

Personal Income Tax System: Practice, Problems and Prospects for Improvement

Furkat Bazarov

Professor, Tashkent state university of economics

Abstract: This article analyzes the theoretical foundations and practical aspects of personal income taxation. The study identifies existing problems and develops scientific and practical recommendations for their elimination and further improvement of the personal income taxation system.

Keywords: Individual, Personal Income Tax, Population Income, Tax Revenues, Tax Rate, Budget Revenues, Tax Administration.



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1. Introduction

The effective functioning of the state economy and the provision of fair and sustainable development in society depend on many factors, one of the most important of which is the income of the population and the system of taxation on them. Income of the population not only determines the quality of life of citizens and ensures their economic well-being, but also serves as the main source for the state budget. At the same time, the fair distribution of income and the efficiency of the tax system play an important role in maintaining equality and social stability in society [1].

The regulation of income of the population through the tax system is carried out not only to ensure economic benefits, but also to establish equality for all strata of society. However, this process is distinguished by its complexity and variability. Today, in many countries, work is underway to update and improve the income of the population and the system of taxation on them. These changes are mainly aimed at ensuring the fairness, economic efficiency of tax policy and serving the general well-being of the people [2].

In this regard, improving the system of taxation of population incomes and their taxation serves not only economic goals, but also social justice and stability in society. Research on this topic creates a need to identify and eliminate the shortcomings of the existing system, as well as to develop an effective tax policy. Thus, regulating population incomes through the tax system is of particular importance as a key factor in fair and sustainable development in society [3].

In accordance with current economic reforms, Uzbekistan is implementing a number of thoughtful measures in the tax system, including a number of positive changes in the taxation of individual incomes.

As is known, the higher the income of citizens in any country, the more economic and social progress is achieved in that country [4].

Methodology

Determining the optimal scale of personal income tax is one of the main issues of modern optimal taxation theory. The basis for its development was expressed in the article of Nobel Prize

laureate J. Mirrlis in 1971 [5]. In this article, he generalized and expanded the analytical definition of F. Ramsey [6]. He also put forward a mathematical model that became the basis for further research in this area.

The definition of income tax in the Mirrlis model is that the government's goal is to maximize the welfare of society. The government's goal is to select a tax scale in such a way that a part of the total revenue is collected in the state treasury.

An article by Ye. Sadka, published after Mirrlis's work, expressed a surprising and controversial result [7]. Later, N. Stern and J. Sid gave a logical explanation to them [8]. In this case, the tax rate at the highest point of the income scale should be zero [9]. Obviously, it is impossible to create a tax scale under these conditions. In this sense, Mirrlis and his followers conducted a simplification analysis of social welfare taxes. According to their approach, the importance of dividing taxes into linear and proportional scales in the process of increasing the income of individuals was emphasized. Also, E. Sheshinsky paid special attention to the system of stratification of income tax [10].

In the research conducted by the Russian economist V.N. Lapin, the issue of increasing the income tax of individuals and its collectability was studied, and he expressed his thoughts and opinions in this direction [11].

2. Result and Discussion

All payments accrued and paid to individuals who are in labor relations with an employer and perform work in accordance with a concluded employment contract (contract) are recognized as income in the form of remuneration for labor. Income as remuneration for labor also includes income received by an individual from incentive payments, compensation, and compensation for time not worked established in accordance with tax legislation [12].

The fact that income is generated from various sources necessitates the introduction of limited tax relations in relation to their income. In this regard, it is also necessary to emphasize that income tax from individuals should not be limited only to serving to increase budget revenues, but should also serve to increase the standard of living of broad segments of the population, their incomes, and their ability to pay.

The acceleration of the process of taxation of income

dates back to the first half of the 19th century. Income tax was introduced in Great Britain in 1842, in Japan in 1887, in Germany in 1891, in the USA in 1913, and in France in 1914. In the former USSR, it was introduced under the general name of income-property tax by the Decree of November 16, 1922, and was transformed into an income tax in 1924, and was levied on the salaries of workers and employees according to a differentiated scale until 1991 [13]. Personal income tax occupies a significant place in the state budget revenues and is included in the general state taxes. Its distinctive feature is that the tax is levied on the direct income of individuals. Therefore, this tax plays an important role in the life of every taxpayer. Therefore, if we look at the dynamics of the number of individual income tax payers in our republic, the income tax calculated for them, and the income tax revenues paid by individuals over the past five years, we can see that the number of taxpayers and the income tax paid by them have been steadily increasing, which indicates a steady increase in the income of the population Table 1.

Table 1. Information on the number of individual income tax payers in Uzbekistan, the income tax accrued to them, and the amount of tax paid [14].

