
Issues of improving the system of taxing income of individuals in the Republic of Uzbekistan

Ruziev Ganisher Usarovich

Fiscal Institute under the State Tax Committee of the Republic of Uzbekistan, lecturer

Abstract. This article is devoted to the analysis of the system of taxing income of individuals in Uzbekistan in reliance upon investigation of international experience in taxation of personal income. Moreover, the article provides relevant proposals and recommendations aimed at further improvement of the income taxation system based on international experience with the account of the specific characteristics of the country.

Key words: income tax, social justice, living standards, minimum consumption expenditure, progressive scale, non-taxable minimum.

Introduction. One of the most important types of taxes in international tax practice is personal income tax, which necessity is related to its economic, social and political role. In terms of the economy, the fiscal function of income tax plays an essential role in the formation of state budget revenues. In Uzbekistan, income tax is the third largest source of budget revenue after value added tax and profit tax. Its average share in the state budget revenues constitutes 11.5 percent. The social nature of the income tax is expressed by its impact on the real income of the population, that is, it directly affects the living standards of the population through deductions, tax rates, tax incentives, etc. From a socio-political point of view, this tax makes an important impact on the effective implementation of the government's social policy and labor migration. On the other hand, from the position of social justice, there has emerged the issue of reforming the taxation of the population's income, enhancing efficiency the tasks and measures set in the strategies and programs to combat poverty in the country, as well as reducing the tax burden on the poor sections of the population with the account of the inequality of incomes between social layers strata and their average income. In addition, there are some problems with the mechanisms of tax calculation, tax deductions and tax incentives. Thus, it is crucially important to search for ways to improve the system of taxation of personal income, including the study of foreign experience to determine the methods and tools of tax regulation that can be used in the economic conditions of Uzbekistan.

Literature review. Harley (Harley, 2009), who studied the problems of taxation of personal income, in his article "The privilege of personal income taxation" researched the role of personal income tax incentives in increasing the population's income, and stated that tax incentives should be given for social expenses made by the population.

Agapova, a scholar-economist, states in her research that social tax deductions result in an increase in the efficiency of human capital due to the use of education and medical services, while reducing tax revenue in the budget (Agapova, 2007).

In the opinion of Aksenova, expressed on the issue of personal income tax, it is necessary to introduce a progressive tax scale in the Russian Federation (Aksenova, 2018).

O.I. Izotova in her research papers emphasizes the need to introduce a progressive scale in the taxation of the income of individuals in the Russian Federation, and argues that, along with social issues, the non-taxable minimum should be reflected and there should be some discounts (Izotova, 2015).

In addition, a foreign scholar-economist Buehler studied the issues of non-taxable minimum in his research paper (Buehler, 1933).

Research methodology. The methods of logical observation, critical study of literature, analysis and synthesis, induction and deduction, comparison, classification based on certain signs, legal analysis have been widely used in the processing of the data obtained during the research.

Analysis and results. In the first years of independence in Uzbekistan, personal income tax was introduced as an income tax levied from the population and was called by this name until the adoption of the Tax Code in 1997. In the early years, the devaluation of money was extremely high, which also made an impact on the state budget. As a result, the state budget was re-approved several times in one year. Consequently, income tax rates and tax collection procedures were frequently changed. Moreover, in 1992, income tax was levied on a progressive seven-step scale, with the highest rate being 60 percent. This period is known as the period with the largest scale and highest rate of personal income tax in the country. Later, the number and amount of tax rate scales were gradually reduced (Figure 1).

