

## MECHANISM OF INCOME TAXATION OF INDIVIDUAL PERSONS

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### Abstract

In this article, the fundamentals of the introduction of personal income tax, its economic significance, the opinions and comments of economists regarding its implementation, the essence of personal income tax, the single rate collection of personal income tax in the Republic of Uzbekistan from January 1, 2019, as a result, the increase of monthly wages was analyzed and conclusions and proposals for improvement were developed.

**Keywords:** individual, tax, income tax object, income tax base, direct taxes, income tax rate, salary, dividend income.

### Аннотация

В данной статье рассмотрены основы введения НДФЛ, его экономическое значение, мнения и комментарии экономистов по поводу его внедрения, сущность НДФЛ, единая ставка взимания НДФЛ в Республике Узбекистан с января 1 января 2019 года, по результатам проведен анализ повышения месячной заработной платы и разработаны выводы и предложения по улучшению.

**Ключевые слова:** физическое лицо, налог, объект налога на прибыль, база налога на прибыль, прямые налоги, ставка налога на прибыль, заработка плата, доход в виде дивидендов.

### 1. Introduction

In accordance with the economic reforms in the conditions of the digital economy in Uzbekistan, well-thought-out measures are being implemented in the tax system, including a number of positive changes in the taxation of the income of individuals. It is known that personal income tax was introduced on April 1, 1991 in accordance with the Law of the Republic of Uzbekistan dated February 15, 1991 "On income tax from citizens, foreign citizens and stateless persons".

Based on the ideas and initiatives put forward by the President of the Republic of Uzbekistan, a completely new - fair, transparent and consistent system was created in the field of taxation in our country. We believe that the main goal of this is to reduce the tax burden, increase people's income, develop production and ensure the stability of the economy. These goals are being achieved through the introduction of consistent tax administration.

According to the concept of improving the tax policy of the Republic of Uzbekistan, since January 1, 2019, a number of important changes have been made to the tax system in the Republic of Uzbekistan and they are being improved. In particular, the tax burden and types

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of taxes have been reduced, some have been abolished, and the tax system is being simplified. Also, changes were made to the 2019 tax legislation on personal income tax.

The state regulates the income and standard of living of citizens with the help of taxes. The extent of this influence determines the legalization of the income of individuals, interests in private entrepreneurship, and in what condition the property is kept. World practice shows 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.

Article 63 of the Constitution of the Republic of Uzbekistan stipulates that citizens must pay taxes and fees established by law. It was determined that taxes and fees should be fair and should not prevent citizens from exercising their constitutional rights.

## **2. Literature Review**

Views on taxes have historically been formed under the influence of objective and subjective factors. The analysis of the definitions given to taxes is necessary first of all to justify their economic essence, to determine the economic role of taxes and tax principles that are the basis of tax legislation, and to determine the place of income tax from individuals in the tax system. The income of all individuals should be taxed and distributed equally. Although A. Smith understands justice as taxation of citizens' income on the basis of commonality and proportionality, he considered that rich people should be taxed in a progressive manner. This is clearly confirmed by his following comments:

"...It is desirable for the rich to contribute to covering public expenses not only in relation to their income, but also to contribute more." [1]

It is also emphasized that citizens should not be taxed in the same way according to the type of tax received separately, on the contrary, citizens should receive income from different sources and accordingly pay taxes separately.

A. Smith in his work touched on this principle separately. he describes it as follows: "The certainty that each person needs to pay taxes is so important in taxation that, as is known from the experience of all nations, the inequality of taxation causes little harm compared to a small uncertainty" [2].

A. Smith, based on the principle of accuracy, not only showed the negative consequences of its violation, but at the same time, V. It also essentially echoes Petty's ideas about the tax burden. According to him, "uncertainty and suspicions are related to the legal basis of taxation" [3].

J. Mill, one of the last representatives of A. Smith's school, in his work entitled "Principles of political economy with their partial application to social philosophy" filled the thoughts of his predecessors (A. Smith, R. Malthus and D. Ricardo) with new conclusions. J. Mill, developing A. Smith's ideas on taxation, put forward the principle of equality of taxes. This rule asks that the tax burden imposed on taxpayers as a result of tax payments should be the same.

D. Ricardo expresses his opinion about taxes with the opinion that "...taxes have the same influence as infertile soil, bad weather, lack of activity or incompetence, improper distribution of jobs..." [4].

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In conclusion, it should be noted that foreign economists put forward the ideas of taxing all forms of their property and income, referring to individuals more than legal entities.

Many scientists and economists have expressed their opinions about the income tax collected from the income of the population. In particular, one of our local scientists, O. Abdurakhmanov, explained the essence of taxes from individuals as follows: Taxes from individuals are non-equivalent compulsory payments that citizens transfer to the state from their personal income based on the sources of any legal activity [5].

