



IMPROVING THE REGULATION AND INCENTIVE FEATURES OF PERSONAL INCOME TAXATION

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ABSTRACT	KEY WORDS
This article provides relevant proposals and recommendations for further improving the regulation and incentive mechanisms of personal income taxation in Uzbekistan, based on a study of international experience in taxing individual incomes.	Income tax, social justice, standard of living, minimum consumption expenditure, progressive scale, non-taxable minimum.

Introduction

One of the most important types of taxes in international tax practice is personal income tax, the necessity of which is linked to its economic, social, and political functions. From an economic perspective, the fiscal function of income tax plays a significant role in forming state budget revenues. The social nature of income tax is reflected in its influence on the real incomes of the population through deductions, tax rates, tax benefits, and other mechanisms thereby directly affecting the standard of living. From a socio-political point of view, this tax is essential for the effective implementation of the state's social policy and plays an important role in labor migration.

At the same time, it is crucial to enhance the effectiveness of tasks and measures set out in national strategies and programs to combat poverty, reduce the tax burden on low-income segments of the population, and address income inequality among social strata, taking into account average income levels. Moreover, there are certain issues related to tax calculation, the application of tax deductions, and benefit mechanisms.

Therefore, it is especially relevant to explore ways to improve the personal income taxation system, including studying international practices to identify tax regulation approaches and methods applicable within the economic context of Uzbekistan.

Literature Review

One of the scholars who has conducted scientific research on the system of personal income taxation and its improvement is E.N. Evstigneev, who emphasized: "Income tax is an economic tool through which the state, on the one hand, influences the real income levels of the population, and on the other hand, forms the revenue part of the budget."

According to I.V. Gorsky, personal income tax is not only the most important among taxes levied on the population but also lies at the core of any modern tax system. This is due not only to the fact that all social relations in one way or another affect the individual or employee but also because the weight of personal income tax largely determines the level of other taxes.

Kuznetsov argues that “In the process of reforming the personal income taxation system, the principle of fairness is often violated, the tools for determining economically justified levels of tax benefits are not fully utilized, and the socially oriented role of taxes is underestimated, despite the fact that in developed foreign countries, this role occupies a leading position in their national budgets.”

The Prime Minister of the Russian Federation, M. Mishustin, while outlining the main goals of tax reform in the country, emphasized that it should primarily contribute to reducing inequality. He pointed out that the tax system should not only ensure the flow of resources to solve national and regional problems, but also require fair distribution of the tax burden. Tax reform must also take into account the income levels of citizens and companies as part of socio-economic development.

In the article “Taxes and the Minimum Amount for Living in Need” by Alfred G. Buchler, the concept of a non-taxable minimum is explored. The author stresses that the provided minimum (non-taxable amount) must be sufficient for individuals to meet their basic living needs. He also emphasizes that taxes should serve not to worsen living conditions but to contribute to income growth.

Research Methodology

This research was conducted with the aim of further improving the system of personal income taxation. Based on a study of international practices in the taxation of individual incomes, relevant tasks were developed to enhance the regulatory and incentive mechanisms of personal income taxation in Uzbekistan.

During the research process, scientific and methodological approaches such as the study, analysis, comparison, and classification of practical materials were applied. As a result, conclusions were drawn and proposals were developed, which include specific measures for improving the regulation and incentive features of personal income taxation.

Analysis and Discussion of Results

One of the most important types of taxes in international tax practice is the personal income tax, the necessity of which is connected to its economic, social, and political functions. From an economic perspective, the fiscal function of income tax plays a crucial role in forming state budget revenues. Its social nature is manifested in its impact on individuals' real incomes through deductions, tax rates, tax benefits, and other mechanisms, thereby directly influencing the standard of living. From a socio-political standpoint, personal income tax is vital for the effective implementation of social policies and plays a significant role in labor migration.

From the position of social justice, reforming income taxation to enhance the effectiveness of strategies and programs aimed at combating poverty, and reducing the tax burden on low-income groups — considering income inequality and average earnings becomes a key issue. It is well known that the state, through taxation, regulates the income and living standards of its citizens. The extent of this impact determines the level of income legalization, interest in private entrepreneurship, and the forms of property preservation.

Global experience shows that high levels of tax burden and government interference lead to increased tendencies to conceal income, reduce motivation to earn, and vice versa lower tax burdens encourage transparency and economic activity. In many countries, personal income taxation is based on either proportional or progressive tax rates.

Under a proportional taxation system, income tax is relatively low and levied at a flat rate. This system helps draw individuals out of the informal economy and expand the budget's revenue base. However, it does not contribute to equal wealth distribution and fails to reduce income disparities. As a result, it negatively affects lower-income groups and benefits higher-income earners, exacerbating inequality and potentially leading to social instability, security threats, and hindering economic growth. Therefore, over time, many countries have transitioned to a progressive taxation scale.