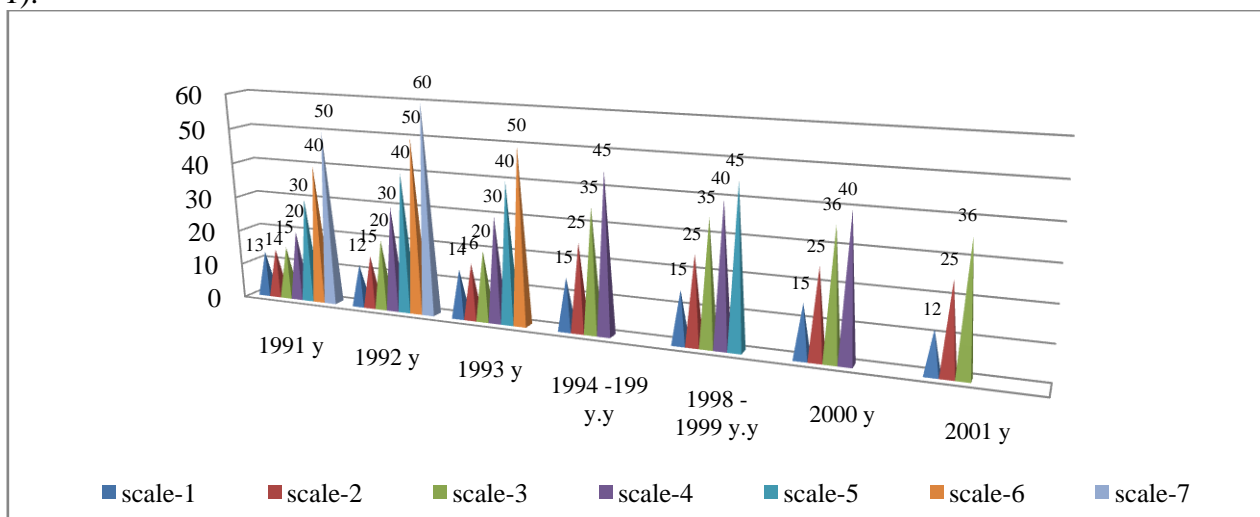


Figure 1. Personal income tax rates for 1991-2001*

Income tax, on the one hand, encourages employees to actively participate in social production with their own labor, and on the other hand, helps to make the salary level proportional to the effectiveness of the labor. In order to ensure that the difference in the income of hard-working people does not become unreasonably large, the income tax rates were reduced from five scales to three scales during 1997-2001, the highest rate from 45 percent to 36 percent, and then the highest rate within the period of 2002-2007 accounted for 25 percent, and as a result of the improvement of the tax legislation it reduced to 22 percent from 2008.

It is known that most individuals have the opportunity to earn income mainly through work activities. The fact that incomes are formulated from different sources necessitates introduction of limited tax relations towards them. In this regard, it is also necessary to emphasize that the income tax collected from individuals should not be limited to serving to increase budget revenues, but should also serve to improve living standards of the general public, as well as to enhance their solvency. The government regulates the income and living standards of citizens with the help of taxes. The extent of this influence

* Developed by the author in reliance upon the resolutions of the President of the Republic of Uzbekistan

determines the legalization of the income of individuals, interests in private entrepreneurship, and in what condition the property is maintained.

The world practice illustrates that if both the impact level and the tax burden are high, the tendency to hide income increases, and the interest in earning income fades, on the contrary, if the tax burden is low, the opposite happens. Accordingly, the rates of personal income tax in our country have been reduced over the years, and in 2019, the progressive rates of this tax were abandoned. As a result, until today this rate constitutes only 12 percent (Table 1).

Table 1

Comparative rates of personal income tax for 2002-2022
(in percent)
ii

Minimum wage rate	2000	2000	2000	2000	2000	2000	2000	2000	2001	2001	2001	2001	2001	2001	2001	2015	2016	2017	2018	2019	2020	2021	2022
1-fold															0	0	0	0					
2-fold																							
3-fold	13	13	13	13	13	13	13	12	11	10	9	8	7,5		8,5	7,5	7,5	7,5					
4-fold																							
5-fold																							
6-fold	23																						
7-fold																							
8-fold		22	21	21	20	18	18	17	17	16	16	16	16		17	17	17	16,5					
9-fold																							
10-fold	33																						
above 10-fold		32	30	30	29	25	25	22	22	22	22	22	22		23	23	23	22,5					
above-15 fold																							

Starting from 2019, insurance contributions deducted from the income of citizens to the extrabudgetary pension fund have been canceled. Accordingly, within the framework of this tax policy, the tax burden on wages was reduced by 1.5-fold. As a result, due to the legalization of the number of workers and the creation of new jobs, the number of people working in the official sector increased by 500 thousand during the year. In addition, as a result of this reform, the average income of the population is expected to increase by 6.5 percent.

