

IMPROVING THE DECLARATION ORDER OF THE INCOMES OF INDIVIDUALS

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Abstract. This article is devoted to the consideration of issues related to the current system of the declaration of the incomes of individuals. In addition, the article represents proposals and practical recommendations based on the results of the research.

Key words: Individual, incomes of individuals, income tax, declaration, the rate of the income tax imposed on individuals.

Introduction. The practice of declaring the income of citizens is widely used in all economically advanced countries where the principles of freedom of the market economy and entrepreneurship are efficiently functioning. Filling in a declaration of income is a compulsory prerequisite for the implementation of financial transactions dealing with the real estate property, securities and other valuables which involve payment of taxes by the citizens. It should be noted that a declaration is required when the citizens' income sources are transparent and necessary to confirm their legitimacy.

Income declaration of citizens is one of the most efficient tools for preventing occurrence of the shadow economy, money laundering, corruption and bribery, as well as other economic crimes. Under conditions of the market economy modernization in Uzbekistan, in line with economic reforms, a number of reasonable measures in the taxation system including the taxation of individuals' income are being currently implemented. The state regulates the income and living standards of citizens by means of taxes. This impact determines the level of the legalization of the individuals' income, interest towards private entrepreneurs and attitude to the ownership. As

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the world practice illustrates, if both the level of impact and tax burden are high, the tendency to conceal the incomes increases, interest in earnings will be lost. However, if tax burden is low, there will be the opposite tendency.

According to the tax legislation of the Republic of Uzbekistan, the sources of individuals' income divided into 3 large categories, and the fourth category includes other incomes (Figure 1).

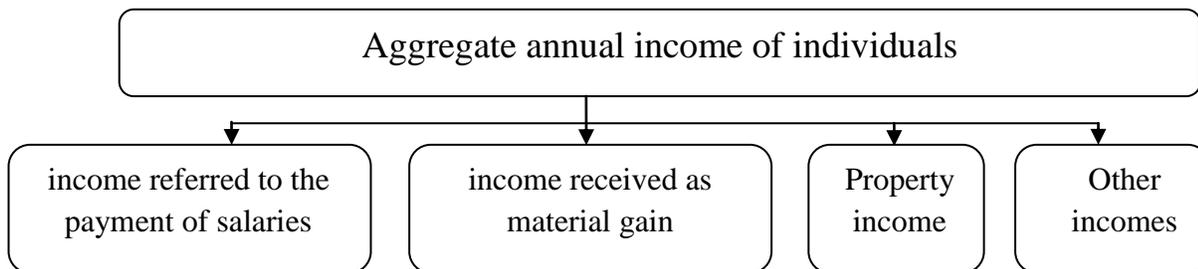


Figure 1. Structure of consolidated income of individuals¹.

With regard to the fact that the income of individuals is essentially divided into these groups, the issue taxation of each group is considered separately. Moreover, there is no separate rule how all individuals' income should be taxed. Income tax is determined by law with the account of the income's structure, source of revenue and other criteria.

The First President of the Republic of Uzbekistan I.Karimov in his book noted that “On the one hand, taxes levied from individuals can encourage employees to actively participate in the social production with their labour. On the other hand, the level of salary earnings should be proportionate to the efficiency of the labour spent, and the difference of employees' incomes should not become unreasonably big” (Karimov, 1998).

Literature review. Many scientists and economists have their own views on the income tax imposed on the population's income. The meaning of income tax implies such terms as progressiveness, family conditions and others. At the beginning of the 20-th century income tax and progressive taxation were recognized as the main pillar of the taxation system. The first experience of the income tax was implemented in England.

¹ Developed by the author on the basis of article 171 of the Tax Code of the Republic of Uzbekistan.

