Addressing Informality Through Simplified Enterprise Forms and a Special Legal Status

Business Environment Working Group
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Executive Summary

Micro and small-sized enterprises (MSEs) are critical for economic growth and social inclusion in developing and emerging economies and form the majority of businesses in these countries. They face distinct challenges, particularly in relation to the registration and compliance costs associated with operating in the formal economy. Several countries have introduced legal reforms to encourage enterprise formalisation and facilitate business operation. The formalisation of businesses can lead to increased productivity, investment, and job creation, contributing to economic growth and the transformation of the economy.

This study explores the special legal status of MSEs in various countries, focusing on their business registration, tax, social protection, and finance characteristics. Chapter 1 outlines the legal characteristics and key features of MSE special status, highlighting the ways in which such special status simplifies business registration, facilitates tax compliance, and offers social protection and finance incentives to MSEs.

Chapter 2 presents the findings of various impact studies, which reveal both positive and negative impacts of MSE special status. While MSEs have benefited from simplified registration and tax systems, increased access to finance, and social protection, some studies indicate that these benefits may be unequally distributed, and there may be potential risks associated with reduced oversight and enforcement.

Chapter 3 draws on the lessons learned from the implementation of MSE special status in various countries, highlighting best practices and promising trends. Overall, the study underscores the importance of MSE special status as a tool for supporting the growth and development of small businesses, while also acknowledging the need for ongoing evaluation and improvement to ensure that MSEs benefit from these policies in a sustainable and equitable manner.

This study also includes an analysis of five case studies on MSE special status in different countries. They are discussed throughout this report, and are also laid out in full in Chapter 4. The case studies focus on the implementation of various special status regimes, including the Simplified Stock Company (SAS) in Ecuador, the Business Formalisation and Promotion Network (REMPE) in Cabo Verde, the Auto Entrepreneur regime in Morocco, and the Simplified Tax Regimes (Simples/MEI) in Brazil and Monotributo in Argentina. These case studies offer a detailed look at the design of MSE special status regimes in different contexts.
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List of acronyms

CIT  Corporate Income Tax
FAO  Food and Agriculture Organisation of the United Nations
ILO  International Labour Organisation
LAC  Latin America and Caribbean
MNA  Middle East and North Africa
MSEs  Micro and small-sized enterprises
MEI  Microempreendedor Individual
OECD  Organisation for Economic Co-operation and Development
OHADA  Organisation pour l'harmonisation en Afrique du droit des affaires (French); (Organisation for the Harmonisation of Corporate Law in Africa)
SAS  Sociedad por Acciones Simplificadas
SMEs  Small and medium-sized enterprises
VAT  Value Added Tax
Introduction

Micro and small-sized enterprises (MSEs) and entrepreneurship are critical for economic growth, job creation, regional and local development. These firms account for a sizeable proportion of all firms and contribute significantly to the total employment in most developed and emerging economies. The ILO estimates that self-employed and micro and small enterprises altogether account for 70% of the total employment in a sample of 99 countries.1

Persistent informality among small firms presents a big challenge for developing and emerging countries. Informal firms account for up to half of economic activity in developing countries and provide livelihood for billions of people. The ILO estimates that 8 out of 10 economic units are informal globally.2 The causes of informality are broad, but the literature identified that a business environment with poor government services created barriers and reduces the incentives for entrepreneurs to formalise their small businesses.

The COVID-19 pandemic imposed additional challenges to small entrepreneurs with supply and demand side impacts that were aggravated by the quarantine and lockdown measures. Countries have put measures in place to support MSEs and entrepreneurs with a focus on short-term liquidity. Different measures as tax deferrals, working time shortening, subsidies and loan guarantees have been deployed to mitigate the impacts of the health crisis and increase MSE resilience. Yet these measures mostly targeted formal enterprises, which increased vulnerabilities among informal enterprises and their employees.

Businesses operating informally outside the legal and regulatory systems create negative effects for the labour market, tax administration and social protection systems. The negative consequences affect specific sectors and groups of the population disproportionately and the high heterogeneity of the MSE segment creates additional challenges for policymakers.

Several developing and emerging countries have introduced legal reforms to encourage enterprise formalisation and development, and facilitate business operation, in the last decades. For example, governments implemented corporate and tax law reforms to create a tailored legal status that is more suitable for micro and small companies aiming to reduce the costs of registering and operating a business. Many of the reforms include a social protection aspect as an additional incentive to formalisation.

These simplified MSE legal regimes intend to facilitate small firms’ transition from the informal sector to the full formal status and allow entrepreneurs with different enterprise growth rates to attain the benefits of formalisation while supporting a transformation of the economy. The existing evidence shows that better regulation is one tool to support firm formalisation, and the positive effects are increased when combined with other different incentives.

Some countries have sectoral programmes, for example, targeted at agricultural enterprises and the agricultural sector where informal employment is high (ILO has estimated that persons living in rural areas (80.0 per cent) are twice as likely to be in informal employment as those in urban areas (43.7 per cent)). In these contexts, persistently high rates of informality demand special caution. In particular, the policies designed to promote formality should carefully consider the intended and unintended consequences of eventual regulatory reforms. Anything that increases costs for informal firms risks aggravating poverty. Instead of penalising informality, policies should encourage approaches that provide incentives to transition to more productive and formalised businesses.

The Donor Committee for Enterprise Development (DCED) commissioned this study to contribute to the debate on how donor and development agencies can best support reforms that improve the business environment for MSEs in developing and emerging economies. The report builds on the 2021 Dealing with Firm Informality DCED report. Through a review of relevant literature and case studies, this report aims to provide insights and recommendations for policymakers and agencies on how to effectively implement regulatory reforms and support schemes to facilitate the growth and development of MSEs in developing countries.

**Objectives and Methodology**

The study aims to provide a stocktake of simplified enterprise forms or special legal statuses, providing case studies from five countries. Based on the review of available evidence, this report addresses the following questions:

1. What are the legal characteristics and key features of simplified enterprise forms and special legal statuses in selected countries?
2. What are the key impact studies, trends, good practices, and information about the effectiveness of these incentives to reduce informality?
3. What are the lessons learned? What has worked and what hasn’t worked?

The research is complemented by five country case studies of legal reforms undertaken, covering Sub-Saharan Africa and Latin America. This study uses both quantitative and qualitative research methods; a descriptive statistical analysis to analyse characteristics of simplified enterprise forms and desk reviews of secondary source materials and interviews with country experts.

Two approaches were employed. Firstly, a review of the existing literature was carried out, focusing on MSE simplified legal regimes and the impacts of legal reform to promote firm formalisation. The study focused on literature covering (a) business registration simplification for simplified legal forms; (b) simplified tax regimes for special legal status; (c) social protection incentives for entrepreneurs under special legal forms.

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Secondly, in-depth interviews were carried out with experts from Argentina (Monotributo), Cabo Verde (REMPE) and Ecuador (SAS), exploring results attained, challenges and perspectives for the future. The Moroccan and Brazilian case studies relied on publicly available evidence and literature. The study highlights the key features of the special regimes, considering business entry and corporate governance, tax policy, social protection, and labour dimensions. The report proceeds with a brief description of the main financial (direct/indirect) and non-financial incentives, support schemes tied to the special legal status such as facilitated registry procedures, preferential tax regimes, loans and credit guarantee schemes and support for innovation.

The report then discusses the literature and main findings of the studies, assessing the impacts of special regimes in promoting formalisation. This is achieved through assessing the positive effects of such programmes, such as increased number of businesses registered, a broader tax base, and increased social protection of workers, and highlighting potential risks.

The closing chapter of the report focuses on the lessons learned from the different experiences of simplified legal forms for MSEs - the legal and regulatory instruments that resulted in a positive impact to reduce informality as well as experiences that were not successful and needed to be improved or phased out. Based on the lessons learned experience, recommendations are provided.

1. Legal characteristics and key features of simplified enterprise forms

In the last few decades, several countries have adopted corporate and tax law reforms to promote entrepreneurship and support small business growth as a strategy to reduce informality. The introduction of “simplified enterprise forms” or of a “special legal status” has been a key feature among these reforms. The simplified enterprise forms have specific legal characteristics that set them apart from more complex business structures, such as facilitated registration procedures, simplified corporate governance requirements, reduced tax compliance requirements, simplified access to social protection and limited liability. The main policy goal of these simplified enterprise forms is to increase incentives for informal business to transition to the formal economy by facilitating and making it less costly for entrepreneurs to start and operate a formal business. Figure 1 illustrates formalisation approaches, which encompass facilitating registry and compliance, providing incentives, making informality less attractive, while promoting dialogue and voice.

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4 Gaarder, E., Doorn, J. V. (2021) Enterprise formalisation: tailored registration, tax and social security requirements for MSEs; ILO.
This chapter examines the key features of some of the simplified enterprise forms that were introduced by legal reforms in developing and emerging countries since the 1990s and the measures put in place to make formalisation more attractive for entrepreneurs. Because of the broad range of definitions and types of informality the analysis will focus on specific business environment reforms undertaken to address informality in four different dimensions:

1. Business entry reform
2. Taxation system reform
3. Social protection and labour reform
4. Approach to agricultural enterprises

It also identifies initiatives or support schemes to increase the uptake of simplified enterprise forms, such as business registration support programmes, access to finance for formalising enterprises, or sensitisation campaigns.

In the first section of this chapter, discussion focuses on reforms undertaken to simplify compliance with the legal and regulatory framework will be presented (e.g., reforms that simplify requirements for registration, licenses or permits). The characteristics of reforms related to business structure (shareholders, incorporation, liability) and minimum capital requirement will also be presented. Other good practices to be discussed are reforms focused on business registry administrative processes and structures such as process review, integration, and digitalisation.

In the second section, discussion focuses on reforms undertaken to simplify financial obligations of the firm (e.g., tax payments, bank accounts, bookkeeping) and create other benefits of operating in the formal economy. Such reforms increase incentives for formalisation. The discussion will focus on

5 Gaarder, E., Doorn, J. V. (2021) Enterprise formalisation: tailored registration, tax and social security requirements for MSEs; ILO.
several different regimes that have been created and the common features they share.

The third part of the chapter focuses on features related to labour and social protection dimensions, in line with Nielsen & White (DCED, 2017). For example, self-employment or entrepreneurship as a means to attain formal recognition and protection from government agencies, or measures undertaken by governments to facilitate MSEs hiring new workers and complying with the law.

In the last part of this chapter, the study will present the main incentives of simplified regimes and legal status that apply to agricultural enterprises, and specific policies introduced to target informality in this sector.

1.1 Policy Goals

Regulators and legislators have set many different goals when designing the legal framework to support MSEs. These policies can target specific groups such as women, migrant or social entrepreneurs. They can also focus on economic performance and aspects such as providing incentives for innovation, high growth firms, digitalisation, internationalisation, start-ups, and sustainability.

Simplified regimes policy goals are commonly related to competitiveness, productivity, formalisation and development of MSEs. For example, incentivising formality by reducing transaction costs is one of the policy goals of the Ecuadorian SAS. The Individual Microentrepreneur (Microempreendedor Individual) MEI special legal status created in Brazil aims to formalise small enterprises and promote social security inclusion. The Argentinian Monotributo intends to reduce informality by making it simpler and faster for entrepreneurs to fulfil their obligations, to increase the culture of compliance and provide social protection.

1.2 Facilitate and Simplify Business Registration

Regulation of the entry of new business differs significantly among countries; meeting government requirements to start operating a new business involves the fulfilment of different procedures and the payment of fees. Many MSEs continue to operate informally due to the high costs associated with formalisation which can limit their access to finance, markets, and government support programmes, and expose them to legal and financial risks. Figure 2 depicts the sequential steps involved in registering a new business towards formal operation.

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Many countries have implemented legal reforms to simplify the process of starting a new enterprise. From a business registry perspective, there are a variety of different incentives that may be granted by legislation for entrepreneurs. These reforms aim to reduce the time, cost, and number of procedures involved in registration. In many cases, however, such reforms make it less expensive to formalise a business but may not necessarily provide additional benefits to encourage entrepreneurs to do so.

The creation of simplified business registration procedures is a key feature of the legal reforms undertaken in many developing and emerging countries to encourage the formalisation of MSEs. While some countries focus on making general reforms that make it easier for all entrepreneurs to register an enterprise, other countries have designed specific registration procedures related to a simplified legal status, while some countries have adopted both approaches. Free registration is a feature that many of the simplified statuses offer to reduce costs.

