



Problems with Personal Income Tax and Ways to Solve Them

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Abstract: The article reveals the essence of personal income tax. Also, the experience of foreign countries in taxation is studied; its economic importance is highlighted.

Key words: personal income tax, receipts, state budget, benefits, labor compensation fund.

1. Introduction.

In recent years, large-scale changes have taken place in the economic sphere, first of all, the introduction of free conversion of the national currency, which provides conditions for the fulfillment of Uzbekistan's obligations and the repatriation of income from foreign partners. An important step in this direction was to increase the investment attractiveness of the country.

2. Literature review

Many modern economists have expressed their opinion about personal income tax in their scientific views.

Francois Kene (1694–1774), the founder of the physiocratic doctrine, in terms of reimbursement of public expenditures:

- tax from land owners;
- recognized as one of the ways to cover government spending by taxing income from renting a house or real estate.

Francois Kene (1757) pointed out that this method of generating income represented an excessive expense and burden on the taxpayer [3].

The American political economist Herbert Simon (1943) and economist Dick Netser (1966) argued that deducting land and property taxes on rental property from its actual rental value would reduce the demand for property and reduce rental payments.

I.A. Drozhina, one of the Russian scientists, proposed to introduce a real estate tax by combining the property tax of legal entities, the property tax of individuals and the land tax [4].

3. Research methodology.

The article studies the research of foreign and domestic economists on personal income tax using the methods of scientific abstraction, analysis, synthesis, induction and deduction.

4. Analysis and discussion of results.

Completely new principles and mechanisms for the formation of the state budget were introduced, and measures were taken to ensure the transparency of its revenues and expenditures. Measures have been taken to improve the efficiency of state asset management and increase budget revenues.

At the same time, by Decree of the President of the Republic of Uzbekistan dated June 29, 2018 “On the concept of improving the tax policy of the Republic of Uzbekistan” No. DP-5468, preliminary reforms were implemented as part of the tax policy concept.

In particular, as part of the concept of improving the tax policy of the Republic of Uzbekistan, from January 1, 2019, the tax burden on the wage fund was reduced due to:

a single personal income tax rate was introduced for all citizens in the amount of 12 percent, of which 0.1 percent was deducted to the savings accounts of individuals. At the same time, the current procedure for exemption from taxation of incomes of certain categories of citizens in the amount of 1.41 times the minimum wage has been preserved;

insurance premiums deducted from the wages of citizens to the off-budget pension fund have been canceled;

in order to ensure the sustainability of the pension system, budgetary organizations and state enterprises, legal entities with a state share of 50 percent or more in the authorized capital (capital), legal entities with a state share of 50 percent or more in the authorized capital of the fund (capital) for legal entities that are in property of a person and their structural structures, the unified social payment was set at 25 percent, and for other legal entities the rate of this payment was reduced from 15 percent to 12 percent.

For reference: From January 1, 2019, the progressive personal income tax rate from 0 to 22.5 percent was canceled in the Republic of Uzbekistan and a single tax rate of 12 percent was introduced.

If we study the international experience of taxation of personal income, then in most countries a single tax rate on personal income is applied (Table 1).

Table 1. Information about the tax rates of foreign states on the income of natural persons

Stat es	Arme nia	Belar us	Bulga ria	Eston ia	Georg ia	Hunga ry	Kazakhs tan	Kyrgyzs tan	Turkmenis tan	Ukrai ne	Russ ia	Roma nia
tax rate	22%	13%	10%	20%	20%	15%	10%	10%	10%	19,5%	13%	10%

As a result of improving the taxation of personal income, a number of achievements have been achieved.

Personal income tax receipts in 2021 were 2.6 times higher than in 2018, and the share of this tax in GDP was 2.6% compared to 1.8% (Table 2)

Table 2. Information about income tax receipts from individuals¹

In billion soums

No	Tax type	2018	2019	2020	2021
	Income tax levied on individuals	7 448,0	13 327,0	15 141,0	18 918,0

According to the State Tax Committee, according to tax reporting for June 2022, the number of individuals paying income tax amounted to 5,299,400 people, or an increase of 427,300 people compared to the corresponding period in 2021.

Of these, 34.6% are employees of budgetary organizations, 65.4% - employees of non-budgetary organizations.

Despite the reforms carried out, problems remain in the economy related to the formalization of informal labor resources and the legalization of wages.

According to the results of the analysis, 33.6% of taxpayers (1778 people) - up to 1 million soums, 22.6% (1460 people) - from 1 million to 2 million soums, 20.5% (1084 people) - from 2 million soums to 4 million soums, 23.4% (1,240 people) received a salary of 4 million soums and more.

At the same time, discussions are currently underway in scientific circles on determining the amount of the minimum wage that is not subject to taxation when taxing the income of individuals.

When studying foreign experience in this direction, the following was revealed:

In particular, progressive tax rates have been introduced in countries that have introduced a non-taxable minimum wage for taxing personal income.

In particular, in the **People's Republic of China**, personal income is taxed on a progressive scale from 3% to 45%, minus the non-taxable minimum wage.

In Latvia, personal income is taxed on a progressive scale from 20% to 31%, and the minimum wage is not taxed.

In Germany, a 0% rate applies to incomes below the minimum tax-free amount. Amounts in excess of the minimum amount are taxed on a progressive scale from 14% to 42%.

Also, in countries where a single personal income tax rate has been introduced, the practice of providing deductions for targeted expenses to individuals is widely used in taxation.

For example, the flat personal income tax rate **in Hungary** is 15% of net taxable income.

And **in the Russian Federation** there are social deductions from the income of individuals, which apply only to tax residents.

According to the analysis of the **International Monetary Fund**, the establishment of a minimum wage in the taxation of personal income is typical for countries with a progressive tax rate, and in countries with a single tax rate, discounts are not provided.

Also, based on the recommendations of international experts, in the Republic of Uzbekistan there is a practice of providing discounts for targeted expenses of individuals, and this year it is:

- a) funds used to cover mortgage loans received by a young family, and accrued interest on them in the amount of up to 15 million soums during the tax period until the age of the spouse or one of them exceeds the established age, are exempt from income tax;
- b) One-time assistance and monetary compensation for renting housing to graduates who have gone to work in budget organizations located in hard-to-reach and hard-to-reach areas, determined in accordance with the resolution of the Cabinet of Ministers of the Republic of Uzbekistan, determined not to be included in the total income of individuals;
- c) funds allocated by individuals for training in vocational schools were also exempt from personal income tax;
- d) membership fees of individuals to an international association and funds directed to non-state educational organizations for retraining and advanced training are exempt from income tax;

At the same time, these tax benefits are applied in the amount of up to 8 times the size of the base calculation (2.4 million soums).

5. Conclusions and offers.

Based on the foregoing, while maintaining a single personal income tax rate in the Republic of Uzbekistan, it is proposed to introduce and expand tax benefits on the following social issues, as well as eliminate tax evasion mechanisms.

Firstly, in order to stimulate the provision of housing to the population, the expansion of tax incentives for mortgage loans, introduced by paragraph 16 of Article 378 of the Tax Code of the

Republic of Uzbekistan, i.e. 80 times exceeds the threshold amount set at 15.0 million soums for the amount of determining the basic calculation in the amount;

Secondly, in order to expand the access of the population to private medical services and introduce the practice of medical insurance in the healthcare sector, exemption from personal income tax payments related to the medical insurance of individuals.

Thirdly, in order to increase the revenues of the State budget and prevent tax evasion mechanisms, it was considered expedient to cancel the exemption from personal income tax on payments for long-term life insurance, wages and other personal income.

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