

TAXATION OF THE INCOME OF INDIVIDUALS ON THE BASIS OF THE TAX RETURN AND FURTHER IMPROVEMENT OF THE TAXATION

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Abstract. This article is devoted to the consideration of the concept of “tax return” and its application in practice. In addition, it describes the structure of income of individuals subject to taxation based on the tax return, considers methods of taxing the income of individuals by declaring, analyzes the studies of scientific economists on the statistical data. In addition, the article contains relevant proposals developed by the author in reliance upon the research results.

Key words: tax, income, individual, tax return, income of the population, tax deductions.

As far as we know, that the higher the income of citizens in any country is, the greater the socio-economic growth in that country is witnessed. In this regard, the “Action Strategy for further development of the Republic of Uzbekistan on five prior directions” adopted by the President of our country Sh. Mirziyoyev is aimed at ensuring the increase of the real income of the population, living standards, purchasing power of the population, as well as further reduction of the number of the poor layers of the population in our republic (Decree, 2017). Furthermore, in his message to the Oliy Majlis, the President of our country put forward the idea that “as a result of reforms, we must create prosperous and decent living conditions for our people” (Message, 2020).

It should be noted, that since 2020 a new version of the Tax Code is introduced. Under the new Tax Code, many innovations are being implemented this year. In compliance with the new tax policy, the tax burden on wages has been reduced by 1,5 times. As a result, the number of people employed in the formal sector increased by 500 000 during the year (Message, 2020).

In the world practice, the personal income taxation on the basis of the tax return implies not only imposing taxes to the state budget, but also creates opportunities for fair use of tax benefits by enhancing the legal literacy of taxpayers. Therefore, the method of income taxation based on the tax return has been widely used for several years in the economically developed countries of the world. In particular, the number of people who declared their income in the United States accounted for 154,4 million (47 percent of the total population), in the UK – 45 percent, in Germany – 28,6 percent, in France – 56,9 percent, in Japan – 32,5 percent (<https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-november-23-2018>).

In developed countries within the current context of globalization, particular attention is paid to the simplification of the taxation mechanism of personal income, raising the real income of the population by reducing the income tax rate, the use of modern information technologies in the development of electronic tax returns on the income.

World experience shows that along with the increase in income of the population over the years, supervision over the prices for consumer goods in the market is one of the most essential factors for their well-being. Everyone living in the society has the right to work and to receive a certain income for the work done.

After all, the President of the Republic of Uzbekistan has said that “Creating required conditions for productive work, adequate wages, modern housing, quality education and medical care, sufficient opportunities for recreation and leisure - all this is important to determine the essence and content of our economic reforms. In this regard, we will focus not only on the minimum wage, but also on the gradual increase in the average salary, pensions, student allowances and social benefits in both budget organizations and businesses (Mirziyoyev, 2017)”. Indeed, a worthy standard of living must be ensured and the employee must be paid a decent wage for the period within which he or she has worked. In addition, overtime work, incentives and funding for additional work have a positive impact on the quality of work.

Summarizing the results of the researches on this issue, we can make a conclusion that the income of the population is the amount of money and material benefits (income from direct labor, use of property, entrepreneurship and other activities) that they usually receive during a certain calendar year.

The introduction of a system of declaring the total income of individuals will determine the possibility of disclosing the income of citizens, reducing corruption,

hindering the path of the shadow economy and facilitating creation of more favorable conditions for the private entrepreneurship development. The introduction of a system of declaring the annual income of citizens is an objective and necessary condition for the formation of market relations.

As for the content of “declaration” concept, the word “declaration” is derived from the Latin word “declaratio”, which means “to declare, to ascertain” (Encyclopedia, 2006).

The concept of “declaration” can mean the following items:

- statement of one or more governments, political parties, international or public organizations on policy documents, important international events, laws and other documents, solemn proclamation of general political principles (for example, the Universal Declaration of Human Rights, the Declaration of Independence of the Republic of Uzbekistan);

- statement of the taxpayer on the nature and amount of income;

- a document attached to money and valuable packages sent abroad by mail;

- information on the presence and quantity of goods, valuables and other items that a person crossing the border is submitted to customs.