According to views of economists-researchers (J.M. Keynes, D.Lock, V.Petti, etc.), progressive taxation of individuals is based on the highest levels of social justice and the reduction of the difference of the population's income. However, other scientists such as R.Masgrave, P.Masgrave, I.V.Gorsky, V.G.Panskov and others argue that the introduction of the progressive scale can not be the only method to solve the problems existing in taxation. The experience of countries that have the potential to redistribute income taxation in addressing socioeconomic issues has shown that the most advantageous way to use the tax rate breakdown is the progressive rate of taxation for the establishment of justice principles (Izotova, 2014).

According to the opinion of economists of Uzbekistan A.V. Vakhobov and A.S. Jurayev, in the world practice tax privileges for socially vulnerable layers of population and progressive tax rates for people with high income are also applied. In addition, from their point of view, the taxation is used to perform one of its main functions – redistribution of revenue and allocation of funds to the people with lower income. (Vakhobov and Jurayev, 2009).

In economic literary sources, the concept of taxation is given various definitions and interpretations. Imposing income tax on individuals implies receiving and redistribution of a certain portion of the newly created value (Romanovskiy and others, 2008).

Determining the optimal scale of income tax levied on individuals is a key issue in the theory of modern optimal taxation. The theoretical foundation of this issue was reflected in the scientific article of J. Mirrlees who was Nobel Prize laureate in 1971 (Mirrlees, 1971). In this article he summarized and expanded F. Ramsey's analytical description (Ramsey, 1927) and proposed a mathematical model based on further research in this area.

In the model proposed by Mirrlees, definition of the income tax implies the government's aim to maximize public welfare. The aim of the government is to select such scale of taxation to make possible to collect the total amount of earnings.

E. Sadca (Sadca, 1976) in his article published after Mirrlees, expressed astonishing and controversial ideas of the article, and later on N.Stern (Stern, 1976) and G.Seade (Seade, 1977)

subsequently provided a logical explanation to the idea extended by Sadca: at the highest point of the income scale the tax rate should be equal to zero. Undoubtedly, it is impossible to create a Шубҳасиз, ушбу шароитда солиқtax scale under such circumstances. In this regard Mirrlis and his followers made researches on the issue of simplification of the tax rates. According to their approach, in the process of implementation of individuals' income taxes can be divided into linear and proportional. Thus a particular attention was paid to the income tax differentiation (Sheshinski, 1972).

Income tax imposed on individuals is a subsystem of fiscal relations, in particular, the relations which have arisen in the process of withdrawing some of their revenues to the state budget for the establishment of the centralized government fund.

If we consider the tendency of changes in income tax rates imposed on individuals over the years, the following data can be seen from Table 1 stated below.

Analysis. We can see that tax rates in 2017 didn't change in relation to tax rates in 2016 (Table 1).

Taxes and other compulsory payments currently paid by individuals to the state budget account for 10-11% of budget revenues. These indicators demonstrate that the income tax paid by individuals is significant in the structure of budget revenues.

The introduction of the declaration system of of the total income of individuals in the Republic of Uzbekistan as well as the ability to raise income of

Table 1**Comparative analysis of the rates of the income tax imposed on individuals in 2009-2017²**

Amount of minimum wage	2001	2002	2003	2004-2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016-2017
1 time	12%	13%	13%	13%	13%	13%	13%	12%	11%	10%	9%	8%	7,5%	0%	0%
2 times														8,5%	7,5%
3 times															
4 times															
5 times	25%	23%	22%	21%	20%	18%	18%	17%	17%	16%	16%	16%	16%	17%	17%
6 times															
7 times															
8 times															
9 times	36%	33%	32%	30%	29%	25%	25%	22%	22%	22%	22%	22%	22%	23%	23%
10 times															
Over 10 times															

² Developed by the author on the basis of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan on annual budgetary parameters of the Republic of Uzbekistan.

the citizens facilitate the creation of more favorable conditions for the development of private entrepreneurship and prevent spread of the shadow economy. Introduction of the declaration system of the annual income of citizens is an objective and necessary condition of formation of market relations. The taxation of individuals' income is carried out in the tax legislation of the Republic of Uzbekistan by the following methods:

- levying on the payment source;
- taxation on the declaration basis.