Despite the reduction of income tax rates, income tax is gaining a certain share in the state budget due to the legalization of the number of workers and the creation of new jobs (Figure 2).

ⁱⁱ Developed by the author in reliance upon the resolutions of the President of the Republic of Uzbekistan and current Tax Code

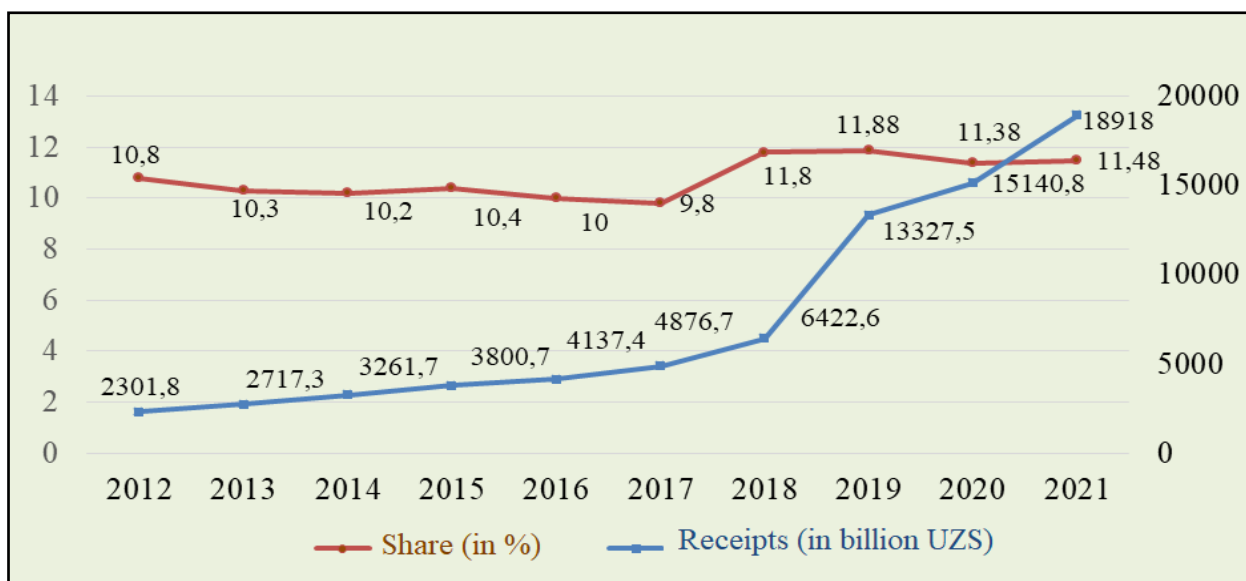


Figure 2. The role of personal income tax in the State budget revenuesⁱⁱⁱ

From the data presented in Figure 2 above it is obvious that although the percentage share of personal income tax revenue in budget revenues has partially decreased in recent years, the amount of revenue from this type of tax is increasing. In 2012, this tax accounted for 10.8 percent of the state budget revenues. Over the past ten years, the share of this tax in the budget has increased by 1.06 times and accounted for 11.5 percent. In particular, since 2019, the amount and share of income tax levied in this year due to the transition from the progressive scale of income tax to the single scale and the determination of the rate at 12 percent has increased, amounting to 13327.5 billion UZS and 11.8 percent of the budget revenues. In 2020, despite the fact that there was a pandemic in Uzbekistan, along with the countries of the world, the revenues of this type of tax to the budget amounted to 15,140.8 billion UZS and correspondingly its share in the budget was 11.38 percent. In 2021, income tax levied on from individuals amounted to 18.9 trillion UZS, which demonstrates an increase of 3.8 trillion UZS. In particular, the income tax withheld by employers at the revenue source accounted for 17.5 trillion UZS and the growth rate constituted 3.4 trillion UZS. In this case, the following are the main factors for the revenue growth:

- recovery of economic activity;
- average increase of the minimum wage in the budget sector by 12.8 percent compared to 2020;
- partial restoration of financial incentive payments in budget organizations that were temporarily suspended in 2020 from the beginning of 2021; the number of employees in the private sector and the legalization of the labor compensation fund.