The Moroccan “Auto Entrepreneur” statute allows simplified registration, with registration starting online and finishing in bank agencies. In Cabo Verde, legislation that was approved in 2014 created a simplified system for the commercial registry of MSEs and a ‘one stop shop’ for business registration.

The “Microempreendedor Individual (MEI)”, the Brazilian regime for self-employment created by the “Lei Complementar nº 128/2008”, allows simplified online registration through a portal that includes

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simultaneous trade, tax, and social security registration\textsuperscript{12} with no fees. It is important to mention that the MEI simplified registry procedure also includes the granting of an operating licence. In 2019, Guatemala implemented the "Ley de Fortalecimiento al Emprendimiento," which established an online registration system for simplified entity registration. Additionally, the law aimed to establish a ‘one-stop shop’ and eliminate fees.

The Argentinian\textsuperscript{13} and Uruguayan\textsuperscript{14} “Monotributo” as set out in Laws N° 24.977 of 1998 and 18.083 of 2006 was created to encourage formalisation of small companies. As such, they are two other examples of a simplified online registration process created with the aim of reducing the costs associated with starting a new enterprise. The Argentinian regime also involves simultaneous tax and social security/pension registration.

A common approach in the Latin America region is the creation of a simplified corporate structure. Colombia introduced the “Sociedad por Acciones Simplificada” (SAS) in 2008 with the Ley 1258. The Inter-American Juridical Committee of the Organisation of American States approved the Sociedad por Acciones Simplificadas (SAS) Model Law in 2012, based on the Colombian statute. This model law provides a straightforward alternative to outdated corporate legislation\textsuperscript{15}, making the process of incorporating a business more accessible and cost-effective, especially for small enterprises. \textsuperscript{16}

Several countries have adopted legislation based on this framework, with different degrees of adherence to the twelve key components of the model legislation. Table 1, below, outlines the twelve key elements of the Ecuador SAS, which is considered the ‘gold standard’ SAS law in Latin America, introduced by the “Ley Orgánica de Emprendimiento e Innovación (LOEI)” in 2020.

Elsewhere, in 2011, the Dominican Republic approved Law 31-11, which established the “Sociedad Anónima Simplificada (SAS)” as a new corporate form. Mexico followed suit and reformed its “Ley General de Sociedades Mercantiles” in 2016 to include the “Sociedad por Acciones Simplificada (SAS)”. Argentina approved the “Sociedad por Acciones Simplificadas” through Law No. 27.349, the “Ley de Apoyo al Capital Emprendedor”. Peru introduced the “Sociedad por Acciones Cerrada Simplificada (SACS)” in 2019 through Legislative Decree 1409/2018. In Chile, the simplified “Sociedad por Acciones (SpA)” regime, which was introduced in 2007 and modernised in 2019, is considered the most similar option to the SAS. Uruguay adopted the “Sociedades por Acciones Simplificadas (SAS)” in 2019 with the “Ley de Promoción de Emprendimientos”. Paraguay created the “Empresa por Acciones Simplificadas (EAS)” in 2020 to support formalisation of economic activities. Table 2, below, provides a comparison of SAS laws in the region.

\textsuperscript{12} Nogueira, M. et al. (2019) Simples National: Monotax Regime for Own-Account Workers, Micro and Small Entrepreneurs: Experiences from Brazil, ILO. Available at: 10.13140/RG.2.2.26575.02720.
\textsuperscript{13} AFIP Argentina Monotributo Platform (2023). Available at: https://monotributo.afip.gob.ar/Public/landing-monotributo.aspx
\textsuperscript{14} Ministry of Economy and Finance - General Tax Directorate, Uruguay (2021) Inscripción de empresa unipersonal monotributo. Available at: https://www.gub.uy/tramites/inscripcion-empresa-unipersonal-monotributo
\textsuperscript{16} Ibid. p. 67.
Ecuador adopted the SAS Model Law by establishing the Simplified Joint Stock Company. The SAS has been remarkably successful in Ecuador, leading to its widespread adoption as the most popular corporate type since its introduction in 2020. This move aligns with a regional trend and aims to promote formalisation by implementing a simpler and more flexible corporate regulation, benefiting micro and small entrepreneurs. The approach focuses on streamlining formation, operation, and dissolution procedures, fostering interconnectivity between government and private agencies, providing training, and ensuring the sustainability of the corporate legal framework and public policies.\(^{17}\)

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>1. Legal Personality</strong></td>
<td>This refers to the concept that an enterprise is a separate legal entity from its owners. Facilitating access to legal personality is an incentive for small entrepreneurs because it provides a clear separation between the business and the individual, protecting the entrepreneur’s personal assets from business liabilities.</td>
</tr>
<tr>
<td><strong>2. Limited Liability</strong></td>
<td>Limited liability means that the entrepreneur’s liability for the enterprise’s debts and obligations is limited to the amount of their investment in the business. Facilitating access to limited liability could make formalisation more attractive for small entrepreneurs because it reduces their personal financial risk.</td>
</tr>
<tr>
<td><strong>3. Possibility of Single Shareholder</strong></td>
<td>This means that the corporation can be owned by a single person, rather than requiring multiple shareholders. Facilitating access to this option reduces costs for small entrepreneurs because it reduces the administrative burden of managing a board of directors and facilitates quick decision-making.</td>
</tr>
<tr>
<td><strong>4. Possibility of Single Director</strong></td>
<td>The idea is that the SAS will not require to have a board of directors, unless such board is mandated in the by-laws. In the absence of a provision requiring</td>
</tr>
</tbody>
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<p>| | |</p>
<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>1. Board of Directors</td>
<td>the operation of a board of directors, the legal representative appointed by the shareholders’ assembly shall be entitled to exercise any and all powers concerning the management and legal representation of the simplified stock corporation. If a board of directors has been included in the formation document, such board will be created with one or more directors.</td>
</tr>
<tr>
<td>5. No Minimum Capital Contribution</td>
<td>Facilitating access to this option can reduce costs for small entrepreneurs because it reduces the financial burden of starting a business and makes it easier for entrepreneurs with limited resources to enter the market.</td>
</tr>
<tr>
<td>6. Broad Purpose Clause or None at All</td>
<td>This means that the enterprise can have a broad purpose clause, allowing it to engage in a wide range of activities, or no purpose clause at all. Facilitating access to this option is positive for small entrepreneurs because it provides flexibility in business activities and reduces the administrative burden of constantly amending the purpose clause.</td>
</tr>
<tr>
<td>7. Simplified Incorporation Documents</td>
<td>This means that the incorporation documents required to register a business are simplified and streamlined. Facilitating access to this option is positive for small entrepreneurs because it reduces the administrative burden of registering a business and makes the process more accessible to entrepreneurs with limited resources.</td>
</tr>
<tr>
<td>8. Flexible Organisational Structure</td>
<td>Flexible Organisational Structure (8): This means that the corporation can have a flexible organisational structure, rather than being required to follow a specific structure. Facilitating access to this option is positive for small entrepreneurs because it allows them to design a structure that fits their business needs and reduces administrative costs.</td>
</tr>
<tr>
<td>9. No Mandatory Requirement of Intermediaries to Incorporate</td>
<td>This means that entrepreneurs can incorporate a business without the help of intermediaries such as notaries, lawyers or accountants reducing the cost of</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
</tr>
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<td>---------</td>
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</tr>
<tr>
<td>10. Decisions by Majority Vote</td>
<td>This means that decisions are made by a majority vote of the shareholders or directors, rather than requiring unanimous agreement. Facilitating access to this option is positive for small entrepreneurs because it reduces the administrative burden of decision-making and makes the process more efficient.</td>
</tr>
<tr>
<td>11. No Mandatory Internal Auditors</td>
<td>This means that the corporation is not required to appoint an internal auditor. This is another example of measure that reduces administrative costs.</td>
</tr>
<tr>
<td>12. Maximum Freedom of Contract</td>
<td>Maximum freedom of contract means that partners or shareholders, in accordance with their operational needs and interests, are free to structure their businesses in accordance with their business reality. In this way, the administration and internal control of the simplified companies could be detailed by the shareholders in the corresponding bylaws. This also means that the corporation has maximum freedom to enter into contracts with third parties. Facilitating access to this option is positive for small entrepreneurs because it provides flexibility in business activities and reduces administrative costs.</td>
</tr>
</tbody>
</table>
Table 2: Comparative Table – SAS Models in Latin America and the Caribbean

<table>
<thead>
<tr>
<th>Country/Feature</th>
<th>Ecuador</th>
<th>Argentina</th>
<th>Mexico</th>
<th>Colombia</th>
<th>Paraguay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Possibility of a Single Shareholder</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>No minimum capital requirement to be incorporated</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Full-fledged limited liability</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Indefinite Period</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Optional use of intermediaries to incorporate an enterprise</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>✓</td>
<td>No</td>
</tr>
<tr>
<td>Broad purpose clause or not at all</td>
<td>✓</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>No</td>
</tr>
<tr>
<td>Flexible internal structure and optional oversight board</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Maximum freedom of contract</td>
<td>✓</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Simple grounds for dissolution</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Possibility of keeping corporate and accounting books online</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
</tr>
<tr>
<td>Use of alternative dispute resolution methods</td>
<td>✓</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Free physical and electronic registration</td>
<td>✓</td>
<td>No</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
It is worth noting that the requirements mentioned above have not been waived exclusively for Simplified Stock Corporations (SAS) and other simplified legal statuses. In fact, the paid-in capital requirement has been eliminated in over 100 countries, regardless of the chosen legal form. Similarly, the mandated use of notaries and lawyers has also been abolished in many countries. Similarly, in digitising the registration process or establishing an Online Single Submission (OSS) system, the use of intermediaries for the registration process in many countries is effectively waived, irrespective of the legal form chosen by the entrepreneur.

1.3 Reducing tax burden and facilitating compliance

Tax policy has a significant impact on the formalisation decision of entrepreneurs. The design of the tax framework “affects investment in different sectors and influences the allocation of resources between the formal and informal sector”. 18 High tax rates are a strong incentive for small business to remain informal as formalisation could result in a disproportional increase in operating costs. Heavy tax requirements place an additional burden to small firms’ costs by adding to the production costs, therefore increasing the price of goods and services. The process of paying taxes involves administrative and compliance costs related to keeping records and fulfilling obligations with tax authorities, which often require hiring specialised professionals. The costs to hire these professionals are disproportionately high for MSEs. Excessive taxation of labour and payroll can create barriers for formal employment in small firms. Additionally, opaque tax legislation can increase the costs of obtaining the information necessary to formalise a firm and to comply with the tax obligations.

Managing a large volume of small-scale taxpayers also places a significant burden on the government, both in terms of resources and time. To alleviate this challenge, implementing a presumptive tax system proves advantageous as it simplifies the government’s enforcement of tax compliance. By utilising such a system, the government can reduce administrative costs, minimise the time-consuming process of individual assessments, and effectively ensure widespread compliance among the extensive base of small taxpayers. Several jurisdictions have introduced a tax policy component granting a special tax status for MSEs, reducing the burden on tax administration, and increasing tax revenues. 19 In addition to making it more financially viable for business to operate, some tax reforms also have the goal of facilitating tax payment by making the process more predictable and manageable. Figure 3 illustrates the effects of tax regulation on the tax rate, time required to pay taxes, and the overall efficiency of the taxation process.

The fear of uncertain future revenues often deters entrepreneurs from formalising their businesses, as increased visibility to the tax office raises concerns about their ability to meet tax obligations. In this context, presumptive tax systems become more appealing due to their ease of compliance and greater predictability. By opting for a presumptive tax system, entrepreneurs can alleviate the uncertainty surrounding their tax requirements, ensuring a more stable and manageable financial environment for their businesses.

A common feature present in simplified tax regimes for MSEs is the possibility of collecting taxes at reduced and more predictable tax rates, such as a discount in Corporate Income tax (CIT), Value Added tax, and other taxes. Most simplified tax regimes created in developing and emerging economies in the last decade grant a more favourable tax rate for MSEs.

For example, Cabo Verde introduced the REMPE with a simplified unified tax system for MSEs in 2014. The unified single tax, which consists of a rate of 4% over gross revenues, substitutes Corporate Income Tax and VAT, and includes fire prevention tax and an employer contribution for social security. In Southeast Asia, Vietnam has introduced a proposal for reducing the corporate income tax for small firms (from 20% to 15%-17%) through the MSE support law approved in 2018.