A. Adizov summarized the taxes collected from individuals as follows: "Taxes collected from individuals are fees for services rendered by the state and society as an obligation, in order to provide them with funds, in the amount determined by the law and in the established terms, the payment is compulsorily levied at the discretion of the state." [6].

The characteristic feature of this definition is that its author, like some foreign economists, is not limited to stressing the responsibility of the population in terms of taxes, but also emphasizes that the state must fulfill its obligations in a fair manner, and this obligation is to spend the funds collected through taxes economically in the interest of the people, and to provide detailed information to the payers in this regard. insisted on going.

According to Article 364 of the Tax Code of the Republic of Uzbekistan, "taxpayers of personal income tax are residents of the Republic of Uzbekistan and natural persons who are non-residents of the Republic of Uzbekistan receiving income from sources in the Republic of Uzbekistan."

A tax resident of the Republic of Uzbekistan is a natural person who is actually present in the Republic of Uzbekistan for more than 183 calendar days during any consecutive 12-month period in which the relevant tax period begins or ends.

According to Article 413 of the Tax Code of the Republic of Uzbekistan, the taxable base is "the average annual residual value of taxation objects (average annual value) is one-twelfth of the amount obtained by adding the residual values (average annual values) of taxation objects according to the situation on the last day of each month in the tax period as a part, it is defined with an ascending ending".

The need to collect tax from the income of individuals is manifested in the dominance of social interests. This means that income is related to the use of tax, the need to regulate the level of nominal money and real income of the population in a certain way.

### **3. Research Methodology**

The methodology of our study is the economic relations of tax on income from individuals. Theoretical issues of personal income tax are summarized. During the research, methods such as comparison and grouping of practical materials were used, and conclusions and proposals were developed.

### **4. Analysis and Results**

Income tax from individuals is one of the main sources of income of the state budget, which is part of the national taxes. Its distinctive feature is that the tax is collected from the direct income of individuals of the Tax Code of the Republic of Uzbekistan

Article 381 "Tax rates for individuals who are residents of the Republic of Uzbekistan" stipulates that the income of an individual who is a resident of the Republic of Uzbekistan is taxed at the rate of 12 percent and the income in the form of dividends and interests is taxed at the rate of 5 percent.

In the Republic of Uzbekistan, the share of personal income tax revenue in relation to GDP was 1.8 percent in 2018, and 2.7 percent in 2022 (Table 1).

Table 1 Analysis of personal income tax revenue and its share in the Republic of Uzbekistan in 2018-2022

№	Indicators	<i>billion soums</i>				
		2018	2019	2020	2021	2022
1.	<b>amount of gross domestic product</b>	424 728,7	529 391,4	602 193,0	734 588,0	888 342,0
2.	<b>State budget revenues</b>	79 099,0	112 165,4	132 938,0	164 799,0	202 043,0
3.	<b>Direct taxes</b>	15 656,2	31 676,8	45 206,9	58 930,0	64 447,0
4.	<b>Personal income tax</b>	<b>7 447,6</b>	<b>13 327,5</b>	<b>15 140,8</b>	<b>18 917,7</b>	<b>24 284,5</b>
5.	<b>Share of personal income tax in gross domestic product, %</b>	1,8	2,5	2,5	2,6	2,7
6.	<b>Share of personal income tax in State budget revenues, %</b>	9,4	11,9	11,4	15,0	12,0
7.	<b>The share of personal income tax in direct taxes, %</b>	47,6	42,1	33,5	32,1	37,7

According to Table 1, State budget revenues in 2018 - 79,099.0 billion. soums, in 2019 - 112,165.4 billion. soums, in 2020 - 132,938.0 bln. soums, in 2021 - 164,799.0 billion. soums and 202,043.0 billion in 2022. amounted to soum. Income from personal income tax, respectively,

7,447.6 bln. 13,327.5 billion soums. 15,140.8 billion soums. 18,917.7 billion soums. soums, 24,284.5 billion in total. amounted to soum.

If we look at the share of personal income tax in the GDP, the share in 2018 is 1.8%, in 2019 the share is 2.5%, in 2020 the share is 2.5%, in 2021 the share is 2.6%, in 2022 the share is 2.7% In the last 3 years, we can see that income tax from individuals has been growing by 0.1% per year compared to the GROSS DOMESTIC PRODUCT.

In the Republic of Uzbekistan in 2021-2022, an analysis of the salary level dynamics of employees performing work in organizations is presented (Table 2).