According to the results of November 2021, the number of individuals paying income tax in the country was 4685.9 thousand people^{iv}.

If we analyze the incentives applied and their legal basis for this type of tax, 993.8 billion UZS of incentives have been applied to taxpayers for personal income tax, which ranks second only to value added tax and profit tax in the republic (Table 2).

ⁱⁱⁱ Developed by the author in reliance upon the data of the Ministry of Finance of the Republic of Uzbekistan.

^{iv} mf.uz. Ministry of Finance of the Republic of Uzbekistan. Preliminary results of the execution of the State budget revenues of the Republic of Uzbekistan.

Table 2

**The amount of tax incentives and their legal foundations
in Uzbekistan in 2021^v**

№	Type of tax	Total amount of tax incentives (billion UZS)	Including		
			Tax Code	Other laws	Resolutions of the President and the government
1	VAT (taking into account the zero rate)	35673,9	30432,1	1375,7	3866,1
2	Profit tax	2217,6	320,7	121,9	1775,0
3	Turnover tax	112,1	57,6	1,2	53,3
4	Personal income tax (tax agents)	993,8	876,8	5,1	111,9
5	Social tax	348,4	128,4	45,2	174,8
6	Other taxes	2743,4	1216,4	88,7	1438,3
	TOTAL:	42089,2	33032	1637,8	7419,4

The main part of the total amount of incentives on income tax, i.e. 88.2 percent, was applied on the basis of the Tax Code, the remaining 11.3 percent was applied on the basis of presidential and government decisions, and 0.5 percent on the basis of other laws.

Personal income tax is considered as one of the main revenues of the indirect state budget in the world tax practice, which is available in all countries except for some countries. There are a number of countries in the world where there is no income tax, that is, no payment to the state budget is required from the wages of resident individuals (Table 3).

Table 3

List of countries which residents do not pay income tax^{vi}

№	Country	№	Country
1.	Andorra		Somali
2.	The Bahamas		United Arab Emirates
3.	Bahrain		Uruguay
4.	Bermuda		Vanuatu
5.	Burundi		Virgin Islands
6.	Kuwait		Cayman Islands
7.	Oman		Monaco
8.	Qatar		Saudi Arabia

These countries are very rich and economically developed. Most of these countries are rich in natural resources, particularly oil and natural gas. The economy of some countries is mainly based on tourism. For example, the Bahamas is one of the most visited resort countries in the world. Due to the extraction of minerals and highly developed economy, these countries do not even need to collect income tax from their citizens. In these countries, mostly residents do not pay income tax. In the countries of the world, the mechanism of taxation of the income of individuals is based on proportional or progressive rates. The progressive taxation scale is used in many developed countries such as Great Britain, France, Sweden, USA, Germany, Finland. The proportional system of taxation is typical for countries with underdeveloped or developing economies in the transition period. In particular, the CIS countries, as well as the Eastern European countries such as Albania, Bulgaria, Macedonia, Georgia, Latvia, and Lithuania, use a proportional scale of income tax.

^v Data of the Ministry of Finance of the Republic of Uzbekistan.

^{vi} <https://visasam.ru/emigration/vybor/nalogi-v-mire.html>

Income tax is calculated differently in different countries. There are also countries where the amount of tax paid is directly dependent on the annual income of the citizen.

Belarus-13%, Bulgaria-10%, Latvia-25%, Lithuania-15%, Estonia-20% and other countries can be included in the countries with a fixed rate of income tax. Income tax rates vary from country to country, and the countries with the lowest income tax rates include the following countries (Table 4).