The concept of the tax return on income is determined in scientific sources as follows. Tax return on income represents a notification indicating the total taxable income of citizens (individuals) in the financial or calendar year and submitted to government agencies. It has been introduced along with property declarations in all developed countries of the world (Encyclopedia, 2006).

It should be noted that the declaration method of annual income taxation is used in most western countries and yields positive results. Such a method of taxation dates back to the twentieth century and it became widely used after tax reforms in the United States and European countries in the 1920s (Jumaev, 2017). In the majority of economically developed countries, the population is required to submit to the tax authorities information on the amount and source of each income received during the previous fiscal year, along with documents representing income-related expenses. That is, the population declares its annual income and some of the costs associated with obtaining it. The submitted return can be reviewed, accepted or amended by tax officers. In most cases, part of the funds paid to tax entities during the year is returned from the state budget.

Definitely, widespread use of taxation of personal income based on the tax return in the country is one of the ways to control the subjection of citizens to corruption.

In addition, in order to ensure transparency, the United Nations Convention against Corruption is the only legally binding universal anti-corruption instrument. The Convention's far-reaching approach and the mandatory character of many of its provisions make it a unique tool for developing a comprehensive response to a global problem. The Convention covers five main areas: preventive measures, criminalization and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange. The Convention covers many different forms of corruption, such as bribery, trading in influence, abuse of functions, and various acts of corruption in the private sector. A highlight of the Convention is the inclusion of a specific chapter on asset recovery, aimed at returning assets to their rightful owners, including countries from which they had been taken illicitly. Thus, to ensure transparency, the convention implies the submission of declarations on various sources of income (UNODC, 2012).

This Convention does not provide for the declaration of income, property and non-service activities to be open to the public. However, experts from the STAR initiative, the World Bank and UNODC say the declaration is effective when it goes public. According to their opinion, "for the declaration system to be effective and reliable, there must be a potential risk of detecting false and misleading information in the declarations of civil servants and the inevitability of punishment for these cases" (UNODC, 2012). The "potential risk" in the detection of violations is achieved through the publication of declarations to ensure public control over the declarants and the verification of the declaration by the competent authorities.

In this regard, scientists from the World Bank and Harvard University have provided convincing evidence that internal scrutiny of declarations by anti-corruption bodies alone is not enough, they should be combined with the communication of declarations to the public. S. Dyankov and his colleagues have concluded that transparency of the declaration is very important to ensure the efficiency of the declaration, based on a comparison of empirical data on the declaration system of 175 countries with the Corruption Perceptions Index of Transparency International Non-public International Organization (Djankov, Simeon. et al., 2010).

In our country, the relationship of taxation of individuals' income on the basis of the tax return submission is regulated in compliance with the norms established by the Tax Code and other statutory acts. Currently, in order to raise the income of our citizens, the issue of improving the incentives for them through taxes is considered quite urgent.

Individuals have the right to recover amounts of benefits that are not applied to taxable income at the source of payment by deducting non-taxable income from taxable income on the basis of tax returns on total annual income submitted by the tax authorities at the place of permanent residence.

The main condition of the existing declaration system in foreign countries is, on the one hand, that people themselves voluntarily report their income and their sources. On the other hand, the tax return implies a strong system of economic penalties and fines that are legally enforced, even to the point of criminal prosecution, for deliberately hiding or concealing their income in order not to provide information on the sources of money spent on the property purchase.

Foreign economists have done controversial research on the mechanism of personal income taxation on the basis of the tax returns and its implementation. In particular, N. Yermasova in her research raises the issue of family taxation and argues that the classification of tax rates according to the composition of family members and the taxation of family income in reliance upon the tax return submission has a positive effect (Ermasova, 2014).

Yu. B. Kolobaeva has done a number of studies on the issue of family declaration and has made a conclusion that the transition to a family declaration system should be in line with the essence of socio-economic policy and will improve the quality of life (Kolobaeva, 2017).

A.S. Galyautdinova focuses on the system of declaration of family income and promotes the concept of a consolidated group. According to her opinion, it is advisable to include the couple and their children in this group as well. In other words, the taxation of the total income of the family on the basis of the declaration should also take into account the minors (Galyautdinova, 2012).