The progressive approach to taxation helps reduce the Gini coefficient, lowering the level of social stratification. For example, the Gini coefficients are: 45.0 in the USA, 42.8 in Israel, 37.9 in Japan, 32.4 in the UK, 32.1 in Canada, and 27.0 in Germany. In these countries, income tax performs not only a fiscal function but also regulatory and social functions. Through higher tax rates on higher incomes, the state redistributes wealth to support lower-income groups.

However, high progressive taxation may lead to increased tax evasion, shift the burden to the middle class, and reduce work motivation. Considering this, many countries have implemented reforms allowing social expenses to be deducted from gross income. Tax benefits such as child allowances are widely used to support families with education, healthcare, and other socially significant expenses.

In some countries, families with young children, the elderly, and people with disabilities are eligible for income tax mechanisms that reduce taxable income. These policies aim to improve family nutrition and health by lowering their tax burden.

In various countries, deductions from the income tax base are applied for the following socially significant expenses:

Social and other insurance premiums paid from wages;

Expenditures on essential goods and services (considering family status, presence of children, etc.);

Medical services for specific groups or professions (e.g., diagnostics, dental care, prosthetics, certain surgeries);

Purchase of special equipment and accessories for disabled individuals, pensioners, and the elderly;

Part of housing purchase or rental expenses;

Part of utility bill payments;

Expenses for children under 16 (e.g., preschool fees, paid courses, sports sections, extracurricular activities, etc.).

These expenses are reimbursed either at the source of income taxation or during annual income and expense declarations.

In developed countries, incomes below the minimum subsistence level are not taxed. A non-taxable minimum exists to reduce tax liabilities for individuals earning only enough to cover basic living expenses. This benefit is generally unavailable to high-income earners.

Table 1. Non-Taxable Minimum Income Thresholds in Developed Countries

Country	Non-Taxable Annual Income	Taxable Annual Income Range	Tax Rates
Australia	Up to \$4,600	\$4,600 to \$28,800	9%
		Above \$140,000	30.3% to 44.9%
Austria	Up to \$12,500	\$12,500 to \$28,500	36.5%
		Above \$58,000	Up to 50%
Brazil	Up to \$5,300	\$5,300 to \$10,500	15%
		Above \$10,500	Up to 27.5%
United Kingdom	Up to \$15,500	\$15,500 to \$49,000	20%
		Above \$231,000	45%
Germany	Up to \$9,000	\$9,000 to \$11,500	2.56%
		Above \$285,000	Up to 45%

Drawing from international experience, it can be concluded that taxing high-income groups at higher rates allows governments to redistribute income toward lower-income segments of the population. Accordingly, it is advisable for Uzbekistan to transition toward a progressive income tax system, introduce a **non-taxable minimum**, and implement reforms allowing deductions of expenses related to education, medical services, health insurance, housing (purchase or rent), and utilities from total income. These reforms would enhance the effectiveness of the country's social policy.

In this regard, considering the **family's total income** as the object of taxation is a logical step toward fulfilling the social function of income tax. This would allow for the inclusion of expenses associated with dependents, minors, and elderly parents. Utilizing a transparent mechanism for deductions will strengthen the **targeted orientation of state social policy**, increase public trust in government actions, and expand the population's access to universal human values.

Returning a portion of collected taxes in the form of **quality public services** will reduce informal economic activities (including receiving wages "in envelopes"), increase both household and national budget revenues, help alleviate poverty, and raise the overall standard of living.

Conclusion

Based on the above analysis, conclusions, and a generalization of foreign experiences, the following recommendations are proposed to further improve the regulatory and incentivizing features of the income taxation system in Uzbekistan:

Reform the income taxation system in Uzbekistan by taking into account the country's specific characteristics—such as national mentality, sources of income, income inequality across social strata, family size and income, average earnings, and standard of living while applying best practices from other countries.

Introduce the concept of a **“non-taxable minimum”** into tax legislation. This should be defined based on each household's **annual minimum expenditure level** (according to current data, the minimum consumption expenditure per capita in 2025 is 669,000 UZS per month).

Transition to a two-tier progressive scale by introducing the non-taxable minimum and thereby reform the personal income taxation system.

Revise the system of tax benefits, deductions, and exemptions. For example, deductions under income tax should be linked to the **basic calculation unit** rather than fixed amounts.

In addition, in order to enhance the **efficiency of personal income taxation** and expand **social support for the population**, it is recommended to introduce a **deduction mechanism for specific essential expenses**, including:

- medical diagnostics,
- dental services,
- and certain other healthcare-related services,
- as well as selected utility expenses for low-income individuals.

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