Another common incentive offered to reduce the costs associated with formalisation is the substitution of the tax base of the general regime for a simplified method of tax calculation. This can be in the form of presumptive regimes or single tax regimes and in practice reduces the tax rates and other costs. Latin America offers a variety of such preferential regimes designed to support MSEs.

One such example is Argentina’s Monotributo, which combines income tax and VAT into a single payment ("componente impositivo"). This fixed monthly payment is progressive and based on gross

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21 Gaarder, E., Doorn, J. V. (2021) Enterprise formalisation: tailored registration, tax and social security requirements for MSEs; ILO.
revenue and activity. Additionally, certain socially vulnerable categories or small agricultural entrepreneurs are eligible for tax exemptions. The Monotributo payment also includes pension and health insurance ("componentes jubilatorios y obra social").

Brazil has introduced two preferential tax regimes with the Lei Complementar nº 123/2006. Firstly, the Microempreendedor Individual (MEI) is fully exempt from income taxes and pays a fixed monthly payment to cover municipal and state taxes. This payment also covers a contribution towards social protection and pension systems. Secondly, the Simples Nacional regime replaces the general system for a simplified and unified tax collection framework. Under Simples Nacional, eight taxes are collected from MSEs through a single document and a progressive tax rate is applied to gross revenues according to the economic activity.

Bolivia adopted a Simplified Tax Regime in 1997, replacing the VAT and transactions taxes. Peru created two simplified regimes in 2004 to replace VAT and income tax. Other examples include reforms undertaken in Chile in 2007 to create a Simplified Income Tax System for mining, retail trade and fishing sectors. Uruguay also adopted a Monotributo regime that replaces all business-related taxes in 2007, and Paraguay adopted a Corporate Income Tax for Small Taxpayers in 2007.

In Ecuador, the Simplified Income Tax Regime (RISE) was adopted in 2008 to replace income tax and VAT to facilitate formalisation. Two Alternative Minimum Income Tax regimes were introduced in Colombia in 2012 to replace income tax. In 2014, Mexico created the Inclusion Tax Regime (RIF) which grants a 10-year discount on income tax, VAT, and social security contributions for entrepreneurs.

The adoption of simplified bookkeeping requirements for MSEs is also a common feature of different simplified tax regimes for small firms. Removing the obligation to maintain certain types of records, simplifying bookkeeping compliance rules, or allowing the digitalisation of all bookkeeping in one platform, are example of solutions adopted in countries like Mexico, Brazil, and Argentina. Some regimes do not require bookkeeping and rely on simplified declarations such as the MEI in Brazil and the Colombian IMAS.

The Simples Nacional, MEI and Monotributo allow tax obligations to be fulfilled digitally. Digital tax payment offers numerous benefits to MSEs, including convenience, accuracy, security, speed, cost savings, and improved record keeping. Automated calculators and enhanced security features can help MSEs ensure that they are paying the correct amount of tax, while improved record keeping can facilitate more accurate tracking of expenses and deductions. Overall, digital tax payment provides MSEs with a streamlined and efficient way to manage their tax.

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1.4 Social Protection: Making formalisation more attractive for entrepreneurs

Business owners and workers of informal firms face higher vulnerability as they are usually not covered by social protection. Preferential tax regimes established by regulatory reforms often adopt a social protection and labour component to create additional incentives to transition to the formal economy. For example, they may grant subsidised access to social protection schemes, such as access to unemployment insurance, access to the public pension system and access to affordable healthcare.

This is a common feature in the MEI and Monotributo regimes which include a pension component in the single tax. In the Brazilian MEI, entrepreneurs have access to social security with the benefits of basic state pension, health protection, maternity programmes, and pension for the family in death cases. Other regimes offer incentives for MSEs to hire formal employees and impose lighter compliance obligations. The Argentinian Monotributo regime includes a retirement contribution (the pension component) and a contribution to health insurance (the “social work” component), alongside the unified tax component. The Monotributo Social, one of the categories designed to encourage vulnerable independent workers to transition to formality, grants a full exemption of the taxation and pension components and grants a 50% discount on the health insurance payment.

The REMPE regime in Cabo Verde determines that small business owners register themselves and their employees under social security. The regime also grants access to social security for family members of small entrepreneurs that have no income source, through the payment of a specific contribution.

1.5 Approach to Agricultural Enterprises

High rates of informality in the agricultural sector globally have led to the introduction of legal reforms to create incentives for agricultural MSEs to transition to the formal economy. Nevertheless, it should be taken into account that micro and small agricultural enterprises, including self-employed farmers, face several challenges when attempting to become formal. Such challenges vary by region and context, and these distinctions must be considered when designing interventions aimed at promoting formalisation in the sector. Some of the most common challenges include a lack of information about the benefits of formalisation, lack of skills, access to productive resources and titles to assets such as land, limited access to finance and market opportunities, as well as poor

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Due to these varying challenges, business environment reforms might not always be the best option for promoting formalisation in the agricultural sector, or would need to be strongly complemented with additional interventions aimed at supporting agricultural producers. Overall, from the cases assessed, agriculture is more often included within the scope of generic simplified legal forms, rather than there being specific simplified legal forms for the agricultural sector. In some jurisdictions, like Argentina and Brazil, the benefits granted to industry, commerce and small service-oriented firms are extended to small agricultural enterprises and family farmers. Agricultural entrepreneurs are eligible for preferential tax regimes that include social security contributions. In some cases, there are additional tax exemptions for vulnerable agricultural entrepreneurs, but always using the same simplified legal forms as available in the other sectors.

In Argentina, there is a specific category of the Monotributo for small agricultural producers, provided that their main activity falls exclusively on the cultivation of tobacco, sugar cane, yerba mate or tea. This “Régimen Simplificado Especial” category exempts small farmers from paying the tax component (income tax and VAT) and grants a 50% reduction for pension and healthcare contributions. There is another category that guarantees no costs for family farmers. The “Monotributo social agropecuario” was introduced in 2009, interrupted in 2018, and reestablished in 2021. It is open to family farmers who are registered in the RENAF (National Registry of Family Agriculture) and have a gross annual income of less than 370,000 pesos (Category A of the AFIP Simplified Regime).

Adaptation of the social Monotributo system for specific groups is an ongoing process that has required the development and implementation of cross-sectoral approaches involving several ministries. Additionally, measures have been taken to address the lack of connectivity in remote rural areas, as well as outreach efforts to increase awareness among farmers of their rights. The system has also been adapted to account for the unstable income patterns of agricultural producers who may struggle with making monthly payments.

In Brazil, SME legislation extends to small agricultural enterprises. Benefits include simplified licensing, immediate operation for low-risk activities, access to markets (public procurement), access to credit, incentives for innovation, represented in the government forum for SMEs, and access to MEI status.

In Colombia, the more recent Colombian Simplified Stock Company (SAS) is available to all enterprises, including those located in rural areas. The SAS regime was designed to simplify business registration and governance, reduce compliance costs, and increase access to finance for small and medium-sized enterprises.

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1.6 Approaches to enhance Special Legal Status effectiveness and uptake

Informality is influenced by many factors. Reforms that have the objective of reducing informality can have their effectiveness increased if designed, adopted and implemented in concert with other reforms and approaches.\(^{29}\) The success of incentives designed to encourage formalisation depends on the extent to which they are communicated and understood by entrepreneurs. Involving citizens in law making could improve quality and legitimacy of MSE support legislation.\(^{30}\)

Governments have taken different approaches to enhance the effectiveness and uptake of simplified legal reforms in business formalisation. These include inter-agency cooperation, training, and capacity building. A well-coordinated approach to formalising businesses is crucial for ensuring efficiency and maximising the benefits of these incentives.

Access to capital is often a challenge for MSEs in some countries. For this reason, many countries offer **finance and credit incentives** for MSEs as part of a special legal status. Financial support includes loans with subsided interest rate, guarantees schemes to reduce interest rates in loans, special programmes for MSE development with state banks, cooperatives of credit and other policy instruments. For example, Brazil created the PRONAMPE programme in 2020 which provides credit incentives for MSEs and has special credit lines for entrepreneurs operating under the MEI special legal status.

The MSE special status in many countries grants access to **public procurement opportunities** that are exclusively for small firms. Different governments have adopted instruments to use buying power as a tool to foster the development of smaller enterprises. The benefits include exclusive procurement of small value acquisitions from MSEs, procurement that allows the possibility of splitting a proposal into batches that are exclusive for MSEs, quotas for MSE participation and mandatory MSE subcontracting in public works. For example, the Brazilian legislation offers some of these instruments, but they are not limited to enterprises operating under the Simples Nacional and MEI regimes.

**Awareness Campaigns** targeted at MSEs and entrepreneurs to promote the benefits of formalisation and inform them on the details of tailored legislation and simplified legal statuses are one way to enhance effectiveness of reforms. Promoting awareness about tax and labour compliance is another valuable tool towards the process of formalisation. Effective awareness campaigns motivate entrepreneurs to use the incentives, and reduce resistance or fears of operating under formality. One example of an awareness campaign on the importance and benefits of formalisation is the SUCUPIRA project in Cabo Verde.

One of the main tools to promote targeted support for MSEs is **Business Development Services (BDS)**, particularly focusing on two broad objectives. The first is externally contracting functions such as accounting, legal and regulatory compliance for MSEs. The second is helping entrepreneurs to build new competencies and achieve better results in sales, productivity and business growth, which are

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important drivers of formality. BDS are key to ensure that regulatory reforms reach MSEs and play a significant role in providing information, advice, counselling, consulting, and training. 31 An example of BDS in Brazil is the Sebrae; in Cabo Verde, the Pro Empresa helps formalisation and training.

**Intragovernmental cooperation** is another important good practice to increase effectiveness of the formalisation policies for MSEs. Regulation for business registration and tax compliance are commonly divided among various levels of public administration. This elevates compliance costs for entrepreneurs. Integrating registry and licensing procedures, and tax compliance and payment systems, is another important approach to enhance incentives for formalisation. *One-stop shops* exemplify an intragovernmental approach, consolidating services and resources to foster efficiency and effectiveness in serving SMEs. Examples of such an approach are the CGSN (Comitê Gestor do Simples Nacional) and the CGSIM (Comitê Gestor da REDESIM) in Brazil.

2. Literature review and impact studies

The impacts of simplified legal status in promoting formalisation have been studied in different dimensions with different approaches. This chapter will summarise the findings of previous research and studies, identify trends and good practices, and highlight where further research is needed. It should be noted that, though several countries undertook reforms to grant preferential treatment for MSEs, many of them have not been object of extensive assessment due to the lack of detailed empirical data.32

Nevertheless, research has focussed on a variety of policy goals set in regulatory reform. For example, studies have attempted to identify the impacts of special regimes on business formalisation, estimate the effects of simplified tax status on tax collection and compliance, and evaluate the impacts of MSE preferential treatment for social protection and sustainability of the pension system. The impacts of special legal status on productivity and the labour market have also been the subject of various research papers.

The effectiveness of preferential legal regimes created to promote formalisation of small enterprises should be assessed considering the capacity to promote economic inclusion through formalisation with a reasonable cost33.

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2.1 Impacts on Business Registration and Formalisation

Different authors have studied the impacts of simplified MSE regimes on increasing business formalisation using different methodologies. Exploratory studies show that the Monotributo regime in Argentina has resulted in a significant growth of enterprises since its introduction in 1998.\(^{34}\) During the COVID-19 pandemic, the unemployment rate increased, and this trend accelerated as many former employees opted to register themselves as self-entrepreneurs in order to generate income.

In Ecuador, the trend of formalisation of enterprises during the pandemic, as seen in Figure 4, was also helped by the Simplified Joint Stock Company (Sociedade por Ações Simplificada) SAS regime. Official data from Ecuador shows that since the creation of the new SAS, it has been the most used corporate vehicle in Ecuador, making up 66% of the total number of new incorporations.

Government data shows that 36% of companies helped by SAS are constituted with a capital of less than US$400, while only 32% involve capital contributions greater than US$1,000. This shows that the elimination of the minimum required capital entry barrier has promoted the constitution of new companies, in particular smaller ones. Since the implementation of the SAS, the electronics sector has grown and represents, on average, 55% of the total constitutions at a general level. Since enterprise creation was digitalised in April 2021, electronic constitutions have surpassed physical constitutions.