O.N. Savina also draws attention to the issue of taxation of family income on the tax return basis. The author puts forward the idea that family income should be considered in general terms, which are found together and consumed together (Savina, 2013).

The majority of the economists mentioned above have expressed their views on the mechanism of income declaration, taking into account the domestic capabilities of their country with the aim of ensuring the well-being of the family and maintaining a stable growth rate of the population. In our opinion, we cannot say that the application of the tax return mechanism in our country with the account of the the marital status or the composition of children will give a positive result. However, we believe that further

expanding the mechanism of deduction of some socially significant expenditure based on the declaration in order to ensure family welfare will yield its positive effect.

The research of A.Adizov on the topic “Improvement of the system of taxing the income of individuals” has studied the problems of direct taxation of personal income, as well as the mechanism of calculating taxes on individuals in the formation of state budget revenues and the role of this tax in the formation of the budget revenues (Adizov, 2004). The doctoral research of O.Abdurakhmanov on the topic “The system of taxes on individuals and the issues of its improvement” explores the system of improving the methodology for calculating other taxes and, in part, the declaration of income of individuals, along with personal income tax (Abdurakhmanov, 2005). The dissertation of I. Yuldashev on the topic “Issues of introducing the system of general declaration in the personal income taxation” investigates the problems associated with the introduction of the system of general declaration in the personal income taxation in the practice of the Republic (Yuldashev, 2002). M.Usmanova’s dissertation on the topic of “Improvement of personal income taxation” explores the advantages of personal income taxation and analyzes it in terms of the impact of income tax on improving the welfare of the population (Usmanova, 2011).

As a result of research conducted by M.S. Usmanova, particular attention is paid to the issue of clear definition and implementation of the amount of non-taxable income in the application of income tax, deduction of land and property taxes imposed on the income when declaring income (Usmanova, 2011). In addition, M.S. Usmanova made proposals and comments on the gradual implementation of the transition to the system of general declaration of income of individuals in the country with the account of the national mentality in the application of discounts in reliance upon the declaration (Usmanova, 2011).

Indeed, within the framework of modernization of the economy, the gradual introduction of the system of declaring the total income of citizens and its improvement on the basis of international standards has become a call of the times.

According to the current tax legislation of the Republic of Uzbekistan, the following income of individuals is taxed on the basis of the declaration (Figure 1):