It should be noted that sustainable economic development of any country is impossible without the introduction of the declaration system of income, without establishing a sustainable system of voluntary submission of citizens' information on their income and their sources of income, which, in turn, can lead to the prevention of corruption and restricting shadow economy.

That is why based on the experience gained in the legal framework and based on the relevant regulatory acts, such kind of the system should be established and developed in our country.

Discussion and results. The introduction of the declaration system of the total income of individuals in the Republic of Uzbekistan as well as the ability to raise income of the citizens facilitate the creation of more favorable conditions for the development of private entrepreneurship and prevent spread of the shadow economy. Thus, it is considered to be an objective and important condition for development of the civilized market relations.

In our opinion, there are many issues that need solution in terms of taxation on the basis of the declaration system of individuals' income.

It is well known fact that in our country a taxable income of individuals which is obtained from two or more sources is taxed on the declaration basis. The maximum rate of the income tax imposed from individuals who get their income from two sources accounts for 23%. If the taxpayer doesn't submit any declaration, a single deduction of the minimum wage ("0" tax rate) is imposed on each source.

In this case, a taxable income of the individual from his non-basic workplace is taxed at the “0” tax rate. The same procedure is applied not only one non-basic workplace, but to the income gained from 2 or more non-basic workplaces. For example, if a taxpayer works in one basic workplace and has the second part-time job, the amount of tax deducted during a fiscal year accounts for 24 minimum wages, i.e. 4 133 760 (172 240 x 24) UZS.

As far as we know, when submitting a declaration anyway the income tax in amount at the minimum rate will be charged. However, in practice this process takes place after the end of the reporting year and after submission of the declaration. This, in turn, does not ensure timely tax payments to the state budget and may result in the occurrence of tax debts.

According to the Tax Code, in case of conclusion of more than one transaction for the twelve consecutive months on the sale of the housing of individuals, there is an obligation to pay the tax on income of individuals. Income from sales of residential premises is determined as the part of the sale of this property exceeding the value of the document approved. In case of absence of the documents confirming the value of property acquired, the difference between the value of the property sale, and as for the real estate - inventory value and selling price shall be recognized as income.

The mechanism of taxation of income received from the sale of the real estate owned by individuals on the basis of private ownership has the following weaknesses:

Formalization of the documents related to the real estate sale without deducting a taxable base often occurs in practice. For example, the actual price for the sale of the real estate accounts for 100 UZS, but in the notary offices this amount is declared as 20 UZS which affects this taxable base. In this case it is advisable to introduce the basic standards for the real estate sold by individuals in relation to the area of this housing or premise.

Citizens of foreign states who purchase property in Uzbekistan are obliged to notify the tax authorities of the fact that the information provided therein during the period of maximum ten

days from the date of the notarial action. However, during this period these foreign citizens can leave for overseas countries and this fact makes tax collection complicated.

It is necessary to reconsider the minimum standards introduced for the rent of non-residential premises of individuals. For example, according to the minimum fixed standard, in Tashkent city a non-residential premise (object for trade) with the total area of 25 m² can be rented for the total amount of 225 000 (25 * 9000) UZS and every month an amount of 16 875 (225 000 * 7,5 %) UZS is subject for an income tax. However, as researches justify, the cases of renting non-residential premise (object for trade) of the total area of 25 m² for 225 000 are very rare.

In order to improve the system of taxation through the declaration of individuals' income the following proposals are offered:

- it is advisable to calculate an income tax imposed on individuals without deducting a taxable income subject to zero rate taxation when levying an income tax from individuals who, besides the main place of work, get their income from in addition from part-time jobs (2,3, and etc);
- it is advisable to undertake relevant measures for levying taxes with the use of the above-mentioned norms when selling property of non-resident physical entities;
- it is desirable to reconsider the minimum standards introduced by rent of non-residential premises of individuals.

The practical application of the recommendations which we have developed enable to improve the taxation mechanism of the individuals' income as well as enhances the declaration system resulting in the timely receipt of tax revenues to the state budget.

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