

INCOME TAXATION IN UZBEKISTAN

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ABSTRACT

The article analyzes the state of taxation of the real incomes of the unemployed in the economy of the Republic of Uzbekistan and the level of informal employment. It was argued that the overall income of the population was low, with a low level of employment, independent employment, the share of a property and other incomes, as well as their income tax, including a fixed tax rate. This problem is based on the fact that income cannot be overcome through the existing taxation mechanism, and there is an objective need for the introduction of the system of universal revenues in Uzbekistan.

KEYWORDS: *Economically Active Population, Employed in the Economy, Real Incomes, Income from Employment, Income from Earnings, Property Income, Informal Employment, Taxation Mechanism, Income Tax, Fixed Tax, Declaration System*

INTRODUCTION

The taxation of individuals in the country's tax system is of particular importance, which is characterized by a large number of taxpayers and the size of the tax base. However, the analysis has shown that the share of income tax in budget revenues has declined over the past decades. The majority of revenues from this tax are deducted from earnings in the form of salaries, while income tax rates are decreasing every year, which can lead to a reduction in the share of income tax revenues in the total budget revenues. With the scale and quality of market reforms, the economic part of the population will be able to earn different types of income as a result of striving for entrepreneurship in the conditions of a market economy and a significant increase in material interests. This is evidenced by the practice of economies in developed countries, with more than half of all western workers currently forming a relatively high (about one third) of the total revenues gained from various income sources.

In addition to creating a high level of business and income-generating opportunities in the conditions of the ongoing market relations in Uzbekistan, it is also crucial to ensure the legality of these revenues and the full taxation. The internationally-recognized practice of declaration of incomes is considered necessary in Uzbekistan in the conditions of modernization of the economy. By implementing such a system in our republic, the full account of citizens' income will be provided, as well as fair and fair taxation. Because the revenue declaration system is a mechanism aimed at studying, accounting, and avoiding all sources of income in society. Therefore, improving the taxation of revenue declarations in Uzbekistan using international practice is a pressing problem.

LITERATURE REVIEW

Marginalizes (K.Menger, F.Vizer, I. Tyunen, A.Curno, and others) played an important role in the formation of scientific and theoretical concepts of the timely mechanism of income taxation. Representatives of the school of marginalizing also studied the issues of taxation, with the exception of price formation in the study of economic processes. Specifically, as a result of their research on income taxation, it has been argued that revenue should be taxed on a progressive mechanism and that the minimum earnings should be set aside¹. It is important to note that this idea is based on the principle of vertical justice in income taxation and is recognized as a major principle in the development of tax policy in most countries of the world.

John Maynard Keynes, the founder of the famous theory of fundamentalism, also studied the issues of improving the taxation of income. He believes that the pure market mechanism is imperfect because the economy does not have the tools of self-control. Under such conditions, the state has the ability to regulate the economy through fiscal and monetary policies. Among these tools, Keynes paid special attention to taxes. In his opinion, high and progressive taxes will help balance the state budget. At the same time, the poorest part of the population is not subject to taxation or general taxation, while the rich population is highly taxed and most of the tax burden is imposed upon them. Large-scale savings can hamper economic growth as they are not directed to production and are a passive source of income. Therefore, it is necessary to pay them through taxation.²

The theory has a wide and diverse view on the distribution of tax revenue, dispersion, control of their movements, and the ability to change their orientation. Specifically, Keynes said that, if used as a means to achieve a fair distribution of income from taxation policies, it would have a stronger impact on the consumption trend.³

Keynes believes that there is a strong inclination to invest in people without spending their earnings out of the following eight incentives or goals:

- Unforeseen circumstances - reserve formation for emergencies, cautionary factor;
- A factor that is far-reaching, the need to care for old age and to provide opportunities for family members or them with care;
- The factor of accountability, ensuring interest in the form of interest or capital growth;
- The desire to move forward, to live a lifestyle - to live a good life;
- To feel free and to enjoy independent decision-making - to be independent;
- Providing conditions for the sale, purchase, and sale of goods and services - entrepreneurship;
- The heirs of property, wealth - the pride factor;
- Avoiding spending money is a risk factor.

¹Akinin P.V. "Tax and taxation" textbook - M.: Expo, 2008. - P.23.

² Keynes J.N. The general theory of employment, interest and money.- M.: Progress, 1978. - S. 365.

³ Keynes J.N. The general theory of employment, interest and money- M. Gelios ARV, 2002- P.95.