*Figure 4 – Ecuador - SAS impact on enterprise creation during the Covid-19 pandemic*

According to a survey aimed to identify the primary reasons why entrepreneurs choose to establish a Simplified Stock Company (SAS), conducted by the Ecuadorean government, the Simplified Stock Company (SAS) form is popular among entrepreneurs. 65% of respondents cited the possibility to formalise without needing a notary as the main advantage of the scheme. Reduced registry time was the main reason for 17% of respondents, while 12% indicated that the main reason for choosing the model was not having to go in person to the commercial registry. Additionally, 6% said that the absence of a minimum capital requirement was the reason they chose to formalise under SAS. These results suggest that the SAS form is seen as an accessible and convenient option for entrepreneurs looking to formalise their businesses in Ecuador.

Similar data is exemplified by Cabo Verde; the significant increase in the number of enterprises created under the REMPE regime, from 1,439 in 2016 to 6,049 in 2019, highlights the positive impact of this initiative on the country’s entrepreneurial ecosystem.\(^\text{35}\) The Monotributo system in Argentina has been in place for 23 years and continues to gradually include low-income workers. Starting with 642,000 voluntary adherents in 1998, the system now boasts over 4,000,000 voluntary adherents.\(^\text{36}\) More than a million and a half of those enrolled in the Monotributo have at the same time registered salaried work.

The simplified MSE regimes adopted in Brazil have also been the object of extensive studies. The Brazilian MSE support agency continuously monitors the numbers of formalisation of new business based. Data shows that the Simples Nacional and MEI regimes have allowed an increased number of enterprises created in Brazil.\(^\text{37}\) The total of registered MSEs that benefit from special legal status reached 21.6 million in 2023, including both the Simples Nacional and MEI status. The total number of firms grew from 2.5 million Simples firms in 2007 to 6.7 million registered firms in the Simples Nacional regime in 2023.\(^\text{38}\) The MEI started in 2009 with less than 1 million registered entrepreneurs and now has around 14.8 million registered, which shows it promoted the formalisation of more than 10 million new enterprises in the last decade.

2007 data from Sebrae also shows that Simples enterprises represented 11% of the total business owners in Brazil. In 2019, they represented 50% and, in 2023, the estimations are that they will represent 60% of total formal business owners. The survival rate of Simples enterprises for companies created in 2012 and checked in 2014 was 83% versus a 38% survival rate for non-Simples enterprises created in the same year.\(^\text{39}\) Qualitative data from Sebrae research that interviewed 6456 entrepreneurs showed that the main motivations for formalising were access to social security (30%),


\(^{36}\) Gonzalez, D. (2022) Monotributo: Puente a la formalidad y la inclusión social, CIAT. Available at: https://www.ciat.org/ciatblog-monotributo-puente-a-la-formalidad-y-la-inclusion-social/


having a formal enterprise (23%) and the possibility of issuing an invoice (12%).

Literature reviews on the impact of the MEI tax regime to business formalisation in Brazil have mixed results with a positive tendency. A study that examined the impacts of the MEI regime identified that after the contribution towards social security was reduced from 11% to 5% of the minimum wage, eligible sectors experienced an increase of 4.3% in the number of registered firms, although the effects were restricted to the first 6 months after the new rules were implemented. The hypothesis presented is that when the contribution was lowered, the regime became more attractive for small entrepreneurs. The same study shows that MEI didn’t impact significantly on the proportion of formal and informal workers nor on the employment rate. The study is limited to the 16 months after the reduction of the social contribution in August 2012 which could limit the extent to which the conclusions can be extrapolated to other settings.

The impact of the Simples Nacional regime specifically on formalisation has also been studied, with varying results. While some studies have found that the simplified tax status has contributed to formalisation in eligible sectors, controlling for ineligible sectors, others have found no such effect. One study, conducted in 2011, found that the policy had positive effects on formalisation rates only in the retail sector. In contrast, a more recent study from 2018 found no formalisation effects at all. Two other studies, conducted in 2018 and 2021, have questioned the effectiveness of the regime on increasing formalisation rates, despite the reduction in formalisation costs.

It should be noted that the methodologies used in each study may have influenced the final conclusions. Overall, while there is evidence to suggest that the Simples Nacional regime has contributed to formalisation in some sectors, its effectiveness in increasing formalisation rates across the board remains a matter of debate. Limited information is available regarding the specific impact of registration and formalisation for small agricultural enterprises specifically, highlighting the need for additional data and monitoring to gain a better understanding of the effects of these reforms in specific sectors, such as agriculture.

### 2.2 Impacts on Tax Compliance and Collection

The impacts of MSE special legal statuses on taxation have been well studied by the literature; there is evidence that they increase tax compliance and revenues. For example, the REMPE regime in Cabo Verde has significantly increased the number of tax declarations submitted to the government, as

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42 Ibid.
43 Ibid.
44 Ibid.
evidenced by the rise from 1,508 declarations in 2015 to 25,412 declarations in 2019, representing an impressive increase of 158.5% in five years.\textsuperscript{47}

A study from the Brazilian MSE agency shows that the tax collected under the Simples Nacional special legal status as a proportion of total federal revenues grew from 4.2% in 2007 to 8.4% in 2018. The same study shows that, when asked about the main benefits of the Simples Nacional regime, entrepreneurs answered that "Knowing that they are up to date with taxes" and "knowing how much tax they pay" were the two most cited benefits of the special tax regime.\textsuperscript{48}

Evidence from Argentina shows that the Monotributo improves levels of tax compliance\textsuperscript{49}, especially the number of payments received compared to the total entrepreneurs registered under the simplified form. The Monotributo regimes in both Argentina and Uruguay have contributed to a raise in tax collection in nominal terms, although it remains of low significance in terms of GDP and total tax collected.\textsuperscript{50} Another study focusing on Brazil, Mexico and Argentina showed that small entrepreneurs appreciate the reduction in compliance costs and that business creation would be lower in the absence of special regimes.\textsuperscript{51}

In Ecuador the Internal Revenue Service (SRI) has collected around US$218 million in taxes from the SAS alone. Commerce, with 26.6% of total SAS incorporations, has been the major beneficiary of the SAS model, followed by the professional, scientific, and technical activities sector, which accounts for 19% of the total.\textsuperscript{52}

2.3 Impacts on Social Protection and the Job Market

According to the ILO, the Brazilian MEI programme has played a significant role in increasing social insurance coverage among self-employed workers. The coverage rate rose from 33% to 41.7% between 2009 and 2015\textsuperscript{53}, indicating a positive impact of the programme. Official data collected by the World Bank shows that, since the inception of the SAS corporate structure in Ecuador, around 25,000 workers have been registered in the Ecuadorian Institute of Social Security (IESS), of which approximately 40% are women.\textsuperscript{54}

Sebrae data shows that Brazilian Simples enterprises had a positive impact to net job creation when

\textsuperscript{47} Fortes, N. D. C. (2022). O REMPE e a tributação da economia informal: Doctoral dissertation, ISCAL.
\textsuperscript{49} Cetrángolo, O., et al. (2013) Desempeño del Monotributo en la formalización del empleo y la ampliación de la protección social. Economía, v. 13, p. 3.
\textsuperscript{50} Cetrángolo, O., et al. (2014) Monotributo en América Latina. Los casos de Argentina, Brasil y Uruguay, Oficina Regional para América Latina y el Caribe, Programa de Promoción de la Formalización en América Latina y el Caribe (OIT), 86 p.
\textsuperscript{52} De La Medina Soto, C. (2022) How have entrepreneurs boosted Ecuador’s economic recovery? World Bank Blogs. Available at: https://blogs.worldbank.org/latinamerica/how-have-entrepreneurs-boosted-ecuador’s-economic-recovery
\textsuperscript{54} De La Medina Soto, C. (2022) How have entrepreneurs boosted Ecuador’s economic recovery? World Bank Blogs. Available at: https://blogs.worldbank.org/latinamerica/how-have-entrepreneurs-boosted-ecuador’s-economic-recovery
compared to firms that do not benefit from the simplified legal status. Using official data and statistics Sebrae found out that Simples enterprises added more than 1,6 million new formal job posts from 2017 to 2019. During the same period other firms cut around 300 thousand job posts.55

A Sebrae qualitative survey56 with Brazilian MEIs shows that, in 2022, 42% of interviewed entrepreneurs declared that wanting to be independent was the main reason that led them to formalise under the regime, while 20% formalised because they needed a source of income. The survey findings highlight the crucial role of the MEI scheme in formalising the self-employed sector, as it serves as the sole source of income for 78% of all entrepreneurs. The same survey discovered that only 8% of the sample of MEIs had tried to hire a formal employee. The study of the MEI preferential regime for the formalisation of MSEs has shown a positive impact in terms of access to social protection, but the number of MEIs that move back into the informal sector is still high, reaching up to 40% in four years.57 According to a 2018 evaluation58, the MEI programme in Brazil may also have provided subsidised benefits to groups that do not necessarily require such treatment, leading to significant negative impacts on the social security system in the medium and long term.

The study analysed the profile of MEIs and estimated the magnitude of the imbalances generated by the MEI to the general pension regime. The results suggest that a restructuring of the MEI programme’s social security component is necessary to address these imbalances. This evaluation also highlights the need to observe the constitutional principle of financial and actuarial balance in the organisation of social security in Brazil, and to focus highly subsidised plans on low-income workers or the poorest, as mandated by the Constitution. The Brazilian government issued a new evaluation of the MEI programme in 2022 and one of the recommendations is to reform the rates of the contribution to social security to reduce any distortions.59

3. Conclusions and Lessons learned

The first chapter of this paper discussed the main features of MSE special legal status. It highlighted the importance of simplifying business registration as a means of reducing the bureaucratic hurdles that often discourage entrepreneurs from starting a formal business. Additionally, this chapter emphasised the significance of facilitating tax compliance, which can reduce the administrative burden on small businesses and make them more competitive, while reducing the burden on the tax administration office. Furthermore, the chapter explored other incentives such as providing access to social protection or finance to encourage MSEs and entrepreneurs to formalise by providing the necessary resources and safety nets to operate and expand their businesses. Finally, the chapter explored the extension of these measures to agricultural enterprises in some jurisdictions.

The second chapter acknowledged that there are positive and negative impacts to be considered when implementing MSE special legal statuses. For instance, while simplified business registration can lower the cost and time needed to start a business, it alone may not make formalisation more attractive.

Based on these findings, this third chapter will outline some lessons learned and promising practices that can help policymakers and stakeholders make informed decisions about MSE special legal status. Policymakers must be clear about their policy objectives, be aware of the potential trade-offs involved in implementing MSE special legal statuses and seek to carefully design and monitor these initiatives, keeping in mind the payment capacities of the targeted enterprises and balancing the benefits and costs of such initiatives to increase effectiveness and impact. Additionally, policymakers need to design policy in a way that does not allow MSEs to misuse the incentives provided, such as by using unified tax and social protection schemes to evade taxes or engaging in other fraudulent activities. Moreover, policymakers need to monitor and evaluate the effectiveness of these policies to ensure that they achieve their intended objectives.

In conclusion, MSE special legal statuses are policy initiatives that can help promote entrepreneurship, foster economic growth, and create jobs. While there are positive and negative impacts associated with MSE special legal status, policymakers and stakeholders can learn from the lessons and promising practices outlined in this paper to make informed decisions about its implementation. By doing so, they can help MSEs to transition to the formal sector and thrive, while promoting sustainable economic growth and social welfare.

Building upon these findings, the study also offers valuable lessons learned, below. These lessons provide insights into the effectiveness and sustainability of the regimes, challenges identified, measure to increase compliance.
3.1 Effectiveness and Sustainability

As recognised in this study, MSE special legal status regimes have shown positive impacts by reducing informality within various sectors. However, prioritising the sustainability aspect of these policies in planning and reforms is crucial to ensure their long-term continuity and effectiveness as public measures. For example, the implementation of policies aimed at facilitating the business registry process for MSEs have yielded positive results, evident in the increase in registered businesses in the case studies outlined. By simplifying bureaucratic procedures, these policies have made it easier for MSEs to comply with legal requirements and formalise their operations.

Formalisation encompasses more than just registering economic units and employment; it also requires improvements in productivity, working conditions, and access to quality social security services. Achieving full and productive employment and decent work for all is a crucial objective alongside formalisation efforts. So, while policies focused on reducing formalisation costs and simplifying registration have been effective in increasing the number of registered MSEs, it is important to address other factors for consideration, and barriers to MSE growth. For example, limited access to markets and formal financial services can hinder their potential. Thus, adopting integrated approaches to formalisation and promoting financial inclusion are essential to support MSEs.

