer to real land values indicates that moving from self-reported land values to market assessments (as done for the collection of urban property taxes) is a low hanging fruit to increase ITR revenues.



## References

- Assunção, Juliano Junqueira, and Humberto Moreira.** 2001. "Towards a truthful land taxation mechanism in Brazil." *Brazilian Review of Econometrics*, 21(1): 49–99.
- Balan, Pablo, Augustin Bergeron, Gabriel Tourek, and Jonathan L Weigel.** 2022. "Local elites as state capacity: How city chiefs use local information to increase tax compliance in the democratic republic of the Congo." *American Economic Review*, 112(3): 762–797.
- Bardhan, Pranab, and Dilip Mookherjee.** 2000. "Capture and governance at local and national levels." *American economic review*, 90(2): 135–139.
- Basri, M Chatib, Mayara Felix, Rema Hanna, and Benjamin A Olken.** 2021. "Tax administration versus tax rates: Evidence from corporate taxation in Indonesia." *American Economic Review*, 111(12): 3827–71.
- Besley, Timothy, and Torsten Persson.** 2014. "Why do developing countries tax so little?" *Journal of economic perspectives*, 28(4): 99–120.
- Blanco, F, and E Reis.** 1996. "A capacidade tributária dos estados brasileiros (1970-90)." *Rio de Janeiro: IPEA.*
- Bragança, Arthur.** 2018. "The effects of crop-to-beef relative prices on deforestation: evidence from the Tapajós Basin." *Environment and development economics*, 23(4): 391–412.
- Brockmeyer, Anne, Alejandro Estefan, Karina Ramírez Arras, and Juan Carlos Suárez Serrato.** 2021. "Taxing property in developing countries: theory and evidence from Mexico." National Bureau of Economic Research.
- Brockmeyer, Anne, Spencer Smith, Marco Hernandez, and Stewart Kettle.** 2019. "Casting a wider tax net: Experimental evidence from Costa Rica." *American Economic Journal: Economic Policy*, 11(3): 55–87.

- Bustos, Paula, Bruno Caprettini, and Jacopo Ponticelli.** 2016. "Agricultural productivity and structural transformation: Evidence from Brazil." *American Economic Review*, 106(6): 1320–1365.
- Caldeira, Thiago Costa Monteiro, Philipp Ehrl, and Tito Belchior Silva Moreira.** 2023. "Fiscal decentralization and tax collection: Evidence from the rural property tax in Brazil." *European Journal of Political Economy*, 102396.
- Callaway, Brantly, and Pedro HC Sant'Anna.** 2021. "Difference-in-differences with multiple time periods." *Journal of econometrics*, 225(2): 200–230.
- Carrillo, Paul, Dave Donaldson, Dina Pomeranz, and Monica Singhal.** 2023. "Ghosting the Tax Authority: Fake Firms and Tax Fraud in Ecuador." *American Economic Review: Insights*.
- Carrillo, Paul, Dina Pomeranz, and Monica Singhal.** 2017. "Dodging the taxman: Firm misreporting and limits to tax enforcement." *American Economic Journal: Applied Economics*, 9(2): 144–64.
- Fendrich, Arthur Nicolaus, Alberto Barretto, Gerd Sparovek, Giovanni William Gianetti, Jaqueline da Luz Ferreira, Carlos Frederico Marés de Souza Filho, Bernard Appy, Carlos Mario Guedes de Guedes, and Sergio Leitão.** 2022. "Taxation aiming environmental protection: The case of Brazilian Rural Land Tax." *Land Use Policy*, 119: 106164.
- Goodman-Bacon, Andrew.** 2021. "Difference-in-differences with variation in treatment timing." *Journal of Econometrics*, 225(2): 254–277.
- Gordon, Roger, and Wei Li.** 2009. "Tax structures in developing countries: Many puzzles and a possible explanation." *Journal of public Economics*, 93(7-8): 855–866.
- IBGE.** 2017. "Censos of Agriculture." (<https://censoagro2017.ibge.gov.br>).