Table 4**Table 4. Ranking of countries with the lowest income tax^{vii}**

Rank in the rating	Countries	Income tax rate (%)*
1	Albania	10
2	Bosnia and Herzegovina	10
3	Bulgaria	10
4	Kazakhstan	12
5	Belarus	12
6	Macau	12
7	Uzbekistan	12
8	Russia	13
9	Jordan	14
10	Costa Rica	15
11	Hong Kong	15
12	Lithuania	15
13	Mauritius	15
14	Serbia	15
15	Sudan	15
16	Yemen	15
17	Hungary	16
18	Romania	16
19	Angola	17
20	Ukraine	18
21	Montenegro	19
22	Slovakia	19

**For residents*

^{vii} <https://visasam.ru/emigration/vybor/nalogi-v-mire.html>

Countries with the highest income tax rates include:^{viii}

Aruba. The tax rate accounts for 58.95%. This rate includes social tax (pension contribution and insurance payment). In turn, pension contributions are paid by both the employer and the employee. The employee has to pay 4% and the employer has to pay 9.5%. The insurance premium is paid by the employer in the amount of 8.9% and by the employees in the amount of 2.6%

Sweden. The rate of income tax payment amounts to 56.6%, of which 7% is social contribution.

Denmark. Income tax constitutes 55.4%. It is almost impossible to avoid paying taxes in the country.

The Netherlands. The income tax rate constitutes 52% (previously this tax was 72%). In addition to paying income tax, citizens of the country must withhold 6% land use tax and 40% inheritance tax

Austria, Belgium and Japan. Income tax in these countries accounts for 50%.

Ireland has one of the highest income tax rates in the world, its rate amounts to 48%. This rate is much higher than the average income tax across northern Europe, which is currently 40%.

Great Britain and France. The tax rate in these countries is 45%.

Table 5

Countries with “variable” taxes with a tax rate that depends on the annual income of the citizens^{ix}

Countries	Non-taxable annual income (minimum)	Taxable income	“Variable” tax rate
Australian Union	Up to 4600 USD	From 4600 USD up to 28 800 USD	9%
		Over 140 000 USD	From 30,3% up to 44,9%
Austria	Up to 12 500 USD	From 12 500 USD up to 28 500 USD	36,5%
		Over 58 000 USD	50%
Brazil	Up to 5300 USD	From 5300 USD up to 10 500 USD	15%
		Over 10 500 USD	Up to 27,5%
Great Britain	Up to 15500 USD	From 15 500 USD up to 49 000 USD	20%
		Over 231 000 USD	45%
Germany	Up to 9000 USD	From 9000 USD up to 11500 USD	2,56%
		Over 285 000 USD	Up to 45%
Spain	-	Up to 20 200 USD	24%
		Over 20 200 USD	Up to 51%
Italy		Up to 17 100 USD	23%
		Over 80 000 USD	Up to 45%
Singapore		Up to 16 000 USD	0%
		Over 236 000 USD	20%

As a result of the above analysis, international experience shows that despite the fact that income tax in different countries has its own peculiarities due to economic, social and political reasons and various factors of development, it is possible to single out the general aspects of income tax in economically developed countries. In particular, the use of

^{viii} <https://visasam.ru/emigration/vybor/nalogi-v-mire.html>

^{ix} <https://visasam.ru/emigration/vybor/nalogi-v-mire.html>

progressive scales of taxation directly related to the income of the population, introduction of the non-taxable minimum with the account of the income level of the lower and middle layers of the population, as well as the position of the dominance of income tax revenues in budget revenues due to the fact that they serve to fill the country's budget due to the collection of more taxes from high-income citizens.

The proportional system of taxation is used mainly in the EU member states with transitive economies (for example, Bulgaria, Latvia, Lithuania, Romania, Serbia, Slovakia, Czech Republic, Estonia), where income tax is much lower and levied on a flat scale. The global problem of these countries is the high level of evasion of taxes on labor income, which is indirectly reflected in the level of income tax and insurance payments in GDP.

It should be noted that since the beginning of 2000, the flat taxation system has been in force in most of the countries of the former union, which allowed the activities of individuals to be removed from the sphere of the "hidden economy" and to expand budget revenues. In particular, this has happened not only in Russia, but also in Eastern Europe and the Baltic countries. The experience of personal income tax reform in Uzbekistan and a number of other countries demonstrates that after the introduction of a flat scale, the labor activity of the population will be legalized in a short period of time (paying wages in the "envelope" method, reducing the concealment of jobs) and the income of the state budget will increase.