To ensure substantive and lasting effects on the tax system, careful attention must be given to the process of MSEs transitioning from simplified legal status to the general tax and social security regime of their country. In other words, policymakers also need to ensure that schemes are designed in such a way that they facilitate a transition of MSEs to the regular regime to avoid a ‘growth trap’. This prevents small taxpayers from remaining indefinitely within the simplified regime to solely benefit from its advantages, reducing the occurrence of “inclusion errors”61. Evaluation of the tax expenditure of these regimes is necessary to ensure they achieve their objectives.62 Improved structure and evaluation of tax expenditure can be an opportunity for enhancement in developing countries. Regular monitoring and evaluation of the effectiveness of simplified tax regimes for MSEs are essential.63

The Brazilian model provides valuable lessons in establishing feasible mechanisms for tax administrations to control and adjust subsidy levels in simplified legal forms. Gradually decreasing subsidies with business growth ensures the success of these models. Streamlining tax systems, ensuring effective tax collection, and promoting sustainable business growth can be achieved.

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through such measures. Additionally, web services and electronic solutions provided by tax administrations, such as mobile electronic invoicing, simplified accounting systems, and free electronic payroll, are promising trends in fostering the development of micro and small enterprises. These solutions aim to reduce ancillary obligations, making compliance easier, as demonstrated by positive experiences in Brazil and Chile.

Scholars have, however, raised concerns about the broad focus of certain regimes, such as MEI and Monotributo, which may have a negative impact on public expenditure due to subsidised social protection benefits. Policymakers need to reassess these programmes to ensure they target those in genuine need and that the social protection benefits are appropriately calibrated to achieve their intended objectives.

### 3.2 Compliance and enforcement challenges

Enforcement and monitoring of regulations are crucial to prevent exploitative practices and to ensure that simplified regimes do not inadvertently contribute to further informality. Policymakers face various challenges when designing simplified legal statuses for MSEs to promote formalisation, as revealed by the research findings. These regimes have the potential to enhance tax compliance and reduce compliance costs, benefiting both MSEs and the government. While reducing tax compliance burdens can be advantageous for MSEs, it may inadvertently incentivise illicit activities to exploit privileged tax treatment, which hampers sustainable growth. Concerns arise regarding potential misuse of these regimes, such as illicit registration and enterprise split or to remain intentionally small to evade taxes.

There are also risks of digitising systems; introducing digital taxation as a mandatory requirement for business registry carries the risk of exclusion for those lacking digital access. Policymakers must carefully consider the implications for individuals with limited digital inclusion and ensure alternative options are available to prevent exclusion. While digital taxation offers numerous advantages, it is essential to avoid exacerbating existing inequalities.

While simplified regimes have proven beneficial in expanding access to social protection, policymakers should beware of disguised employment relationships. Instances have been identified where employees are dismissed and subsequently rehired as Individual Micro Entrepreneurs, performing the same activities under precarious conditions with diminished labour rights.

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66 Guilherme Schymura, L. (2023) MEI, um programme com muitos problemas, precisa de reformulação, e não de ampliação, Conjuntura Economica. Available at: https://portalibre.fgv.br/sites/default/files/2023-02/02ce2023-cartado-ibre.pdf
69 Ibid.
In light of these findings, policymakers must address these challenges effectively to ensure that simplified legal statuses for MSEs achieve their intended goals, promote formalisation, and foster sustainable and inclusive economic growth.

3.3 Increasing Compliance

Effective enforcement measures are crucial for the success of simplified legislation for MSEs, as highlighted by the study. Additionally, the research identifies several trends in compliance that show promise.

One such trend is the concept of "seamless taxation," where tax administrations strive to integrate their processes with the systems used by MSE taxpayers, such as accounting software or point-of-sale systems. This integration significantly reduces the compliance burden for MSEs by eliminating manual data entry and enabling real-time tracking of tax obligations. Not only does seamless taxation simplify the process of filing tax returns, but it also enhances compliance rates by minimising the likelihood of errors.

For example, the Chilean Tax Authority has implemented a pre-filled tax return system, which has proven effective in easing tax compliance and promoting voluntary adherence. Similarly, Brazilian tax authorities have begun experimenting with pre-filled tax returns for personal income tax. By embracing these trends and leveraging seamless taxation approaches, policymakers can streamline tax compliance for MSEs, encourage voluntary adherence, and foster a more supportive environment for their growth and success.

3.4 Social security as an incentive to formalise

Various countries have adopted successful strategies to enhance social security through the provision of incentives and special legal status. A notable approach involves offering benefits tied to social security, thereby promoting formality and social inclusion. This includes providing pension and health coverage for employees and their families, while reducing contributions to social security. Promising initiatives like the REMPE, Simples, and Monotributo regimes have embraced this trend.

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70 Collosa, A. (2022) The costs of tax compliance of SMEs, and a new management model. Inter-American Center of Tax Administrations (CIAT). Available at: https://www.ciat.org/ciatblog-los-costos-de-cumplimiento-tributario-de-las-pymes-y-un-nuevo-modelo-de-gestion/?lang=en
The simplification of legal status is a crucial factor in facilitating the portability and transferability\textsuperscript{75} of entitlements for mobile workers. By ensuring that social security systems are inclusive and cover individuals in all forms of employment, this approach contributes to a more fluid and comprehensive social security framework. Notably, integrating the self-employed into general social insurance schemes represents a particularly promising trend for social protection.

Argentina and Brazil have exemplified this policy integration within the framework of micro and small enterprises (MSEs). By incorporating the self-employed into broader social insurance systems, these countries have demonstrated a progressive and inclusive approach to social security.

### 3.5 Additional Measures and Support

The study identified additional support measures that have the potential to enhance the effectiveness of simplified legal regimes in promoting formalisation. By implementing these measures, policymakers and stakeholders can create a more conducive environment for businesses to operate within the formal sector. Examples include access to finance, market opportunities and new technologies. Different countries have started experimenting with new technologies to facilitate the transition formality.\textsuperscript{76} For example, Brazil has implemented measures to streamline the business registration process for the MEI by introducing a one-stop-shop system that enables entrepreneurs to complete the entire process online. This system also allows the use of a digital ID provided by the government to sign all the necessary documents electronically. These measures have significantly reduced the time and costs associated with starting a business, making it easier for entrepreneurs to comply with legal requirements. This has resulted in a more efficient and user-friendly system for business registration, which has had a positive impact on the business environment in Brazil.

The COVID-19 pandemic has accelerated the trend towards fully online business registration, which can be convenient and efficient for many entrepreneurs. However, it is important to recognise that not all entrepreneurs have equal access to digital resources or may prefer to conduct business in person. Therefore, it is crucial to offer in-person registration options, especially in areas where digital inclusion is still a challenge. The SAS model in Ecuador is one example of this approach, as it allows for both online and in-person registration. By offering multiple registration options, policymakers can help ensure that all entrepreneurs have equal access to the benefits of formalisation.

### 3.6 Effects on Small Agricultural and Rural Enterprises

It is more common, in the cases studied in this report, for agriculture to either be incorporated within the scope of generic simplified legal forms, or for it not to be explicitly excluded, rather than developing dedicated simplified legal forms exclusively for the agricultural sector. In certain


jurisdictions, additional benefits for small agricultural enterprises may be associated with simplified legal forms, but these benefits are still provided through the utilisation of the same generic simplified legal forms available for other sectors.

Older simplified regimes such as the Brazilian MEI and the Argentinean Monotributo were initially created to simplify tax and regulatory compliance for small businesses operating in urban areas. It became clear that these regimes were not designed with small rural agricultural enterprises in mind, which often face different challenges and operate in different contexts to urban MSEs. As a result, the legislation for both regimes were amended to include agricultural entrepreneurs, allowing them to benefit from the simplified registration and tax systems. However, after the inclusion of agricultural enterprises in the MEI and Monotributo regimes, some small rural entrepreneurs faced the risk of losing more beneficial pension benefits that were previously available to them. This prompted legislative amendments in both Brazil and Argentina to provide legal certainty and ensure that rural entrepreneurs continued to have access to these benefits. These amendments aimed to strike a balance between simplifying business registration and tax compliance for rural entrepreneurs while also ensuring that they receive adequate social protection. The more recently created Colombian Simplified Stock Company (SAS) is available to all enterprises, including those located in rural areas.
### 4. Case Studies

|----------|-------------------|----------------------|-------------|-------------------|-------------------|-----------|------------------------|-------------------|-------------------|
| Morocco  | Auto Entrepreneur  | 2013                 | Loi n°114-13| • 500,000 DH (~$48.1k USD) for industrial, commercial or craft activities  
• 200,000 DH (~$19.2k USD) for services  | Companies cannot have employees | No        | No                     | Yes               | No                | Yes (RNAE)          |
| Ecuador  | SAS                | 2020                 | Ley Orgánica de Emprendimiento e Innovación | No                | No                | No                     | No                | No                | Yes               |
| Brazil   | Simples            | 2006                 | Lei Complementar 113/2006 | Starting from January 2018, the EPP has gross revenue higher than R$ 360,000.00 and equal to or less than R$ 4,800,000.00 (~USD 923,805.26) | No                | Yes                   | Yes               | No                | No               |
| Brazil   | MBI                | 2008                 | Lei Complementar 113/2006 | Earn accumulated gross revenue of up to R$ 81,000.00 (~USD 15.5k) or proportional to the months of the year in case of starting activity. For the Autonomous Cargo Carrier MBI the accumulated gross revenue limit is up to R $ 251,600.00 (~USD 48,4k) | Maximum of 1 employee | Yes              | Yes                     | No               | Yes (Portal do Empreendedor) |
| Cabo Verde | REMPE             | 2014                 | Lei nº 70/VIII/2014 | Annual turnover, which cannot exceed 10,000,000 ECV (~$96,238 USD) | Maximum of 10 employees | No                     | Yes               | No                | Yes (Casa do Empresário) |
| Argentina | Monotributo        | 1998                 | Ley Nº 24,977 | • For activities related the commerce sector the annual gross income cannot exceed ARS 8,040,721.19 (~USD 40,554.46 USD)  
• For activities related to the services sector the annual gross income cannot exceed ARS 7,247,514.92 (~USD 553.38 USD) | No                | Yes                     | Yes               | Yes               | Yes (AFIP portal) |

*Figure 5 – Table summarising case studies of simplified legal statuses for MSEs discussed in this report*
Case Study 1 – Auto-entrepreneur status in Morocco

What is the Auto Entrepreneur legal status?

The “Statut de l’auto-entrepreneur” created by the “Loi n°114-13”, offers the possibility to obtain a formal legal status in a simplified way, to create an enterprise or formalise a professional activity.

Who can become an Auto Entrepreneur in Morocco?

Any person, working independently, and whose revenue collected does not exceed the following limits (Article 42 ter, II-A):

- 500,000 DH (~48,1k USD) for industrial, commercial or craft activities
- 200,000 DH (~19.2k USD) for services

Auto-entrepreneurs must (Article 42):

- Carry out an activity as an individual
- Carry out an activity of an industrial (with small-scale transformation and/or reduced mechanisation), commercial, artisanal, or service provider type
- Comply with the legislation in force when carrying out the activity

Examples of the target audience of the statute are:

- Artisan wishing to expand their market
- Project holder wishing to test their project idea
- Young person wishing to launch their startup
- Unemployed person wishing to develop their own activity
- Freelancer wishing to move out of the informal sector
- Foreign resident developing an activity in Morocco

In the Industrial/Commercial/Artisanal sector, 67 different activities can opt for the auto-entrepreneur status (e.g., butchery, fruits and vegetables sales, music instrument production, seasoning production, e-commerce, textile sales, electronic sales, etc.). In the services sector **another 150 different activities** can benefit from the simplified status (e.g., gardener, electrician, transport services, tourism guide, freelance writing, web development, etc.). The auto-entrepreneur can combine several activities but can only create one auto-enterprise.

The turnover ceiling in this cast is determined as follows when the auto-entrepreneur combines several activities:

- The total turnover collected must not exceed the limit corresponding to the main activity (Article. 43, 1º)
- The turnover collected in each of the categories must not exceed the limit provided for each of them

Who cannot become an Auto Entrepreneur in Morocco?