The existence of such feelings and their superiority in human beings necessitates the accumulation of earnings generated. In the economy, the low return on consumption and the accumulation of income, along with the positive side in ensuring the growth of investment sources, also reflects the negative aspects of reducing the overall demand. This leads to a breakdown of supply and demand balance. In this situation, the mechanism of income taxation is an effective tool for the government.

It should be noted that at present there is no definitive theory of income taxation. In many foreign countries, there are three key concepts that are used: the theory of keywords, the theory of the proposition economy, and the monetarism theory.

British economists Ian Fischer and N. Caldera, who were neoconservatives, believed that the taxation objects should be divided into two groups depending on consumption and funding. That is why the idea of taxation is more advanced. It was simultaneously considered as a means of stimulating savings and an instrument of anti-inflation. Previously, the money intended for the purchase of consumer goods could now be channeled to either investment or savings. Theoretically, it has been shown that funds can also be converted into capital investments through taxation policies.

In the mid-20th century, the theory of monetarism emerged as an alternative theory to Keynes's views. This doctrine strongly supports the state's maximum interference in the economy. American economist Milton Friedman, a founder of the theory of monetarism, said the fiscal policy would lead to an uneven increase in the amount of cash in circulation, thereby breaking the macroeconomic equilibrium. The main view of M. Friedman's taxation was the reduction of tax rates. Reduction of tax rates leads to an increase in economic activity, an increase in investment flows, a decline in inflation rates, and the elimination or prevention of social tensions and economic development.⁴

The monetarists suggested that tax revenues would be minimized, reducing the fiscal policy, and adjusting the economy's money mass and interest rates.

The Italian scientist F.Nitti made a significant contribution to the theory of income taxation. He pointed out that taxes are an integral part of the state's economic policy. If a substantial part of the collection tax is used for production purposes and scientific research, then taxation does not prevent the development of production, if the costs of the army and the state apparatus are not high.⁵

The development of the theory of income taxation made a significant contribution by the American economist Joseph Stieglitz. It assesses the structure of taxes that will improve the well-being of the population by making the necessary ideas for reforms aimed at identifying the optimal level of taxation of income, improving the taxation of capital, as an optimal system.⁶

⁴Akinin P.V. "Tax and taxation" textbook - M.: Expo, 2008. - P.26.

⁵A.S.Jo'rayev. Effective ways of formation of state budget revenues - T: Fan, 2004. -P.18.

⁶Akinin P.V. "Tax and taxation" textbook - M: Expo, 2008. - P.26.

A.Laffer's views on this subject are particularly relevant to the study of the taxation problem. He first mathematically argued that income taxation had a high or rather limited rate of taxation. The fundamental idea that lies at its so-called "Laffer Curve" is that taxpayers tend to avoid paying so much tax as they are tax-deductible.⁷

It should be noted that the majority of scientists have raised the issue as the most important issue in ensuring taxation. Providing justice is mainly through the mechanism of income taxation. At the same time, it is not understood that the maintenance of the totality of taxation by means of taxation of all parts of the population or business entities is not understood. Perhaps, there is also a need to ensure justice at the level of taxation, the level of solvency and income of citizens. Denunciation of tax breaks will help to achieve horizontal justice. Progressive taxation, taking into account the level of solvency and income of taxpayers, will lead to a vertical justice.

Thus, redistribution of income of the population, first of all large (high) income, in the interests of the socially vulnerable part of the population through the income tax for citizens is made. In this way, the inequality in the income of society is somewhat rectified.

RESEARCH METHODOLOGY

The article examines the application of various taxation mechanisms in the Republic of Uzbekistan, including scientific abstraction, analysis and synthesis, induction and deduction, statistical grouping, systematic approach, surveillance, expert evaluation, comparative analysis, factor analysis, tables and other methods were used.

ANALYSIS AND RESULTS

Uzbekistan is achieving sustainable economic growth and increasing the real incomes of the population through a rational economic reform, including tax reforms. However, the issue of full and equitable taxation of the current revenues cannot be evaluated positively.

The analysis of statistical data shows that the income of the majority of the physical persons in Uzbekistan comes from taxation. In order to justify this opinion, we will look at the following information on the taxation of income of the population in our country.

