

SCTCMG 2019
**International Scientific Conference «Social and Cultural
Transformations in the Context of Modern Globalism»**

**TAX REFORM IN THE CONTEXT OF A SOCIALLY ORIENTED
BUDGET FORMATION MECHANISM**

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Abstract

Stable development of any country can be ensured only under conditions of a well-thought-out and coordinated tax policy, a coherent and fair taxation system. Thus, personal income tax takes one of the central places in the Russian taxation system since it is significant in its amount in the structure of consolidated budgets of the constituent entities of the Russian Federation (according to budget legislation, it is included in regional and local budgets). In this regard, the issue related to improvement of the taxation efficiency and the principle of social justice in distribution of tax burden is becoming increasingly important. This study investigates the trends in transformation of the tax mechanism in personal income taxation with regard to the principle of social justice, and introduction of the progressive scale into Russian taxation practice. The features of the progressive scale in personal income taxation based on the principle of social justice are revealed. A regional contribution of the constituent entities of the Russian Federation to the dynamics of the formation of personal income taxation is assessed. The main risks that can reduce the amount of income of the specified type of tax in for flat taxation are identified. The features of social stratification in Russia are defined with regard to the level of income of citizens. A progressive personal income taxation scale is proposed to achieve fair distribution of tax burden for Russian citizens in order to reduce social stratification and ensure effective replenishment of the state budget.

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Keywords: Banking system, Bank of Russia, capital concentration, regional bank.



1. Introduction

Modern history of the development of personal income taxation dates back to December 7, 1991, when the Law of the Russian Federation No. 1998-1 On Personal Income Tax was adopted. This law was valid until 2001. The law established a progressive taxation scale:

- up to 50,000 rubles – 12%;
- from 50,001 to 150,000 – 6,000 rubles + 20% of the sum exceeding 50,000 rubles;
- from 150,001 and greater – 26,000 rubles + 30% of the sum exceeding 150,000 rubles.

Since 2001, Article 23 of the Personal Income Tax of the Tax Code of the Russian Federation has been in effect. It provides for a scheduling income tax, that is, differentiation of tax rates depending on the sources of income. Tax collection at a rate other than 13% is related to various kinds of winnings, prizes, interest income on deposits, savings on interest in loans, etc., with due account for the provisions of Articles 212, 214.2, 214.2.1, 217, 224, 227.1 of the Tax Code of the Russian Federation.

Theoretical and practical aspects of the taxation efficiency have been studied in detail by Ambroseva (2007).

In recent years, personal income taxation has been repeatedly considered in a number of scientific publications by both foreign and Russian authors. For example, Szarowská (2016) uses the results of an empirical assessment of the income taxation in 21 EU and OECD member countries (currently, 22 member states of the EU are members of the OECD due to Latvia's accession from July 01, 2016) and emphasizes not only its fiscal importance, but also its effect on the state policy pursued (including economic growth stimulation and the country's competitiveness improvement).

Australian scientists (Tran-Nam, Vu, & Andrew, 2007) adhere to a similar point of view. They studied the taxation and reformation of personal income in Australia and noted its significant role in distribution of resources, redistribution of income and macroeconomic stabilization.

Scientific publications also present the results of the studies of problems and issues related to personal income taxation in the USA, Canada (Laganà & Sgro, 2007), Malaysia (Idawati, 2016) and Japan (Bessho & Hayashi, 2005), and Sukhanova (2016) provides a comparative analysis of the personal income taxation in Russia and Japan.

2. Problem Statement

This study is of particular relevance since the execution of the budget system of the Russian Federation needs improvement, and possible ways should be found to increase budget revenues in this country (Gorlova, 2017).

In our opinion, the social role of taxes has been currently diminished. The progressive taxation scale should be brought in effect since the 13 percent flat income tax rate is completely unfair to low-income workers. The transition to proportional personal income taxation has resulted in increased income stratification. During the transition to the 13 percent rate the difference between the average wages of 10% of the most paid and 10% of the least paid workers was 13.9-fold, however, it increased 17-fold by 2018.

3. Research Questions

The study focuses on the principle of social justice in personal income taxation through introduction of the progressive taxation scale for the income of payable sectors of the population. To explore the research topic, the main objectives should be set:

1. To give a brief retrospective of the formation and development of the Russian system of personal income taxation;
2. To study the international experience of progressive income taxation;
3. To identify the main features and potential of progressive income taxation for the population in Russia;
4. To analyze regional trends in collection of personal income taxes and the degree of social stratification;
5. To suggest a possible approach to progressive income taxation in Russia.