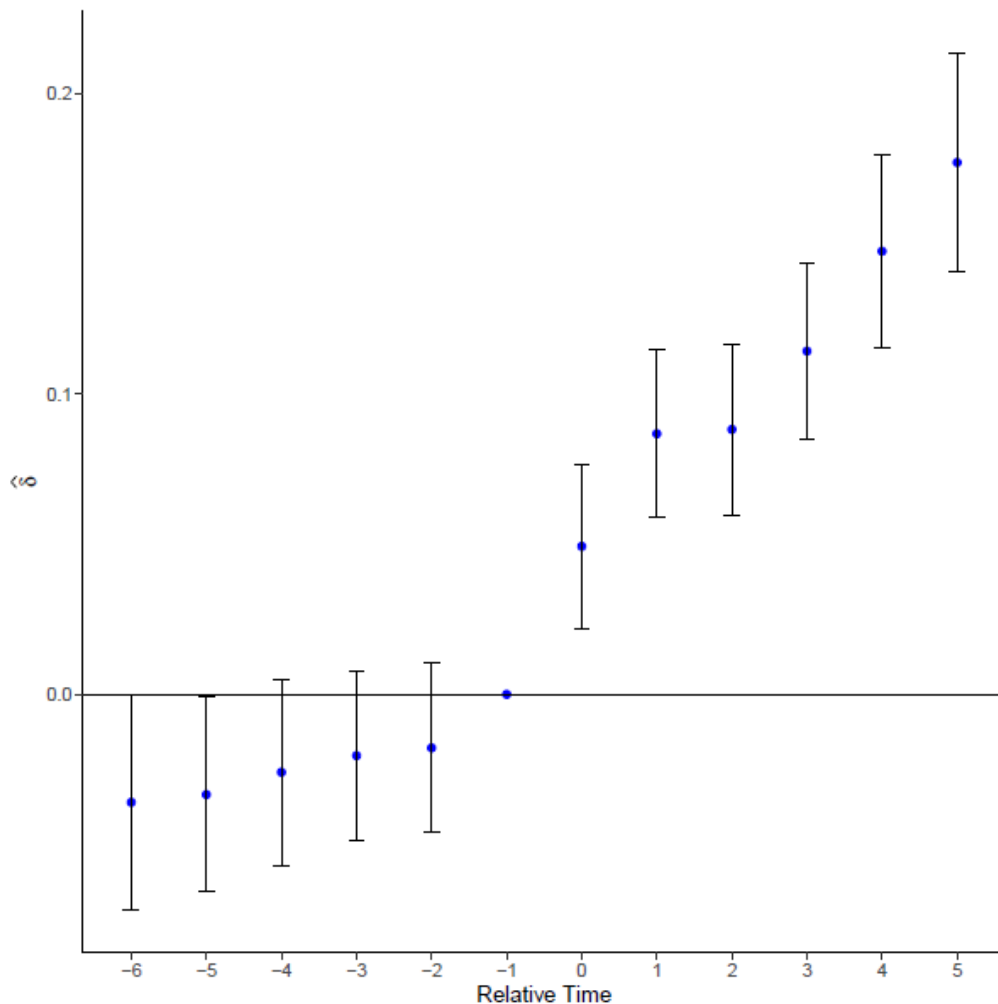
- Londoño-Vélez, Juliana, and Javier Ávila-Mahecha.** 2021. "Enforcing wealth taxes in the developing world: Quasi-experimental evidence from Colombia." *American Economic Review: Insights*, 3(2): 131–48.
- Naritomi, Joana.** 2019. "Consumers as tax auditors." *American Economic Review*, 109(9): 3031–72.
- Oates, Wallace E, et al.** 1972. "Fiscal federalism." *Books*.
- OECD.** 2023. "Tax on Property (Indicator)."
- Perez-Truglia, Ricardo, and Ugo Troiano.** 2018. "Shaming tax delinquents." *Journal of Public Economics*, 167: 120–137.
- Pomeranz, Dina.** 2015. "No taxation without information: Deterrence and self-enforcement in the value added tax." *American Economic Review*, 105(8): 2539–2569.
- Slemrod, Joel.** 2019. "Tax compliance and enforcement." *Journal of Economic Literature*, 57(4): 904–54.
- Sun, Liyang, and Sarah Abraham.** 2021. "Estimating dynamic treatment effects in event studies with heterogeneous treatment effects." *Journal of econometrics*, 225(2): 175–199.