It should be noted here that the proportional system of taxation of the population's income does not contribute to the equal distribution of the national wealth among the representatives of the country's population and cannot reduce the difference in the income of citizens. This system makes a negative impact on the lower layer of the population, while it makes them weak, on the contrary, it makes a positive impact on the level of profitability of the upper layer. As a result, such a serious difference in the income of the population is a factor of social instability in the society, it can threaten security and inhibit economic growth. Accordingly, over time, many countries find it necessary to solve the problems related to the legalization of the activities of individuals, and then move to a differentiated, progressive scale of personal income tax.

The progressive scale of personal income tax has been successfully used for many years in the USA, Canada, Germany, France, Great Britain, Japan, Israel and a number of other countries with developed economies and high levels of social development.

In developed countries of the world, individual income tax rates (progressive scale) are set in the following amounts: in the USA - from 10 percent to 37 percent, in Canada - from 15 percent to 33 percent, in Australia - from 17 percent to 45 percent, in Germany - from 14 percent to 45 percent, France - from 14 percent to 45 percent, Israel - from 10 percent to 47 percent, Italy - from 23 percent to 43 percent, etc. The progressive approach to taxation used in these countries helps to reduce the Gini coefficient, that is, it reduces the level of the differentiation of the society. In the USA this figure constitutes 45.0, in Canada - 32.1, in Germany - 27.0, in France - 29.3, in Great Britain - 32.4, in Japan - 37.9, in Israel - 42.8. In these countries, income tax performs not only a fiscal, but also a regulatory and social function. By levying higher taxes on higher incomes, the government thereby redistributes the income of the higher income groups of the population to the lower income groups. In turn, a high rate of progressive income taxation can lead to greater tax evasion and tax evasion by the rich, thereby shifting the tax burden to the middle class and reducing incentives to work.

In view of the above, many countries are reforming the system of taxing the income of individuals in terms of deducting their expenses related to education, medical services, building or purchasing a house from the total income. In a number of countries of the world, in order to increase the efficiency of social policy, the widely used tax deductions

from the income tax base are deductions for children. Social deductions related to children are given to taxpayers when paying expenses related to their children's education or medical treatment and other expenses of the taxpayer of social importance.

In some countries, the mechanism of taxing the total income of families with young children, the elderly, and the disabled provides for the reduction of the taxable base, and this mechanism is aimed at supporting the dependent families of taxpayers in order to improve their nutrition and health. For example, in France, when taxing personal income at a progressive rate of 14 percent to 45 percent, their expenses related to the performance of professional duties, purchase of a house (apartment) or their construction, education of children in preschool educational institutions, funds spent on children's education, social allocations to extra-budgetary funds, expenses for medium and small investments, expenses for material support for parents, utility expenses, membership fees to organizations, transfers to charity and health insurance funds are deducted from the taxable base.

In addition, the minimum amount of annual non-taxable income in this country accounts for 10225 euros. As a result, the actual amount of income tax is less. In addition, France has a tax deduction for dependent children, and the law provides a number of incentives for people with low incomes. In general, thanks to various benefits and subsidies, about half of the French population pays no income tax at all, and the 45 percent rate applies to less than 1 percent of citizens.

In the practice of developed countries, incomes that do not exceed the minimum amount of money required for the life of an employee are not taxed. There is a non-taxable minimum for the possibility of reducing the tax liability on the amount of living expenses, and the possibility of using it is excluded for individuals with a large monthly income. For example, the minimum annual tax-free income of the population constitutes 9000 USD in Germany, 15500 USD in Great Britain and 10225 euros in France.

In a number of countries of the world, the mechanism of deductions from the income tax base is used for the following socially significant expenses of individuals:

- social insurance and other insurance contributions paid from the employee's salary;
- costs of purchasing necessary goods and services (taking into account marital status, presence of children and other social factors);
- provision of necessary medical services for certain groups or professions of the population (diagnosis, treatment and prosthetics of teeth and limbs, certain types of operations and interventions, purchase of social drugs, etc.);
- purchase of special equipment and accessories for the disabled, pensioners, and the elderly;
- part of the cost of buying or renting a house;
- part of the cost of paying utility bills (home phone, electricity, cold and hot water, natural gas, internet, etc.);
- part of the cost of keeping children under 16 years old (preschool, paid clubs and sports sections, extra classes at school, etc.).