- An activity requiring employees
• An activity whose turnover exceeds the limits provided for by the text of the law
• The status cannot replace regulatory authorisations or obligations related to trades (tourism, transport, catering, trade)
• The status cannot be a proof for obtaining an extended stay for foreigners
• Regulated professions such as architects, lawyers, doctors, notaries, and pharmacists are not eligible for the auto entrepreneur preferential treatment (Article 42 ter, III)
• Existing business under a classic business status may not switch to the auto-entrepreneur form

What are the advantages of the Auto Entrepreneur Statute?
The businesses registered under the Auto entrepreneurs simplified for are entitled to different benefits to encourage formalisation:
• Simplified income taxation – 2% rate for services and 1% rate for industrial, commercial, and artisanal activities
• Ability to issue invoices to customers
• Exemption from the obligation to register in the “Registre de Commerce” (Trade Register), replaced by registration in the Registre National de l’Auto-Entrepreneur – RNAE (National Register of Auto-Entrepreneurs)
• Social security and medical coverage (Article 42 ter, II, B)
• Simplification and dematerialisation of registration procedures and digitalisation of the tax and social security contributions payment
• The auto-entrepreneur can carry out his activity with a brand name, by resorting to protection through the trademark system

What are the obligations of the Auto Entrepreneur Statute?
• Invoicing
• Declaration of turnover and quarterly tax payment. To declare the turnover and pay the self-entrepreneur tax contributions the auto-entrepreneur must:
  — Complete a pre-established declaration template for the turnover received
  — File the completed template with the agency where he registered
  — Pay the tax due (since 2023 when the annual turnover for services rendered on behalf of the same client exceeds eighty thousand dirhams, the excess amount is subject to income tax through withholding at source at the rate of 30%, re. article 42).

What is the process to become an auto entrepreneur?
To formalise as an auto entrepreneur three steps must be followed (Article 44):
1. Pre-registration on the RNAE online (rn.ae.gov.ma): complete the registration form, print it, and sign it
2. Registration with bank branches with a copy of the CIN for Moroccans and a copy of the residence permit for foreigners, the pre-registration form, and a photo
3. Obtaining the auto-entrepreneur card

Once registered, the auto-entrepreneur is recognised through:
The Common Enterprise Identifier (ICE), which is its RNAE number

Tax ID with the Directorate General of Taxes (DGI)

Business tax identification number

The auto-entrepreneur card justifies the status of auto-entrepreneur as an economic agent. The card is not a professional card to exercise certain trades requiring authorisations or regulatory obligations related to the trades of tourism, transport, restauration, and commerce.

**Losing Auto Entrepreneur Status**

The entrepreneur can lose the auto entrepreneur status in different situations

- By request
- Change of legal form
- Does not pay social and tax contributions for a year
- Does not declare its turnover from the second year following registration
- Declares a turnover exceeding the threshold set for two consecutive years

To transition to the Auto-entrepreneur status to the classic business form the entrepreneur must apply for delisting from the RNAE and complete the formalities relating to the desired new status.

**Legal Framework**

<table>
<thead>
<tr>
<th>Year</th>
<th>Legislation</th>
<th>What Changed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Loi n°114-13 (Morocco)</td>
<td>Statut de L’auto-entrepreneur</td>
</tr>
<tr>
<td>2015</td>
<td>Décret n° 2-15-263 (Morocco)</td>
<td>Exclusion of certain professions from the benefits applicable to the auto-entrepreneur</td>
</tr>
<tr>
<td>2015</td>
<td>Décret n° 2-15-942 (Morocco)</td>
<td>Exclusion of certain professions from the benefits applicable to the auto-entrepreneur</td>
</tr>
<tr>
<td>2023</td>
<td>Code General des Impots 2023</td>
<td>Created the obligation to withhold income tax at the source when services for the same client exceed 80,000 dirhams</td>
</tr>
</tbody>
</table>
Case Study 2 – Facilitated enterprise registration: SAS in Ecuador

What is the SAS legal status?

The “Ley Orgánica de Emprendimiento e Innovación” approved in 2020 enabled the process of establishing a Sociedad por Acciones Simplificada SAS in Ecuador. The government implemented the reform to help reducing informality by creating a new simplified, cost-free type of enterprise that allows a single individual to start a business with maximum contractual flexibility, known as the simplified stock enterprise, SAS.

The legislation was implemented to establish a comprehensive institutional framework aimed at supporting entrepreneurship and innovation, streamlining the process of creating, operating, and closing down enterprises, and fostering public policies that provide technical, financial, and administrative support to entrepreneurs (Article 2). This process of setting up has been positively received by Ecuadorian entrepreneurs who have seen in this corporate figure an opportunity to formalise their businesses quickly and at no cost. They do not require a public deed, minimum capital and can be engaged in any commercial activity and constituted by a single person.

Objectives of the Legislation

The general objectives of the Ecuadorian legislation were (Article 2):

- Create an inter-institutional framework that makes it possible to define a State policy that promotes the development of entrepreneurship and innovation
- Facilitate the creation, operation, and liquidation of enterprises
- Promote the efficiency and competitiveness of entrepreneurs
- Promote public policies for the development of programmes of technical, financial, and administrative support for entrepreneurs.
- Strengthen the interaction and synergy between the educational system and public, private, mixed economy, popular and solidarity, cooperative, associative, community and artisan actors of the national productive system
- Promote innovation in productive development

Concerning the SAS model, the specific objectives was to create a type of commercial enterprise made up of one or more people, through a simplified procedure to promote the formalisation and development of companies.

What are the advantages of the SAS?

The many benefits of the Ecuadorian SAS include:

- Simplified registration process (article 19 – Ley de Compañías)
- Both physical and electronic registration (article 19 – Ley de Compañías)
- The possibility of a single shareholder (Section VIII – Ley de Compañías)
- No minimum capital requirement to be incorporated (Section VIII – Ley de Compañías)
- Full-fledged limited liability
- Indefinite period (Section VIII – Ley de Compañías)
• Optional use of intermediaries to incorporate an enterprise
• Broad purpose clause or not at all (Section VIII – Ley de Compañías)
• Flexible internal structure (Section VIII – Ley de Compañías)
• Optional oversight board (Section VIII – Ley de Compañías)
• Maximum freedom of contract (Section VIII – Ley de Compañías)
• Simple grounds for dissolution (Section VIII – Ley de Compañías)
• The possibility of keeping corporate and accounting books online
• The use of alternative dispute resolution methods.

What is the process to opt for the SAS?

An SAS that is constituted in a physical form, it takes about 6 days to be constituted, while an SAS which is constituted electronically takes about 2 days. The reduction in the constitution time of SAS compared to other types of companies is substantial and significant. There is no cost to register a SAS company despite the form (physical or electronic).

Legal Framework

<table>
<thead>
<tr>
<th>Year</th>
<th>Legislation</th>
<th>What Changed?</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Ley Orgánica de Emprendimiento e Innovación</td>
<td>Created the SAS figure in Ecuador</td>
</tr>
</tbody>
</table>
Case Study 3 – Monotax and Presumptive Taxation: Simples Nacional and Microempreendedor Individual (MEI) in Brazil

Simples Nacional:
Legal Reform to reduce Informality in Brazil

Brazil was one of the first countries in Latin America to create a simplified legal status to encourage the formalisation of MSEs. The right for preferential treatment small enterprises is enshrined in the Brazilian 1988 Constitution. The Brazilian Magna Carta considers the preferential treatment for small business a general principle of economic activity, in the chapter concerning the economic and financial order. It is one of the principles defined as fundamental to ensure work, free initiative, and a dignified existence in accordance with social justice.

In the 90’s the federal government initiated the process of creating a monotax regime for MSEs with the “Simples Federal” which integrated several federal taxes in a single payment. The Constitution was amended in 2003 to authorise the creation of an integrated regime with federal, state, and municipal taxes for small companies.

In 2006 the Brazilian “MSE General Law”, Complimentary Law 126/2006 was approved by Congress with many provisions to benefit small companies in different areas such as business registry, taxation, public procurement, credit, and innovation. The Simples Nacional preferential tax regime was created as an alternative to the general taxation regime.

In 2008 the law was updated by the Complimentary Law 128/2008 and the Microempreendedor Individual (MEI) simplified regime was created, targeting the formalisation and economic inclusion of entrepreneurs for which the Simples was not a strong enough incentive to move to formalisation, with an even more simplified system and the possibility to have coverage to some social protection benefits and the right to retire with minimum wage. Its main objective is to reduce informality.

The legislation was updated several times since then to increase the activities that can benefit from the preferential regime and to increase the annual revenue threshold of both MEI and Simples Nacional. The Simples Nacional which started with a BRL 2.4 million threshold was updated twice, first to increase the threshold to BRL 3.6 million and then another time to BRL 4.8 million. The MEI started with a much smaller annual threshold of BRL 36k which also increased twice, first to 60k and then to 81k.

Informality and structure of the MSE business sector

The National Household Sample Survey – PNAD shows that there are 173.7 million working-age Brazilians. Among the 99.7 million who are economically active, only 51 million are formal employers or have a formal employment contract. Even with the considerable advances achieved with the enterprise formalisation programmes there is still a big portion of the Brazilian workers that were not
affected by the policies and remain in the informal sector.

There are a total of 21.2 million enterprises registered in the Simples and MEI tax regimes according to official data. The newest data available (Feb/23) shows that there are 14.6 million entrepreneurs registered as MEI and 5.6 million as “Microempresas” and “Empresas de Pequeno Porte” benefiting from the Simples Nacional Regime. In comparison the “Lucro Real” which is the general regime had 190,8k companies registered according to 2020 data, which represented only 1.4% of the total registered enterprises but accounted for ¾ of total federal tax collection.

**What is the Simples legal status?**

Simples Nacional – “Regime Especial Unificado de Arrecadação de Tributos e Contribuições devidos pelas Microempresas e Empresas de Pequeno Porte” is a differentiated, simplified and favored tax regime provided for by Complementary Law No. 123 of 2006, applicable to Micro and Small Businesses, as of January of 2007.

The Complementary Law No. 123, of 2006, institutes the National Statute of the Microenterprise (Microempresa - ME) and Small Business (Empresa de Pequeno Porte - EPP). The legislation establishes general norms related to ME and EPP in the Federal, State, and municipal levels. It encompasses:

- A differentiated tax regime - the Simple National - and
- Other aspects related to access public procurement, facilitating labour relations, measures to increase access to credit, innovation, and access to justice, among others.

The responsibility of regulating the Simple National regime lies with the Management Committee of the Simple National (Comitê Gestor do Simples Nacional - CGSN), regulated by Decree No. 6,038, of February 7, 2007. The CGSN, linked to the Ministry of Finance, has representatives of the federal, state, and municipal tax authorities. All States and Municipalities must participate in Simples Nacional.

**Objectives of the Simples Nacional**

The new Simples law aimed to simplify tax collection and benefit micro and small businesses in terms of taxation, particularly by facilitating the formalisation of business operating informally. It was recognised that the bureaucratic hurdles of the time were discouraging the formalisation of any type of enterprise in Brazil. Therefore, the law was introduced to address this issue and promote a more favorable environment for businesses to operate within the legal framework.

**Who can opt for the Simples?**

To be considered a microenterprise (ME) and a small business (EPP) under the Simples Nacional special regime, the taxpayer needs to meet two types of requirements:

- Regarding the legal nature, it needs to be a business partnership, simple partnership, individual limited liability enterprise, or individual entrepreneur.
- Regarding the gross revenue, it needs to observe the maximum annual threshold established
by law.

The current gross revenues thresholds (Articles 3 and 12) are:

- Since January 2012, the ME needs to have gross revenue equal to or less than R$ 360,000.00 (~USD 69,285.39).
- Starting from January 2018, the EPP has gross revenue higher than R$ 360,000.00 and equal to or less than R$ 4,800,000.00 (~USD 923,805.26).

For a legal entity starting its activity, the limits will be proportional to the number of months between the business registry and the end of the respective calendar year, considering the fractions of months as a whole month. There is an additional R$4.8 mi BRL limit for exports.