# FOR ONLINE PUBLICATION

## Appendix to “Decentralization, Tax Administration, and Taxation: Evidence from Brazil’s Rural Land Tax”

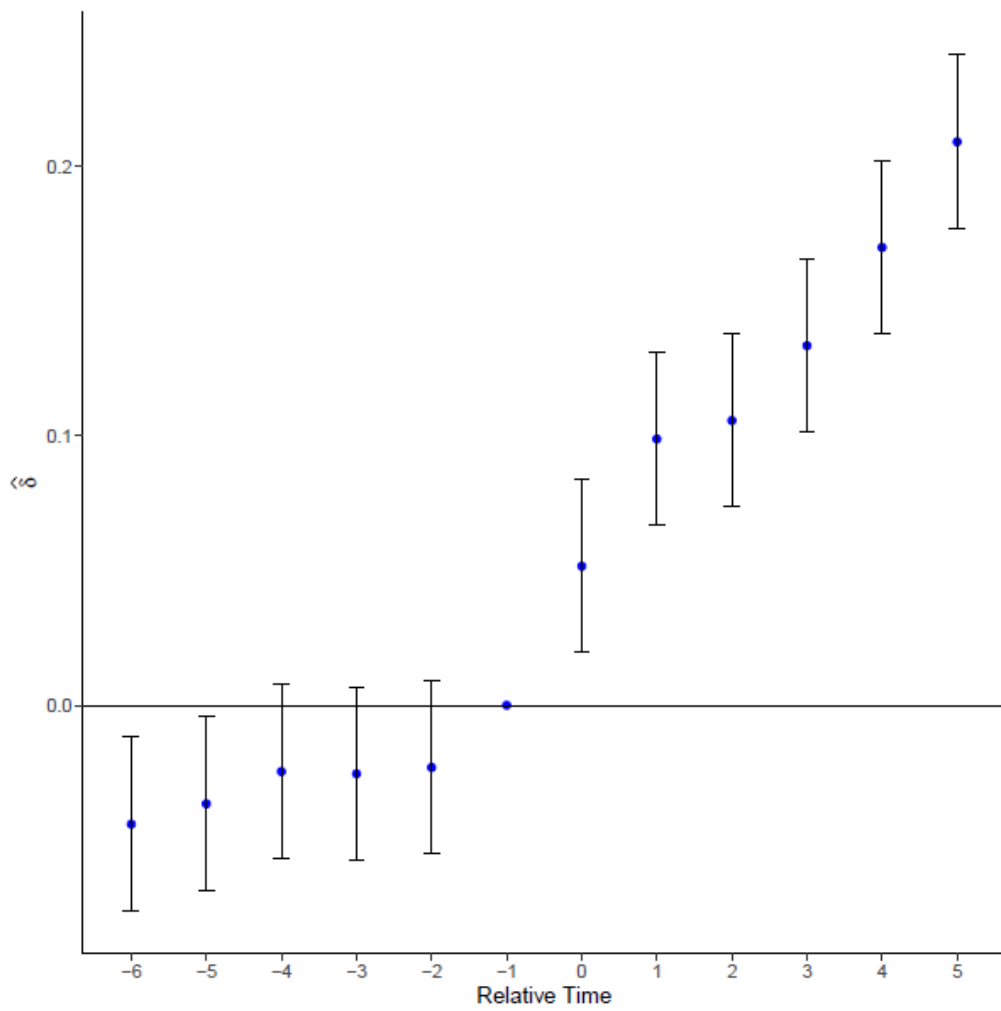
### A Additional Results

Figure A.1: The Effects of Decentralization Agreements – No Controls



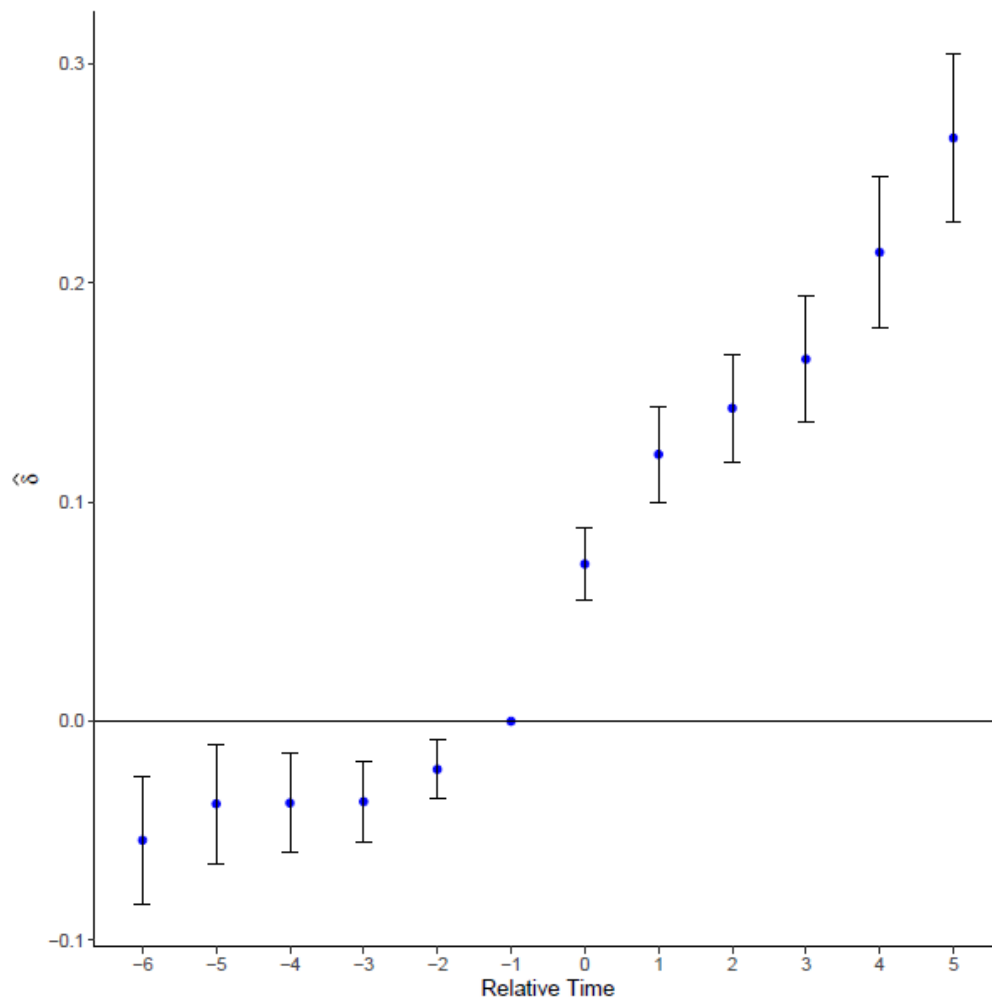
**Notes:** The figure plot estimates of the effects of the decentralization agreements on different outcomes obtained using equation (2) without controls. The x-axis shows the relative time since decentralization while the y-axis plot the coefficients and their respective 95% confidence intervals.

Figure A.2: The Effects of Decentralization Agreements – Weights



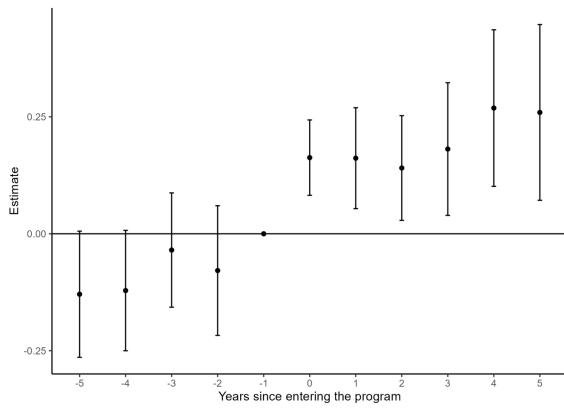
**Notes:** The figure plot estimates of the effects of the decentralization agreements on different outcomes obtained using equation (2) weighting observations by the municipal area. The x-axis shows the relative time since decentralization while the y-axis plot the coefficients and their respective 95% confidence intervals.