4. Purpose of the Study

The purpose of the study is to find the ways of transformation of personal income taxation through introduction of the progressive taxation scale in order to improve social justice of taxation in Russia.

5. Research Methods

Numerous researchers consider the taxation related problems and raise the issue of fiscal equity (Grachev, 2014), including that in the context of studying individual taxes (Vorozhbit & Uksumenko, 2016).

Mikhailik (2015) states the ways of reforming personal income taxation in Russia and notes the leading position of the country in the world in terms of income differentiation.

It is important to note that Kostyleva (2013), a senior researcher from the Institute of Socio-Economic Development of Territories of RAS, reports the need to introduce a progressive personal income taxation scale.

Finally, Savina and Savina (2015) put forward a well-reasoned approach and emphasize the need to link the taxation reform with fiscal policy. They identify problems of the Russian taxation system and note the dependence of the tax culture on the government's fiscal policy, which ultimately affects the formation of financial resources of the country, companies and all citizens.

The analysis of the foreign experience of personal income taxation allowed us to conclude that low-income groups in developed countries are exempted from paying income tax, whereas, high-income groups are taxed at high rates.

In order to confirm this, consider the scale of income taxation in Germany and Austria. For example, in Germany the progressive scale is established as follows:

- up to 8,004 euros of annual income – 0%;
- from 8,005 to 52,881 euros of annual income – 14%;
- from 52,882 euros to 250,730 euros of annual income – 42%;
- from 250,731 euros of annual income – 45%.

Thus, in Germany, income tax is socially oriented, and low incomes of individuals are not taxed. At the same time, high incomes are taxed at higher rates. We also consider it necessary to consider income taxation in Austria.

In accordance with the law on income tax in this country, the following tax scale is established:

- up to 11,000 euros of annual income - 0%;
- over 11,000 euros (up to 18,000 euros) of annual income – 25%;
- over 18,000 euros (up to 31,000 euros) of annual income – 35%;
- over 31,000 euros (up to 60,000 euros) of annual income – 42%;
- over 60,000 euros (up to 90,000 euros) of annual income – 48%;
- over 90,000 euros of annual income – 50%.

Thus, we conclude that the income tax in Austria (similar to that in Germany) is socially oriented, and monthly incomes of individuals less than 73,004 rubles are not subject to tax. At the same time, incomes exceeding 597,296 rubles are taxed at a rate of 50%. To ensure equity and guarantee the effectiveness of income taxation in Luxembourg, a multistage scale is used.

The experience of the Russian Federation over the past five years shows that its share is more than 20%.

Over the study period (2008–2017), the consolidated budget receipts grew by 72.71%, and the contribution of personal income taxes increased by 68.5%.

However, there are risks of significant slowdown in the growth rate of personal income tax receipts in the consolidated budget of the Russian Federation. First of all, this is due to the turbulence in the Russian economy. As is known, personal income tax occupies a significant place in the structure of consolidated budget tax revenue of the entities of the Russian Federation. The calculation results presented in Table 1 show that all Russian regions were divided into 10 groups (based on the calculation of the personal income tax share in the structure of consolidated budget tax revenue of the entities of the Russian Federation).

Table 01. Distribution of Russian regions by the share of personal income tax in the structure of consolidated budget tax revenue of the entities of the Russian Federation in 2013–2017

Share, %	Number of entities				
	2013	2014	2015	2016	2017
Less than 10	0	0	0	0	0
10–19.99	0	1	1	2	1
20–29.99	9	8	5	6	8
30–39.99	20	19	17	17	18
40–49.99	43	38	38	36	40
50–59.99	6	11	17	16	12
60–69.99	4	3	2	3	4
70–79.99	1	2	2	2	1
80–89.99	0	1	1	1	1
90 and higher	0	0	0	0	0

Over the period 2013–2017, actual personal income tax revenue in the consolidated budget of entities of the Russian Federation increased only in 10 regions.

At the same time, personal income tax receipts in 58 Russian regions decreased by more than 10%. To minimize the considered risks and to solve the identified problems, it is proposed to introduce a progressive tax scale, which employs current data from the Federal State Statistics Service on gross wages (for April 2017) and population size (for 2017).

Based on the above, we propose the introduction of a socially just progressive taxation of personal incomes with full tax relief for low-income individuals.

At the same time, the study showed that the proposed scale will increase income tax receipts to the consolidated budget of the Russian Federation by 40.12 billion. This shows not only a social orientation of the proposed scale, but also its economic feasibility and reasonableness.