**Who cannot opt for the Simples?**

There are some companies that cannot opt for the Simples Nacional simplified tax regime, especially (Article 17):

- Companies that do not have the legal nature of a business enterprise, a simple enterprise, a limited liability individual enterprise, or an individual entrepreneur
- Companies that have earned gross revenue in the domestic market greater than R$ 4,800,000.00 or an additional limit of equal value for the export of goods and services
- Companies that have social security and tax debts
- Companies that engage in the activity of commercial banking, credit advisory, credit management, inter-municipal and interstate passenger transportation, electric power generation, importation or manufacturing of automobiles and motorcycles, importation of fuels and production of cigarettes and alcoholic beverages (except micro and small breweries and wineries).
- Companies that are subsidiaries of a legal entity with headquarters abroad
- Cooperatives
- Public administration entities

**What are the advantages of the Simples?**

The Simple National allows for the monthly collection, through a single collection document, of eight different taxes (Articles 13 and 18):

- Corporate Income Tax (IRPJ)
- Tax on Industrialised Products (IPI)
- Social Contribution on Net Income (CSLL)
- Contribution for the Financing of Social Security (Cofins)
- Contribution for the PIS/Pasep – Social Security
- Employer Social Security Contribution (CPP)
- Tax on Operations relating to the Circulation of Goods and on the Provision of Inter-State and Intra-State Transportation and Communication Services (ICMS)
- Tax on General Services (ISS)
What are the obligations of the Simples

Complementary Law No. 123 of 2006 determines that an electronic system be made available for providing the simplified calculation of the monthly value of the Simples Nacional. This system is the PGDAS-D (Article 18).

The amount due monthly by enterprises eligible for Simples Nacional is determined by calculating the effective rate, from the application of the tables of one of the five annexes of Complementary Law No. 123, 2006 that vary according to activity (industry, commerce, and services).

The amount due monthly, to be collected by ME or EPP, will be the result of the application of the effective rate on the monthly gross revenue earned. The calculation is done automatically by the system.

What is the process to opt for the Simples?

The option for Simples Nacional (Article 16) can only be made through the internet, via the Simplified National Portal, using a digital certificate or access code created online.

For companies that already exist and are taxed under a different tax regime, the option for Simples Nacional can only be made in the month of January, until its last working day.

Losing Simples Status

The exclusion of the Simples Nacional (Article 28) will be made ex officio or through communication from the microenterprise (ME) or small business (EPP). It will be done through communication from ME or EPP when it, spontaneously, wishes to stop opting for Simples Nacional (optional notification exclusion). It must be made by the ME or the EPP, through mandatory communication, when it has exceeded the annual gross revenue limit or the proportional limit in the year of beginning of activity or, still, has incurred in some other situation of prohibition.

Microempreendedor Individual (MEI):

What is the MEI legal status?

The Individual Microentrepreneur (Microempreendedor Individual) MEI special legal status is a public policy that aims to formalise independent workers with up to one employee and foster social security inclusion. It was introduced by Complementary Law no 128/2018 that updated the Brazilian MSE General Law to introduce an even simpler regime to reach informal workers that did not formalise with the creation of the Simples Nacional (Articles 18-A to 18-F).

The policy was created to help small business owners working individually to formalise by offering different benefits to make the way to formalisation easier.
Who can opt for the MEI?

The Individual Microentrepreneur (MEI) must follow these requirements, cumulatively to opt for the regime:

- Have a single establishment and professionally exercise organised economic activity for the production or circulation of goods or services (Article 18-A, §1º)
- Exercise one of the occupations determined in the Annex XI of CGSN Resolution No. 140, perform trading and processing activities of extractive products, or activities of industrialisation, trading, and provision of services in the agricultural scope (Article 18-A, §1º)
- Earn accumulated gross revenue of up to R $ 81,000.00 (~USD 15,5k) or proportional to the months of the year in case of starting activity. For the Autonomous Cargo Carrier MEI, the accumulated gross revenue limit is up to R $ 251,600.00 (~USD 48,4k) (Article 18-A, §1º)
- Do not participate in another enterprise as a holder, partner, or administrator
- Do not hire more than one employee, who can only receive 1 (one) minimum wage provided for in federal law

What are the advantages of the MEI?

The MEI pays the following taxes through a simplified fix monthly contribution that includes (Article 18-A, §3º, V):

- Social security contribution related to the individual entrepreneur as an individual contributor.
- For the general MEI: in the amount of 5% (five percent) of the minimum monthly contribution wage. For autonomous cargo carrier MEI: in the amount of 12% (twelve percent) of the minimum monthly contribution wage.
- BRL 1.00 for industrial and commercial activities and BRL 5.00 for service activities

Unlike Simples Nacional, the MEI is exempt from corporate income tax and employer social security contribution (except if hiring an employee.) The MEI is entitled to social security coverage for themselves and their dependents, with the following benefits:

For the entrepreneur:
- Retirement for age and disability
- Health benefits
- Social protection for maternity leave

For dependents:
- Survivors’ pensions
- Imprisonment allowance

What are the obligations of the MEI

Tax collection obligations are monthly, and payment can be made through the baking system or online, including an automatic debit option. The main obligations of MEI are:

- MEI will be exempt from issuing an invoice for individual consumers but is required to issue
an invoice when the recipient of the goods or services is a legal entity.

- Maintain a simplified Monthly Gross Revenue Report for proof of revenue
- Submit the Annual Declaration for MEI - DASN-Simei.
- Provide information in the case of hiring an employee.

What is the process to opt for the MEI?

The process to register as an Individual Microentrepreneur (MEI) and opting for the simplified tax payment system is done exclusively online through the “Portal do Empreendedor”.

Agricultural MEI – The Segurado Especial case

The Segurado Especial is the agricultural worker who, individually or in a family-based economy, works in agricultural or livestock activities in a small agricultural property or as an artisanal fisherman, or in other agricultural activities defined by law. Agricultural workers who opt for this regime have simpler rules than those of the MEI to access retirement benefits worth one minimum wage.

With the inclusion of agricultural activities in the MEI, some beneficiaries of the special social security scheme called “Segurado Especial!” regime formalised themselves as entrepreneurs. With formalisation came an increased risk of losing access to social security benefits.

Individuals under the “Segurado Especial” regime were at risk of losing their social security benefits when formalising as individual microentrepreneurs (MEI) because the government automatically cross-referenced business registration data and deemed that engaging in any entrepreneurial activity beyond rural work would result in the loss of their entitlement to benefits.

The authorisation for agricultural activities within the MEI framework was introduced in 2014. However, it was necessary to revise the legislation in 2016 to safeguard the more favourable retirement conditions that agricultural workers are entitled to, ensuring that they would not lose these benefits.

Losing MEI Status

- Taxpayers can exit the MEI voluntarily or mandatorily when:
  - They exceed the gross revenue limit.
  - They engage in an activity not listed in the government annex.
  - They have more than one establishment or participate in another enterprise as an owner, partner or administrator.
  - They hire more than one employee.
## Evolution of the Legal Framework of The Simplified Legal Status

<table>
<thead>
<tr>
<th>Year</th>
<th>Legislation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>Federal Constitution</td>
<td>Grants MSEs the right for preferential treatment including taxation</td>
</tr>
<tr>
<td>2006</td>
<td>LC 123/2006</td>
<td>Created the Simples simplified legal status with the revenue threshold of BRL 2.4 million</td>
</tr>
<tr>
<td>2007</td>
<td>Decreto nº 6.038, de 7 de fevereiro de 2007</td>
<td>Regulates the Committee for Simples Nacional Management</td>
</tr>
<tr>
<td>2008</td>
<td>LC 128/2008</td>
<td>Create the MEI simplified regime with the revenue threshold of BRL 36k</td>
</tr>
<tr>
<td>2011</td>
<td>LC 139/2011</td>
<td>Updated the revenue threshold to BRL 3.6 million for the Simples and BRL 60k for the MEI</td>
</tr>
<tr>
<td>2014</td>
<td>LC 147/2014</td>
<td>Universalisation of the Simples Nacional regime eliminating most activity restrictions</td>
</tr>
<tr>
<td>2016</td>
<td>LC 155/2016</td>
<td>Updated the revenue threshold to BRL 4.8 million for the Simples and BRL 81k for the MEI</td>
</tr>
<tr>
<td>2018</td>
<td>Anexo XI da Resolução CGSN nº 140, de 2018</td>
<td>Activities allowed to opt for the MEI simplified regime</td>
</tr>
<tr>
<td>2020</td>
<td>LC 174/2020</td>
<td>Allow settlement agreements involving debts of the Simples Nacional</td>
</tr>
<tr>
<td>2021</td>
<td>LC 188/2021</td>
<td>Includes autonomous cargo transporters as a special MEI category with higher revenue threshold</td>
</tr>
</tbody>
</table>
Case Study 4 – Taxation and informality: REMPE in Cabo Verde

What is the REMPE legal status?

The Special Regime for Micro and Small Companies (Regime Especial das Micro e Pequenas Empresas) – REMPE, aims to promote competitiveness, productivity, formalisation, and development of micro and small companies. The REMPE is part of the broader strategy to promote formalisation in Cabo Verde.

Introduced in 2014 by Lei nº 70/VIII/2014 The REMPE introduced a tax and contributory framework directed at informal production units, favorable to promoting their competitiveness, productivity, and formalisation.

The REMPE legislation was inspired in the special regimes of Latin America, especially the Brazilian MSE General Law. The MSE legislation of Angola and Mozambique were also sources of influence for the legal framework.

Objectives of the REMPE Simplified Regime

The REMPE simplified legal status aims to simplify tax payments, reduce entry and operating costs, together with public policies of incentives and special programmes for the development of micro and small enterprises (Article 1). It intends to cover trade, service, and industry activities, which are mostly informal units characterised by small revenue and number of workers. Until the advent of REMPE in 2014 these enterprises were taxed under the estimation method.

Who can opt for the REMPE?

To qualify for the REMPE category, micro and small enterprises had to meet two criteria the number of workers, a maximum of 10 employees, and the total annual turnover, which cannot exceed 10,000,000 ECV (~ 96,238 USD) (Articles 3 and 4).

Who cannot opt for the REMPE?

- Regulated professions and importers cannot opt for the REMPE regime (Article 2)
- Companies that have State participation are not allowed to benefit from REMPE preferential treatment (Article 2)
- Companies established in the International Business Center cannot opt for REMPE (Article 2)
- Subsidiaries of foreign companies cannot opt for REMPE (Article 2)

What are the advantages of the REMPE?

- The regime establishes a Unified Special Tax (TEU) of 4% on turnover (Article 25), payable quarterly, replacing Value Added Tax, Income Tax, Fire Tax, and Social Security (Article 24) contributions for the responsibility of the enterprise, thus reducing the tax burden for this type of taxpayer (compared to taxation in the estimation method)
• Simplification of relations with the tax administration, exempting companies from this regime from submitting annual accounts, as well as hiring accountants to organise their books

• Simplification of enterprise creation and tax payment procedures

• Access to a range of tax and customs support and incentives

• Access to social security coverage and benefits for business owners, including health and pensions

• Customs incentives

• Access to subsidised lines of credit

• Access to training/training programmes for partners/managers and workers

What are the obligations of the REMPE

To determine the TEU tax, a rate of 4% is applied to the quarterly turnover without deduction of discounts, and the payment is made by the taxpayer through a model form, accompanied by purchase and sales annexes that must be submitted electronically. Micro-enterprises that do not reach a turnover of 1,000,000 ECV (~1,620 USD) are exempt from paying the TEU.

The tax collected is split between the public treasury (30%) and the social security management body (70%). The small enterprises are not obliged to have organised accounting or a technical accountant, but they must have a purchase register and a sales register that can be replaced by computer records, which are annexes to the tax declaration.

In 2020, the requirement was introduced for them to have at least one bank account to handle business payments and receipts. From September 2022, all companies are required to implement electronic invoicing, a measure aimed at avoiding tax evasion. Micro and small enterprises that opt for REMPE have to register their workers with the social security management body (INPS).

What is the process to opt for the REMPE?

The formation and registration of micro and small companies is done through the one-stop shop of the “Casa do Cidadão”. The constitution document filed serves, for tax purposes, as a declaration of beginning of activity (for companies not existing companies) or change declaration (for existing companies).