These expenses are covered both in the process of taxing the income of taxpayers at the source of payment and in the process of declaring their annual income and expenses.

Conclusion and proposals

The following are proposed to improve the system of personal income taxation in Uzbekistan:

1. When reforming the income taxation system in Uzbekistan, it is necessary to apply the experience of foreign countries with the account of the specific characteristics of the country, including the mentality of the population, sources of income formation, income

inequality in social strata, family members and income, average income, living standards of the population.

2. It would be appropriate to include the concept of “non-taxable minimum” in the tax legislation, including the Tax Code, and to take into account the annual minimum cost of each family when determining it, at least its amount should be equal to the minimum amount of wages.

3. Introducing the practice of applying the non-taxable minimum as a deduction to taxpayers based on their tax return of total annual income.

4. Reforming the system of taxation of personal income by shifting to a two-stage progressive scale due to the introduction of a non-taxable minimum. When introducing a progressive taxation scale, its gradient should be carefully calculated in order not to undermine the interests of the middle class and individual entrepreneurs.

5. It is recommended to reconsider the system of tax incentives, deductions and tax exemptions. For example, taking into account the inflation rate it is necessary to set fixed (standard) deductions (privileges) on income tax for individuals (for example, tax exemption of payments for educational services provided by non-state schools and (or) preschool educational institutions paid by parents (adoptors) up to 3 million UZS per month for each child) in relation to the basic calculation value.

6. Improving tax administration in terms of strengthening the fight against tax evasion, especially in relation to the people earning high income.

In conclusion it should be noted that it is recommended to introduce a mechanism for deducting some important expenses (diagnosis, dentistry and some other medical services, certain communal services for the poor) in order to enhance efficiency of personal income tax and expand social support to the population, reduce informal employment.

Reference

1. Tax Code of the Republic of Uzbekistan. T.: «Adolat» Publishing House. 2022.- 696-p.
2. Decree of the President of the Republic of Uzbekistan №PD-5468. On the concept for improving the tax policy of the Republic of Uzbekistan, dated June 28, 2018.
3. Ministry of Finance of the Republic of Uzbekistan. Preliminary results of the implementation of the revenues of the State budget of the Republic of Uzbekistan: for 2021. www.mf.uz/ Nashrlar.
4. Tax systems of foreign countries: a textbook for undergraduate and graduate studies / L. N. Lykova, I. S. Bukina. - M. : Yurayt Publishing House, 2015. - 429 p. - Series: Bachelor and Master. academic course.
5. Gileva A.R. - Foreign experience of taxation of financial investments of individuals // Taxes and taxation. - 2022. - № 3. - p. 1 - 15.
6. Harley L. Lutz (1937). «The privilege of personal income taxation». Source: The Bulletin of the National Tax Association, Vol. 23, No. 1 (October, 1937), pp. 11-22. Stable URL: <http://www.jstor.org/stable/41786912>.
7. Agapova A.A (2007). «Development of personal income taxation in the Russian Federation». Abstract of the doctoral dissertation, Moscow.
8. Aksenova (2018). «Will there be a progressive scale for personal income tax in Russia in the near future? ». Bulletin Eurasian Journal. 2018, No.1, Volume 10. Page 1-7.
9. Izotova (2015). «Prospects for Reforming Personal Income Tax as an Instrument of State Social Policy». Abstract of the doctoral dissertation, Moscow. 2015.
10. Buehler (1933). «Taxation and the minimum of subsistence» Source: The American Economic Review, Vol. 23, No. 2 (June, 1933), pp. 234-244. Stable URL: <http://www.jstor.org/stable/253>.

11. www.mf.uz- Official website of the Ministry of Finance of the Republic of Uzbekistan.
12. www.soliq.uz- Official website of the State Tax Committee of the Republic of Uzbekistan.
13. www.stat.uz- Official website of the State Committee of the Republic of Uzbekistan on Statistics.