Table 02. A comparative analytical assessment of the proposed progressive tax scale and the current proportional scale

Wages, rub per month	Number of workers, mln ind	Rate of the proposed tax scale, %	Tax, bln rub	
			According to the proposed tax scale	According to the current scale
10 600 and less	8.63	0	0	107.26
10 600.1–17 000	12.67	5	105.49	274.27
17 000.1–25 000	15.1	11	416.67	492.42
25 000.1–50 000	24.42	13	1 337.11	1 337.11
50 000.1–75 000	6.83	15	742.83	643.78
75 000.1–100 000	2.36	16	389.43	316.42
100 000.1–250 000	2.05	17	587.36	449.16
250 000.1–1 000 000	0.25	18	208.81	150.81
More than 1 000 000	0.014	19	74.91	51.25
Total	72.32	X	3 862.6	3 822.48

The obtained results are presented in terms of wage intervals (Table 02).

It is important to note that the net payroll growth will be provided for 50.3% of Russians (for example, in the first group, from 1.16 to 1.34 of the minimum wage).

According to the proposed scale (as well as the current scale), the net payroll 33.76% of Russians will be 4.79 of the minimum wage. It should be noted that the ratio of the net payroll in the last group of the progressive scale (over 1,000,000 rubles) to the first group (10,600 rubles or less) will decrease from 284.77 to 230.67 times once the proposed scale is introduced.

6. Findings

The conducted study allows a number of conclusions.

1. The introduction of a flat scale of income taxation facilitated the principle of economic equality regardless of social or other affiliation, and the principle of social justice was observed to cease.

2. International experience has shown widespread use of the progressive tax scale (for example, in Germany and Austria). At the same time, income tax is socially oriented, and personal incomes up to 8,004 euros in Germany, up to 11,000 euros in Austria, and less than 11,265 euros in Luxembourg are not taxed.

3. It should be noted that exclusion of Par. 4, Art. 224, Part 2 in the Tax Code of the Russian Federation is of high relevance.

4. Over the study period (2008–2017), the revenue to the consolidated budget of the Russian Federation in the form of personal income taxes increased by 68.5%.

However, there are risks of a significant slowdown in the growth rate of personal income tax receipts in the consolidated budget of the Russian Federation, which is primarily due to the turbulence observed recently in the Russian economy (Tavbulatova, Abaev, & Kulakova, 2018).

5. Over the past five years (2017–2013), the share of personal income taxes in the total tax revenues of the consolidated budgets of 32 entities of the Russian Federation decreased. The most significant reduction in this indicator was recorded in the Sakhalin (–28.11%), Arkhangelsk (–7.82%), and Leningrad (–6.91%) regions.

6. Over the period 2013–2017, actual revenue of the consolidated budget of the entities of the Russian Federation in the form of personal income tax increased only in 10 regions (Republic of Adygea, Tatarstan, Yakutia, Mordovia, Tula, Leningrad, Astrakhan, Sakhalin, Jewish Autonomous Region, and Nenets Autonomous Region), and in 58 regions, it decreased by more than 10%.

7. The wage of one eighth part of workers (11.93%) is less than 10,600 rubles, and taxing of low-income individuals is indisputably socially unfair.

8. The proposed solution to this problem is the progressive tax scale for personal income taxes.

9. In practical implementation of the proposed progressive scale, low-income individuals (up to 10,600 rubles per month) will not be subject to taxing, and those who have wages of up to 17,000–25,000 rubles per month will pay duty at preferential rates of 5 and 10%. However, individuals with wages exceeding 25,000 rubles will have to pay the current tax rate (13%), and high incomes will employ tax rates from 15 to 19% will be employed for high incomes depending on their level.

10. The calculations show that the introduction of the proposed progressive tax scale leads to an increase in the revenue of the consolidated budget of the Russian Federation by more than 40 billion rubles.

7. Conclusion

Thus, at the current stage of development of the Russian Federation, a modern tax model should be based on social justice and equality that takes into account the challenges of the world economy. The introduction of the proposed progressive tax scale will be focused on the principle of social justice stated by Adam Smith as one of the fundamental taxation principles. The need to take large-scale measures to maximize the legalization of "black" and "gray" wages is beyond dispute. The measures include the enhancement of social advertising (distribution on social networks and other Internet sites) and special financial literacy events, including those of a competitive nature, at schools, secondary special and higher educational institutions.

Acknowledgments

The study was carried out as part of the RFBR grant # 18-410-200002

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