Composition of income subject to taxation based on the declaration

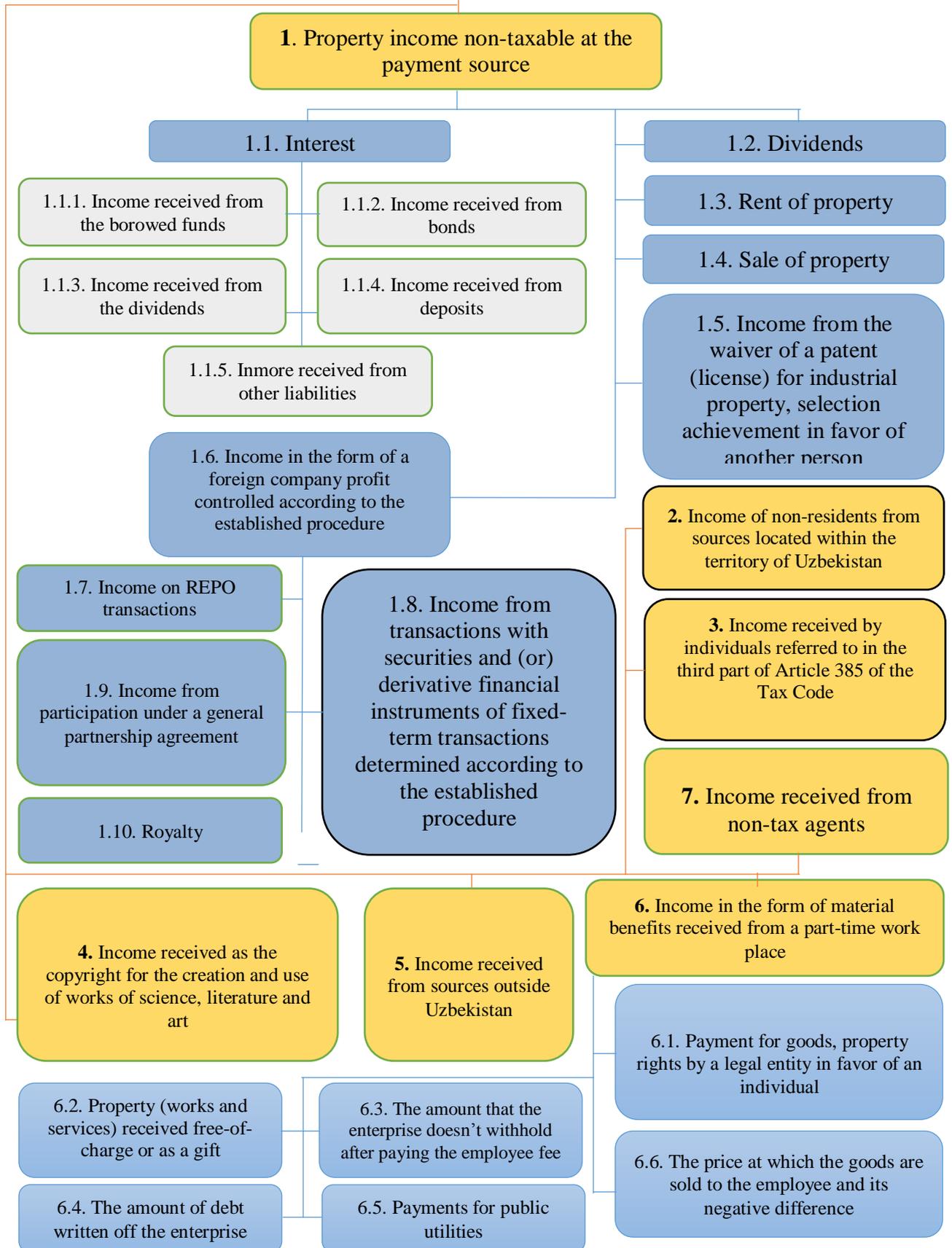


Figure 1. Composition of the income taxed on the basis of the tax return of individuals (Bozorov, 2020).

It should be noted that the taxation of copyrights of individuals has a special character, and in compliance with applicable law, individuals who receive income in the form of royalties for the creation and use of works of science, literature and art are considered to be sole proprietors. In this regard, they have the right to perform their activities without the state registration as private entrepreneurs.

A taxpayer who receives royalties for the creation and use of works of science, literature and art must keep records of income and expenses related to the receipt of income, and he has the right to deduct from the income related to creative activities, actual expenses and documented expenses, but the discount should not exceed 30 percent of the total income received [4]. For example, if an individual earns 5 000 000 UZS as royalties and spends 2 000 000 UZS to earn this income, he has the right to deduct up to 1 500 000 UZS (5 000 000 x 30%) from his income on the tax return basis. So, in this case, the individual (author) has to pay 12 percent of income tax on 3 500 000 UZS.

Expenses of individuals related to the implementation of creative activities include:

the cost of obtaining the materials required for the creation and use of works of science, literature and art;

the cost of renting a building or property used solely for the purpose of creating, publishing, performing, or otherwise using works of science, literature, and art.

In recent years the number of tax returns submitted by individuals with income in Uzbekistan has been growing from year to year. This trend is reflected in the following figure (Figure 2).