Table 1: The State of Taxation of Income Earned in the Economy

	2011	2012	2013	2014	2015	2016	2017
Number of employed in the economy, thousand people	11919.1	12223,8	12523,3	12818.4	13058,3	13298.4	13520,3
Employed in statehood, thousand people	2298.7	2312.9	2328.6	2324,7	2341.3	2330.4	2338,3
Unemployed population, thousand people	9620,4	9910.9	10194.7	10493.7	10717,0	10968.0	11182.0
Number of recipients of income tax, thousand people	4830.6	4845.1	4942,0	5040,8	5141.7	5255.5	5781,7
The number of strict taxpayers, thousand people	156.3	185.6	202.5	227.6	251.8	275.0	279.7
Total Income Tax and Indirect Indirect Taxpayer Individuals, thousand people	4986,9	5030.7	5144.5	5268.5	5393.5	5530.5	6061.4
Income Taxes and Fixed Income Tax Payers in the Economy, %	41.8	41.2	41.1	41.1	41.3	41.6	44.8
Income Taxes and Indeterminate Taxpayers, who are employed in non-state property, %	27.9	27.4	27.6	28.1	28.5	29.2	33.3

⁷Laffer A. The Laffer curve: Past, Present, and Future. The Heritage Foundation, No.1765. 2004. P.2

The analysis of the number of individual entrepreneurs, included in the analysis of the economically active population, including those employed in the state-owned property, employed in the non-state property, as taxpayers of income taxpayers.

The total population of Uzbekistan in 2011 was 11919.1 thousand people, of which 9620.4 thousand people were engaged in the non-state property. In the same year, the number of Individuals' Income Tax Lenders was 4830.6 thousand, the fixed taxpayers - 156.3 thousand. Thus, the total number of individuals in the Income Tax and Fixed Income Taxpayers was 4986.9 thousand people. This figure is 41.8% of the total population in the economy. In other words, about 40 per cent of the people in the national economy are engaged in income tax, while the remaining 60 per cent are exempt from income tax

The share of non-state-owned enterprises in the economy is currently being attracted to income tax, while in 2011 this figure was 27.9%. The part of the population that is not involved in income tax is only part of the state property. Because workers in public-owned enterprises and organizations cannot be hired unofficially, and that's impossible.

If we look at the dynamics of these figures in recent years, we can see that the situation is not positive, but on the contrary, it is changing. In particular, in 2012-2015, 41.2% of the total population employed in the economy is involved in income tax, and 27.7% of non-state-owned enterprises are taxed.

Only in 2017, the situation has changed positively. The total number of the population employed in this sector was 13520.3 thousand people, of which 11182.0 thousand were non-state property. In 2017, the number of payers of Income Taxes was 5781.7 thousand, the number of Individual Entrepreneurs - 279.7 thousand. The total number of Income Taxes and Indeterminate Taxpayers is 6061.4 persons, accounting for 44.8% of the total employed population. The share of income tax on non-state property was 33.3%.

According to Table 1, the income of the most economically active population in Uzbekistan is not subject to direct taxation.

The intensification of the informal employment of the population contributes to the further expansion of the informal sector share in the general economy. The enlargement of the informal economy, in turn, causes the government to malfunction. Non-payment of various taxes, duties, duties and other payments to the state budget, non-bank money are turnover and lack of cash in banks.

The hidden economy and informal employment lead to the excessive distribution of the general tax burden to the economy. Because the part of the public in the official economy pays taxes on income and increases the burden of indirect taxes on consumption. Those who benefit from the hidden economy are indirectly paying off indirect taxes. This ultimately leads to excessive inequality in the level of income of the population.

Modern research shows that excessive inequality in wealth and incomes is not only a source of social dissatisfaction and disarray but also has a negative impact on the country's economic and demographic indicators. This is due to the fact that the production of human beings and the violation of the functional status of human behavior.⁸

⁸Bulletin of the State Tax Committee of the Republic of Uzbekistan - (2017).

Countries that are oriented towards market relations overtake the population through redistribution of income and economic regulation through a taxing instrument. The problem of disproportionate inequalities in their incomes has already been resolved in developed countries. However, in many developing and transition economies, including in Uzbekistan, this problem has not been addressed yet.

In Uzbekistan, up to 2019, progressive rates for income taxation are applied to individuals, but only a fraction of the population, those employed in income earnings. The remainder of the population is not taxable, whether directly or indirectly, from income tax, income tax, or income from farming, entrepreneurship or property, or generally excluded from income tax.

This is analyzed in the following diagram by the level of taxation of the types of income of individuals.