Figure A.3: The Effects of Decentralization Agreements – Callaway and Sant’Anna (2021)

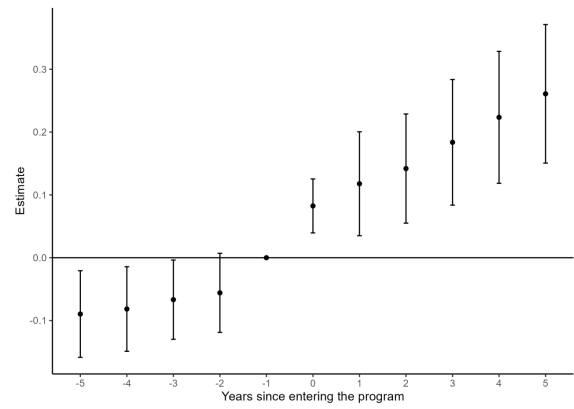


**Notes:** The figure plot estimates of the effects of the decentralization agreements on different outcomes obtained using equation (2) weighting observations by the municipal area. The x-axis shows the relative time since decentralization while the y-axis plot the coefficients and their respective 95% confidence intervals.

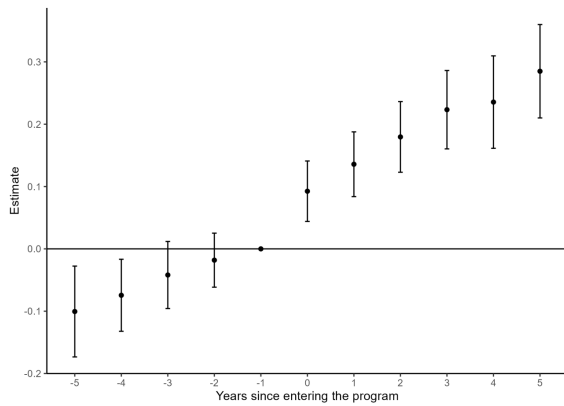
Figure A.4: IHS(ITR Due) by firm size



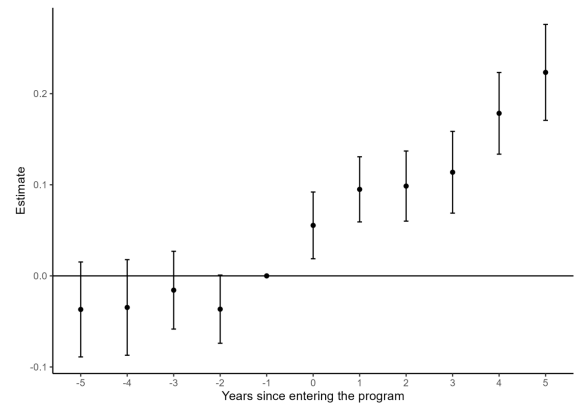
(a) Farms over 1000ha



(b) Farms between 100 to 1000ha



(c) Farms between 50 to 100ha



(d) Farms under 50ha

**Notes:** The figure plot estimates of the effects of the decentralization agreements on different outcomes obtained using equation (2). The x-axis shows the relative time since decentralization while the y-axis plot the coefficients and their respective 95% confidence intervals. Each panel reports results for farms in different size intervals.

Table A.1: Average effect of ITR by region

Sub-samples:	North	Northeast	Southeast	Midwest	South
Post $\times$ Non-denounced	0.1300** (0.0524)	0.0724 (0.0996)	0.1549*** (0.0261)	0.2473*** (0.0241)	0.0735*** (0.0186)
<i>Controls</i>					
Municipality	Yes	Yes	Yes	Yes	Yes
Year-Cohort	Yes	Yes	Yes	Yes	Yes
Baseline Characteristics	Yes	Yes	Yes	Yes	Yes
<i>Fit statistics</i>					
Observations	14,975	14,677	17,493	17,774	18,469
# Municipalities	1,207	1,178	1,410	1,433	1,483
Mean Dep. Var	10.63	10.64	10.81	10.91	10.79

**Notes:** This table presents the differences-in-differences for the  $\text{Log}(ITR_{due})$  for municipalities in each region. We use the same control group for each regression. Signif. Codes: \*\*\*: 0.01, \*\*: 0.05, \*: 0.1. Errors are clustered on the municipality level. Baseline characteristics are first-year IPTU, ISS and ITR, also maize and soy productivity interacted with year dummies.