Losing REMPE Status

The regime provides that if the taxpayer exceeds this amount for two consecutive years or three uninterrupted years, they are automatically excluded from the regime.
### Legal Framework

<table>
<thead>
<tr>
<th>Year</th>
<th>Legislation</th>
<th>What Changed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Lei nº 70/VIII/2014</td>
<td>Created the Regime Especial das Micro e Pequenas Empresas - REMPE</td>
</tr>
<tr>
<td>2015</td>
<td>Portaria nº 7/2015</td>
<td>Regulates the procedures for invoicing, registration and payment of the Unified Special Tribute by companies included in REMPE.</td>
</tr>
<tr>
<td>2016</td>
<td>Decreto-lei nº. 12/2016</td>
<td>Clarification of the scope of application of the law and the scope of the minimum payment of the unified special tax is introduced, as well as the procedure for the settlement of the unified special tax</td>
</tr>
<tr>
<td>2016</td>
<td>Lei nº 5/IX/2016</td>
<td>Updates the REMPE tax regime rules</td>
</tr>
</tbody>
</table>
Case Study 5 – Social Protection: Monotributo in Argentina

Legal evolution of the Monotributo

The Monotributo regime was introduced into the Argentine tax system in July 1998 with the enactment of Law 24,977, although it only began to fully apply in October of that year. Since its origins, the basic structure of this regime has included the possibility for small taxpayers (those with up to a maximum amount of annual gross income) to comply with their main tax and social security obligations through the payment of a certain fixed amount of money.

Over the almost 24 years of the regime's existence, the basic parameters have of the Monotributo changed substantially. With the creation of the regime the definitions for categories of small taxpayers were created. The single tax replacing the VAT and CIT was created as well. A special regime was created for small agricultural taxpayers as well.

The legislation was reformed in 1999, to include among other changes work cooperatives as beneficiaries.

The Monotributo system in Argentina has received both praise and criticism. Critics argue that it contributes to job precarity by discouraging formal employment relationships, which results in fewer benefits and protections for individuals. Limited social protection is another concern, as the relatively low contributions made through Monotributo can leave individuals with inadequate coverage during unforeseen circumstances. Moreover, there is a call for a higher-level Monotributo system that offers increased social protection, higher contribution thresholds, and enhanced benefits to better support entrepreneurs and small business owners. By addressing these concerns, policymakers can create a more inclusive and supportive environment for individuals in Argentina operating within the Monotributo system.

What is the Monotributo legal status?

The Monotributo legal status created in 1998 by the “Ley N° 24,977” is a simplified legal status that unifies in single monotax the contributions related to the sales tax and income tax, the contribution for retirement and the contributions for healthcare assistance (Articles 4, 6 and 11). The total amount to be paid varies according to the activity sector — sales of goods or provision of services.

The Monotributo is formed by 3 components:

- “Componente Impositivo”: the integrate tax comprising the IVA (value added tax) and the corporate income tax.
- “Componente Jubilatorio”: the pension contribution
- “Aporte a Obra Social”: the healthcare plan contribution
The objective of the simplified legal status is to make it simpler and faster for entrepreneurs to fulfil their obligations. To stay in the simplified regime entrepreneurs must comply with annual revenue thresholds, size of the business premises, electricity consumption and the total rent paid for the business premises.

**Who can opt for the Monotributo?**

There are different Monotributo categories assigned based on the entrepreneur activities (Article 3), which are separated into two large groups: provision of services and sales of goods. The categories go from A to K as in the table below, and the total monotax to be collected increase in a progressive fashion according to the category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Gross Revenues</th>
<th>Tax Component (Services)</th>
<th>Tax Component (Sales of Goods)</th>
<th>Pension Component</th>
<th>Healthcare Component</th>
<th>Total (Services)</th>
<th>Total (Sales of Goods)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$ 999,657,23</td>
<td>$ 496,85</td>
<td>$ 496,85</td>
<td>$ 2,192,15</td>
<td>$ 3,061,75</td>
<td>$ 5,750,75</td>
<td>$ 5,750,75</td>
</tr>
<tr>
<td>B</td>
<td>$ 1,485,976,96</td>
<td>$ 957,27</td>
<td>$ 957,27</td>
<td>$ 2,411,36</td>
<td>$ 3,061,75</td>
<td>$ 6,430,38</td>
<td>$ 6,430,38</td>
</tr>
<tr>
<td>C</td>
<td>$ 2,080,367,73</td>
<td>$ 1,636,83</td>
<td>$ 1,512,56</td>
<td>$ 2,652,52</td>
<td>$ 3,061,75</td>
<td>$ 7,351,10</td>
<td>$ 7,226,83</td>
</tr>
<tr>
<td>D</td>
<td>$ 2,583,720,42</td>
<td>$ 2,689,05</td>
<td>$ 2,484,46</td>
<td>$ 2,917,75</td>
<td>$ 3,638,26</td>
<td>$ 9,245,06</td>
<td>$ 9,040,47</td>
</tr>
<tr>
<td>E</td>
<td>$ 3,042,435,05</td>
<td>$ 5,115,04</td>
<td>$ 3,967,80</td>
<td>$ 3,209,55</td>
<td>$ 4,452,02</td>
<td>$ 12,776,61</td>
<td>$ 11,629,37</td>
</tr>
<tr>
<td>F</td>
<td>$ 3,803,043,82</td>
<td>$ 7,036,89</td>
<td>$ 5,180,81</td>
<td>$ 3,530,49</td>
<td>$ 5,145,02</td>
<td>$ 15,712,40</td>
<td>$ 13,856,32</td>
</tr>
<tr>
<td>G</td>
<td>$ 4,563,652,57</td>
<td>$ 8,951,39</td>
<td>$ 6,459,54</td>
<td>$ 3,883,53</td>
<td>$ 5,512,52</td>
<td>$ 18,347,44</td>
<td>$ 15,855,59</td>
</tr>
<tr>
<td>H</td>
<td>$ 5,650,236,51</td>
<td>$ 20,460,26</td>
<td>$ 15,856,76</td>
<td>$ 4,271,88</td>
<td>$ 6,615,02</td>
<td>$ 31,347,16</td>
<td>$ 26,743,66</td>
</tr>
<tr>
<td>I</td>
<td>$ 6,323,918,55</td>
<td>$ 25,575,36</td>
<td>$ 4,699,08</td>
<td>$ 8,190,03</td>
<td>$ 8,190,03</td>
<td>$ 38,464,47</td>
<td>$ 38,464,47</td>
</tr>
<tr>
<td>J</td>
<td>$ 7,247,514,92</td>
<td>$ 30,054,72</td>
<td>$ 5,169,03</td>
<td>$ 9,166,53</td>
<td>$ 9,166,53</td>
<td>$ 44,390,28</td>
<td>$ 44,390,28</td>
</tr>
<tr>
<td>K</td>
<td>$ 8,040,721,19</td>
<td>$ 34,526,76</td>
<td>$ 5,685,87</td>
<td>$ 10,505,29</td>
<td>$ 10,505,29</td>
<td>$ 50,717,92</td>
<td>$ 50,717,92</td>
</tr>
</tbody>
</table>

The Monotributo regime is open to entrepreneurs that:
- Sell products or provide services
- Integrate a work cooperative

Entrepreneurs must observe the following gross annual revenue limits to opt for the Monotributo status, related to the activity sector:
- For activities related the commerce sector the annual gross income cannot exceed ARS 8,040,721.19 (~$40,554.46 USD).
- For activities related to the services sector the annual gross income cannot exceed ARS 7,247,514.92 (~$36,553.82 USD).
Who cannot become Monotributista?
The Monotributo regime is not available to entrepreneurs that:

- Have imported goods and services for marketing in the last 12 months
- Develop more than 3 simultaneous activities or have more than 3 different business locations
- Commercialise goods with value exceeding ARS 85,627.66 (~430 USD).

Entrepreneurs in these situations must enrol in the general regime.

What are the advantages of the Monotributo?
The enterprises opting for the Monotributo regime enjoy some advantages to encourage formalisation:

- Exemption in Tax to Credits and Debit: Argentina has a bank transactions tax for financial activities. Entrepreneurs on the Monotributo regime are exempt from this taxation if they register in the “Registry of Fiscal Benefits”.
- Unified Monotributo: the federal tax system is integrated with 13 different provincial tax and allows the collection of federal, provincial, and municipal taxes in single monthly payment.
- Tax simplification: the payment of a single monthly fixed fee you cover the payment of tax and social security obligations.
- Multiple payment channels: The monotributista can pay with electronic transfer, automatic debit, or credit card, through ATM, among other options.
- Incentive to compliance: Entrepreneurs that comply in a timely manner with the monthly payment for a calendar year with automatic debit or credit card, have the right to get a cashback equivalent to the amount of the tax component of one monthly payment instalment.
- Family allowances for children.

What are the obligations of the Monotributo?
Entrepreneurs must pay the monthly contribution by the 20th of each month (Article 15). The payment can be made through electronic transfer, credit and debit card, ATM and other means of electronic payment accepted by the Argentinian Central Bank.

Entrepreneurs that enable automatic debit to their accounts or credit card can access the benefit of reimbursement of part of the contributions paid as a programme to foster compliance.

Monotributistas of all categories must issue an electronic invoice for operations with final consumers. The tax administration provides the option to use a free mobile invoicing system. Smaller categories have a simplified invoicing procedure.

What is the process to opt for the Monotributo and what are the different categories?
The first step to formalise as a Monotributista is to create the Single Tax Identification (Clave Única de Identificación Tributaria – CUIT). This is the code with which the Argentinian Tax Authorities
identify autonomous workers and enterprises. The procedure is free and can be done digitally.

The procedure to registration involves four steps: deciding between the different categories of Monotributo, selecting the desired activity. The Monotributo regime has different categories that influence on the calculation of the monthly fee, also detailed in the table below:

- **Independent Worker** – the most common category intended for entrepreneurs selling goods or providing services, including in the primary sector, and pays the tax, social security, and healthcare components of the Monotributo. Additionally, when working in a relation of dependency only have to pay the tax component of the Monotributo.
- **Member of a Cooperative** – in this regime the entrepreneur pays the pension and healthcare components and is exempt from the tax component of the Monotributo if the yearly gross revenues are under ARS 999,657.23 (~ 5.042 USD). Above that revenue threshold they pay fully as a regular independent worker. The cooperative must be regularly registered with the tax authorities.
- **Promoted Independent Worker** – certain activities that fulfil legal requirements only pay 5% of the monthly gross revenues as the contribution to pensions. Optionally they can pay for healthcare coverage.
- **Monotributo Social** – this is a category with a social inclusion component, intended to promote the social and popular economy. Small entrepreneurs registered in the National Registry for Local Development and Social Economy have the tax and pension components 100% subsided and pay 50% of the healthcare plan. A specific category has also been introduced for family farmers – Monotributo Social Agropecuario, which is fully subsidised.
- **Simplified Special Regime** – intended for small agricultural producers that have as their main activity the cultivation of tobacco, sugar cane, mate or other leaves used to prepare infusions, provided that it is the only source of income (excluding pensions and other social inclusion programmes). This category is exempt from the tax component and has to pay the pension/healthcare component with a 50% discount.

<table>
<thead>
<tr>
<th>Category</th>
<th>Tax Component</th>
<th>Pension Component</th>
<th>Healthcare Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Worker</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Member of a Cooperative</td>
<td>Exempt if yearly revenues &lt; ARS 999,657.23</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Promoted Independent Worker</td>
<td>Exempt</td>
<td>5% of monthly revenues</td>
<td>Exempt</td>
</tr>
<tr>
<td>Monotributo Social</td>
<td>Exempt</td>
<td>Exempt</td>
<td>50% discount</td>
</tr>
<tr>
<td>Simplified Special Regime</td>
<td>Exempt</td>
<td>50% discount</td>
<td>50% discount</td>
</tr>
</tbody>
</table>
The second step is selecting the desired activity in the registration system. The system automatically identifies activities that are not compatible with the special regime. The third step involves selecting the pension regime and finally selecting their healthcare assistance plan. There is the possibility to integrate family plans and include optional family coverage.

Legal Framework

<table>
<thead>
<tr>
<th>Year</th>
<th>Legislation</th>
<th>What Changed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ley N° 24.977</td>
<td>1998</td>
<td>Created the Monotributo tax regime for small enterprises</td>
</tr>
<tr>
<td>Ley N° 25.239</td>
<td>1999</td>
<td>Reform of the legislation with the inclusion of work cooperatives and several updates concerning contributions</td>
</tr>
<tr>
<td>Ley 25.865</td>
<td>2004</td>
<td>Reform splitting services from other activities and creating new categories of Monotributo</td>
</tr>
<tr>
<td>Ley 26.223</td>
<td>2007</td>
<td>Grants reductions and exemptions for certain categories of the Monotributo</td>
</tr>
<tr>
<td>Ley 26.565</td>
<td>2009</td>
<td>Increase the revenue threshold</td>
</tr>
<tr>
<td>Ley 27.346</td>
<td>2016</td>
<td>Increase the revenue threshold</td>
</tr>
</tbody>
</table>