№	Years	Number of income tax payers	Amount of accrued income tax (billion soums)	Amount of income tax paid (billion soums)	Average amount per taxpayer (thousands of soums)
1	2012	4 075 581	2 221,4	2 301,8	564,7
2	2013	4 128 826	2 687,8	2 717,3	658,1
3	2014	4 346 117	3 104,2	3 261,7	750,5
4	2015	4 325 835	3 534,8	3 800,7	878,6
5	2016l	4 394 285	3 835,4	4 137,4	941,5
6	2017	4 408 860	4 648,3	4 876,4	1106,0
7	2018	4 545 217	5 392,0	6 422,7	1413,1
8	2019	4 686 237	13 170,9	13327,5	2844,0
9	2020	4 422 924	14 415,2	15140,8	3423,3
10	2021	4 802 617	17 548,2	18 918,0	3939,1
11	2022	5 018 032	22 157,1	24 284,5	4839,5
12	2023	5 527 005*	28 296,2	29 917,4	5412,9
13	2024	5 754 124*	38 477,3	35394,1	6551,1
14	2025**	6140000	46 900	43600	7100,0

* together with individual entrepreneurs who pay personal income tax.

** prognosis

According to Table 3 above, as a result of the creation of new jobs under the influence of positive reforms being implemented in our country, the number of payers of personal income tax has been steadily increasing in recent years. It is worth noting that, without a significant change in the number of taxpayers, tax revenues have increased sharply since 2019, more than 2 times compared to 2018. Revenues also have a stable growth rate in 2020 and 2021. This situation can be justified by the fact that, based on the tax policy concept implemented at the initiative of the President of the Republic of Uzbekistan Sh.M.Mirziyoyev, the progressive scale was abandoned starting in 2019 and a single 12 percent tax rate was introduced.

In proportion to the increase in the number of taxpayers, the income tax accrued to them also has an increase rate. At the same time, the income tax paid by individuals was collected in excess of the income tax accrued to them every year, that is, the amount of income tax paid compared to the amount of accrued income tax differed by 2,133.4 billion soums in 2022 alone.

The table shows a constant increase in the number of income tax payers between 2012 and 2024. The number of payers, which was 4,075,581 in 2012, increased to 5,754,124 by 2024. This increase is approximately 1.7 million people. This increase indicates an increase in economic activity and interest in the tax system.

The amount of assessed income tax has been growing every year. In 2012, this amount amounted to 2,221.4 billion soums, and by 2024 this figure has reached 38,477.3 billion soums. The growth in assessed tax is due to both an increase in the number of payers, as well as an expansion of economic activity and the tax base.

The amount of tax paid has also grown, and in 2012 it amounted to 2,301.8 billion soums, and by 2024 it reached 35,394.1 billion soums. The growth in paid tax is associated with an increase in assessed tax. It also indicates improved payment discipline of taxpayers, increased tax collection, and the efficiency of the state in managing tax collections.

The average amount per taxpayer is also showing a significant increase. In 2012, this amount was 564.7 thousand soums, and by 2024 it reached 6,551.1 thousand soums. The increase in the

average amount indicates that the total income of taxpayers has increased and the tax collection is distributed effectively.

The reason for the excess collection of income tax paid by individuals over the calculated income tax amount is as follows:

firstly, tax debts are reduced as a result of the legalization of illegal income of individuals through the informal lease of residential and non-residential property or the sale of buildings and structures, and the legalization of illegal income of informal workers and employees (most often in the construction and catering sectors);

secondly, it can be explained by the collection of additional amounts determined as a result of the submission of declarations by individuals.

If we look at the average tax amount per taxpayer, the amount of income tax paid has tended to increase over the years. This situation can be justified by the fact that the amount of wages paid to individuals increases year by year and the higher income tax rate is applied to income with a higher income tax rate [15].

3. Conclusions and Policy Recommendations

In accordance with the reforms being implemented in Uzbekistan, thoughtful measures are being taken in the tax system, including a number of positive changes in the taxation of individual income. Personal income tax, as a subsystem of budget-tax relations, reflects the relations that arose in the process of transferring part of their income to the state budget to form a centralized state fund. Therefore, in order to maintain records of individuals paying income tax and ensure full taxation of their income from any source, it is necessary to pay attention to the following:

- the gradual introduction of the practice of declaring income of individuals in the taxation of income will contribute to the emergence and prevention of the shadow economy, money laundering, corruption and other crimes in the economic sphere in the country.

- studying the composition of the population of our country and the share of the active population in it, the composition of the income of the population, the number of individuals paying taxes and the number of individuals who have submitted declarations to tax authorities, the amount of income tax paid by them, as a result of the analysis, we can see that today there is also income of individuals that is not subject to taxation. Improving the taxation of this income is one of the most important issues;

- when taxing income received from the sale of residential premises owned by individuals, it is appropriate to establish minimum standards for the location of the sold property in relation to the area occupied by it (similar to the standards applied to the rental of property).

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