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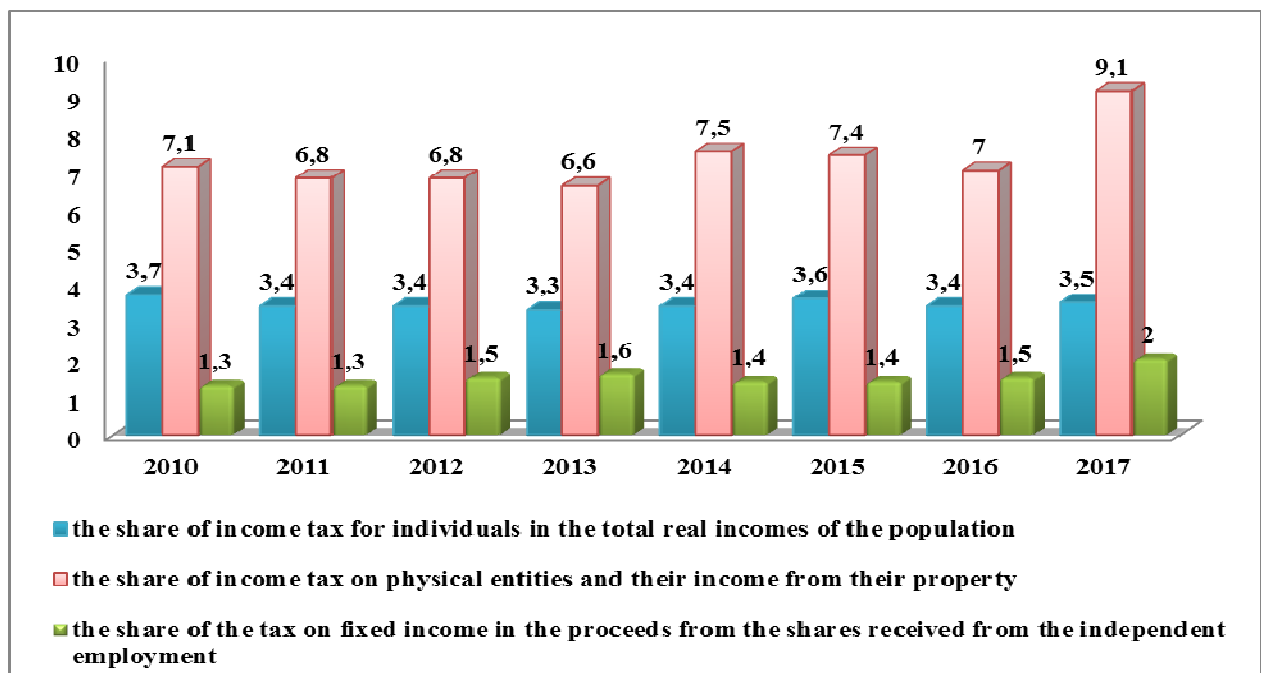


Figure 1: The Level of Taxation of Personal Income in Uzbekistan.¹⁰

*Here is also the income of individuals working with a reduced income tax.

** This includes income from individuals who do not have an income tax or fixed tax liability (members of farms, etc.).

The figure above shows that the ratio of income tax to the general income of the population in 2010 amounted to 7.1%, and by 2017 this figure decreased to 9.1%. It can be seen that the total earned income tax rate, together with QBS, ranges from 3.7% in 2010 to 3.5% in 2017. Only the share of Fixed Income Taxes in total revenues received from independent employment of the population was 1.5% in 2010-2017.

⁹Official site of the State Statistical Committee of the Republic of Uzbekistan <https://stat.uz/> (Date: 05.03.2019)

¹⁰Official site of the State Statistical Committee of the Republic of Uzbekistan <https://stat.uz/> (Date: 05.03.2019)

In the above picture analysis, it is possible to conclude that the income of the non-resident (privileged) citizens of the Republic of Uzbekistan (including those who have fixed taxation) and the informal employment of individuals are significant in the total income of the population.

CONCLUSIONS/RECOMMENDATIONS

- Income tax means redistribution of income of the population, first of all, in the interests of the socially vulnerable part of the population. In this way, the inequality in the income of society is somewhat rectified.
- Modern research shows that excessive inequality in wealth and incomes is not only a source of social dissatisfaction and instability but also has a negative impact on economic and demographic indicators of the country. This is due to the fact that the production of human beings and the violation of the functional status of human behavior.
- Countries that are oriented on market-based interventions in the transitional period make the taxpayer's income redistribution and economic adjustment. The problem of disproportionate inequalities in its incomes has already been resolved in developed countries. However, in many developing and transition economies, including in Uzbekistan, this problem has not been addressed yet.
- The analysis shows that the vast majority of the economically active population in Uzbekistan is informal and their incomes are not subject to direct taxation. The intensification of informal employment promotes the further expansion of the informal sector share in the general economy. The enlargement of the informal economy is disintegrating and undermining public finances.
- In order to ensure full tax control over income, fair taxation of income of individuals and increase of fiscal importance of this tax, it is necessary to introduce a system of declaration of annual gross income, expenses, and property of physical entities, based on the experience of world tax practice.

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