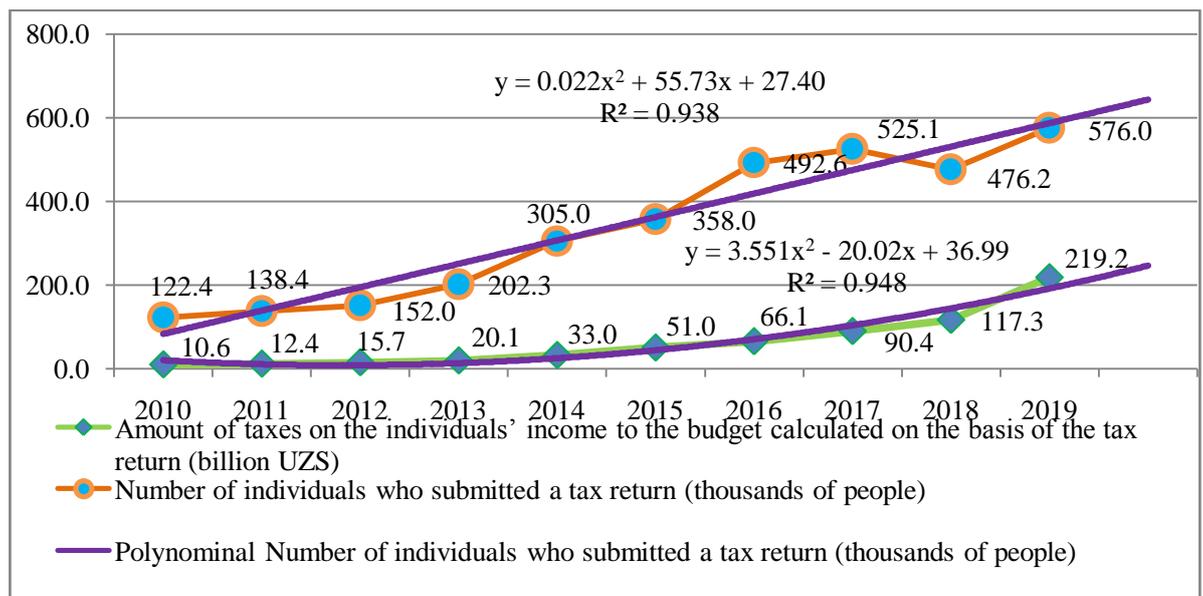


Figure 2. The number of individuals in Uzbekistan who have submitted a tax return and the amount of income tax assessed as a result of the return (<http://www.soliq.uz>).

According to Figure 2 presented above, in 2019, the tax authorities received income tax returns from 576,0 thousand citizens. The data illustrates the increase by 100 000 taxpayers in comparison with 2018.

In addition, using Microsoft Excel practical software we have determined the parabolic trend line $y = 0,022x^2 - 55,737x + 27,403$ and the accuracy level of the relationship $R^2 = 0,9388$. Taking into consideration the accuracy of the correlation which equals to 93,88%, we can expect an increase in the number of individuals filing tax returns in the upcoming years.

With the increase in the number of citizens who submit tax returns on the income received by individuals during the year, we can see that the amount of income tax, calculated in addition in direct proportion is increasing as well. If in 2010 the amount of the income tax imposed to the budget on the basis of the tax return constituted 10,6 billion UZS, then in 2019 this indicator has increased by 20,5 times, exceeding 219,2 billion UZS.

The interrelation of the years and the tax amounts charged on the basis of the tax return, using the opportunities of the Microsoft Excel software, we have determined the parabolic trend line the parabolic trend line $y = 3,5511x^2 - 20,025x + 36,998$ and the accuracy level of the relationship $R^2 = 0,9488$. Taking into consideration the accuracy of the correlation which equals to 94,88%, it is possible to make a conclusion that we can expect a similar increase in the amount of taxes levied on the budget in the upcoming years.

Currently, the income from the property rent plays an important role in the structure of property income of individuals in the country and it is taxed in reliance upon the tax return. Therefore, we will focus on the taxation mechanism of income of individuals who receive income from renting their property.

According to the current legislation of the Republic, individuals are legally regulated in terms of renting their property. At the same time, the property rent is admitted as property income and declared in compliance with the tax legislation.

In accordance with clause 1.3 of Figure 1 provided above, individuals who rent their property, must submit a declaration of income. For 2020 the rates of certain taxes and payments, including minimum rental rates for individuals renting property and fixed amounts of personal income tax for individual entrepreneurs, have been established by law (Law, 2020).

Minimum rental rates are applied by individuals to tax their income received from renting their property (Table 1).