**Table 2 Analysis of salary level dynamics in budget and non-budgetary organizations of the Republic of Uzbekistan in 2021-2022.**

*a thousand people*

№	Amount of salary	2021 (November)		2022 (November)	
		number of payers	share, (percentag)	number of payers	share, (percentag)
1.	<b>1 mln. up to soum</b>	<b>1 509 741</b>	<b>31,4</b>	<b>1 404 377</b>	<b>28,0</b>
	<i>budget sector</i>	451 640	9,4	369 089	7,4
	<i>non-budget sector</i>	1 058 101	22,0	1 035 288	20,6
2.	<b>1 mln. 2 million from soums. up</b>	<b>1 231 621</b>	<b>25,6</b>	<b>1 232 569</b>	<b>24,6</b>
	<i>1 mln. 2 million from soums. up to</i>	603 732	12,6	610 734	12,2
	<i>non-budget sector</i>	627 889	13,1	621 835	12,4
3.	<b>2 mln. 4 million from soums. up</b>	<b>1 221 308</b>	<b>25,4</b>	<b>1 264 598</b>	<b>25,2</b>
	<i>budget sector</i>	600 468	12,5	655 941	13,1
	<i>non-budget sector</i>	620 840	12,9	608 657	12,1
4.	<b>4 mln. 5.5 million soums. up to</b>	<b>383 523</b>	<b>8,0</b>	<b>467 233</b>	<b>9,3</b>
	<i>budget sector</i>	152 308	3,2	218 240	4,3
	<i>non-budget sector</i>	231 215	4,8	248 993	5,0
5.	<b>5.5 mln. soum and above</b>	<b>456 424</b>	<b>9,5</b>	<b>649 255</b>	<b>12,9</b>
	<i>budget sector</i>	144 491	3,0	224 678	4,5
	<i>non-budget sector</i>	311 933	6,5	424 577	8,4
	<b>Total:</b>	<b>4 802 617</b>	<b>100</b>	<b>5 018 032</b>	<b>100</b>

Income tax revenues from individuals amounted to 24,284.5 billion soums in 2022, an increase of 5.4 billion soums or 28.4% compared to 2021. At the same time, income tax revenues from individuals in a fixed amount amounted to 393.3 billion soums in 2022, which decreased by 3.4 billion soums or 0.9% compared to 2021. A number of factors had a positive impact on the growth of personal income tax revenues.

Including:

- an average increase of the minimum wage in the budget sector by 14.7% compared to 2021;
- legalization of the number of employees and the wage fund in all sectors of the economy.

As a result, the number of individual income tax payers in 2022 was 5,018 thousand, which increased by 215 thousand or 8% compared to 2021.

An analysis of dividends received by individuals in the Republic of Uzbekistan in 2021-2022 is presented (Table 3).

**Table 3 Analysis of dividends received by individuals in the Republic of Uzbekistan in 2021-2022.**

<i>billion soums</i>				
Tax payers	2021 year		2022 year	
	Dividend income	The amount of tax withheld from the source of payment	Dividend income	The amount of tax withheld from the source of payment
<b>Physical person</b>	<b>7 573,6</b>	<b>379,9</b>	<b>8 794,2</b>	<b>429,0</b>

From the information in Table 3, it can be seen that the income received by individuals in the form of dividends in 2021 amounted to 7,573.6 billion soums, and 379.9 billion soums of income tax was paid to the state budget from these revenues, while in 2022, the amount of dividends of individuals in the form of dividends amounted to 8,794.2 billion soums and paid 429 billion soums of income tax to the state budget from these revenues, it can be seen that the income of individuals in the form of dividends has increased by 13.9% compared to 2021.

### Conclusions and Suggestions

Personal income tax affects the level of monetary income of the population, at the same time, the state uses the tax as an incentive for more appropriate use of income. Due to the income tax, first of all, a part of the higher incomes will be redistributed in favor of the categories of the population that need additional funds, as mentioned above, in the interests of the society. The level of income inequality will decrease to some extent.

The tax should ensure harmonization of tax relations between the population and the state. In the period of transition to the digital economy of the state, while performing the role of regulation and incentive in the redistribution of the population's income through the macroeconomic tool of taxation, we consider it appropriate to rationally regulate the population's income based on various interests.

1. In the tax legislation, we propose to introduce standards for reducing the current rate of income tax from individuals to 50 percent for business entities that create new jobs.
2. We believe that it is necessary to revise the tax benefits (reductions and amounts of income exempted from taxation) on personal income tax. For example, the amounts of deductions (privileges) set in fixed amounts (in soums) for personal income tax should be determined in relation to the minimum amount of remuneration for labor (MHTEKM) or the basic calculation amount (BHM).
3. Acceptance of payments by business entities to the bank cards of individuals should be recognized as confidential income and avoid the use of cash register techniques or payment terminals.

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