Lula loses as Brazil financial tax nixed

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SAO PAULO, Brazil --
Brazil's Senate on Thursday refused to renew a financial transaction tax that fills the government's coffers, handing President Luiz Inacio Lula da Silva a political defeat that could threaten his social programs for the poor.

The vote held before dawn after months of contentious debate fell four votes shy of the 60 percent majority needed to extend the tax until 2011, meaning Silva's administration stands to lose about $22 billion in revenue per year.

The money is used to fund programs ranging from health care to the president's famed anti-hunger program aimed at lifting Brazilians out of misery.

The government could try to get the tax levied on everything from checks to bank transfers renewed again next year, but the measure wouldn't go into effect until three months after passage.

As a result of the vote, the tax will be lifted on Dec. 31, creating an immediate budget shortfall.

The tax, known in Brazil as the CPMF, was established in 1993 as a temporary measure to subsidize the country's public health care system. It charges a 0.38 percent fee on all financial transactions nationwide.

The tax extension had already passed in Brazil's lower house of Congress, but senators who opposed the bill argued that the CPMF has elevated the nation's tax burden as government spending rose faster than economic growth.

They also said the tax hurts the poor and isn't needed anymore because the government's overall tax receipts have increased sharply as Brazil enjoys a sustained economic boom.

The government spends about 45 percent of CPMF revenues on anti-poverty efforts, 40 percent goes to health care and about 15 percent is used to help cover social security benefits, the Finance Ministry said.

Silva's administration could try to cut spending from the 2008 budget to make up the CPMF shortfall, or seek to have other taxes raised to reduce the deficit.

Jose Mucio, Silva's primary liaison with Congress, said the administration hasn't decided yet how it will find money to fund social programs and health care for the needy but "must look for new ways to make sure these Brazilians aren't left out."

Silva didn't immediately comment on the defeat, and headed on a prescheduled trip to Venezuela to meet with President Hugo Chavez.

But Dilma Rousseff, Silva's chief of staff, called an emergency meeting of top ministers at the presidential palace to plot strategy on how to make up the budget shortfall.

Silva launched his "Zero Hunger" program in 2003 after taking office as Brazil's first working class president.

It distributes $379 million a month to 45 million of Brazil's 185 million citizens so they can buy food, the government says. The main requirement is that families pledge to keep their children get them vaccinations.