Table 1

**Minimum rental rates set for individuals who rent their property (Law, 2020)
(in UZS)**

Facility name	Years	Tashkent city	Nukus city and other regional centres	Other settlements of the population
Residential premises (for 1 m ²)	2014	3 000	2 000	1 000
	2019	10 000	6 500	3 000
	2020	12 000	7 500	3 500
Non-residential premises (for 1 m ²)	2014	6 000	4 000	2 000
	2019	20 000	13 000	6 000
	2020	25 000	15 000	6 500
Moter vehicles (up to 8 seats) (for each motor vehicle)	2014	220 000		
	2019	480 000		
	2020	500 000		
Minibuses, buses and trucks (for each vehicle)	2014	430 000		
	2019	940 000		
	2020	1 000 000		

According to Table 1 given above, taxation of income received from renting of residential, non-residential premises and motor vehicles of individuals is based on the amount of rent specified in the rental agreement.

It should be noted that the amounts determined for 2020 have increased by an average of 1,2 times compared to the rates in 2019. Compared to the minimum standards set in 2014, the average rent for residential and non-residential premises has increased by 4,0 times, and the minimum rental rates for vehicles is constantly growing from year to year.

The standards determined since this year can certainly be considered positive. **As an example**, the rent of non-residential pemises with an area of 50 m² in Tashkent constitutes at least 1 250 000 (50 x 25 000) UZS although currently in practice it is possible to rent for the amount which is several times more than this standard.

According to the current legislation, in compliance with the data of Table 1, different minimum standards for renting the real estate of individuals are determined for:

- Tashkent city;
- cities – regional centres;
- other settlements of the population.

However, nowadays in the cities and towns which are not considered to be regional centres (*Almalyk, Shakhrisabz, Kokand, Margilan, Khiva, Kattakurgan, etc.*) the rent for housing is set at the amount of 3 500 UZS and for non-residential property at the amount of 6 500 UZS. That is, the minimum rent is the same in the rural areas of the district and in cities that are not regional centers. In this regard, in order to ensure fairness in this case, there has been developed a relevant proposal.

Despite the fact that today in our country there are many positive reforms in the application of the mechanism of taxing personal income on the basis of the tax return, in order to further improve this area, it is necessary to do research, identify problems and develop relevant proposals and recommendations.

The following conclusions and recommendations have been developed to improve the taxable income of individuals on the basis of the declaration and their taxation taxation of the individuals' income in reliance upon a tax return:

- improving the taxation of declared income of individuals will serve to reduce the tax burden on individuals, raise real incomes of the population and facilitate further improvement of the tax administration;

- in our rapidly developing country, personal income taxation will further improve the application of the declaration method, i.e. the adaptation of the taxation mechanism to current requirements on the basis of a gradual transition to a system of general declaration will ensure full and timely taxation of personal income;

- the application of the practice of declaring personal income tax contributes to the prevention of the shadow economy money laundering, corruption and bribery in the country, as well as combating other economic crimes;

- nowadays adequate attention is paid to the education of the younger generation, but together with the lack of interest in the creation of children's literature, the price of books remains. Therefore, Article 378 of the Tax Code should be applied in the form of a full exemption from the tax on income received in the form of royalties for the production of children's literature and fiction. As a result, readers' interest in reading will increase, their ability to buy books will expand, and quality book products will be published;

- in order to introduce a gradual transition to the system of declaration of income and expenses of individuals, based on the experience of developed countries, it is necessary to accelerate the transition to the system of declaration of income and expenses of heads and employees of state control and law enforcement agencies and their families;

- according to foreign economists, personal income tax should serve not only to formulate state budget revenues, but also to increase real incomes of the population. With this aim social expenses (expenses on education, health, insurance, compulsory payments, etc.) incurred by citizens should not be taxed;

- in order to raise the efficiency of taxation on income on the basis of the declaration and ensure full and timely collection of assessed taxes, online integration of databases of organizations providing information on tax liabilities into the information resource database of tax authorities, full determination of taxable income on the basis of the tax return will yield favorable results in ensuring collection of these taxes in due time;

- in order to formulate additional sources of budget revenues and ensure fair taxation, it is advisable to set minimum rates for renting property for other cities (excluding regional centers), for example, for regional centers and districts, in addition to the minimum standards.

As a result, implementation of the above-mentioned proposals and recommendations in practice in our country can increase the source of taxable income of individuals as a result of the declaring their income and further improve the mechanism of their taxation.

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