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METHODS AND PRINCIPLES OF TAXATION OF INDIVIDUAL INCOMES

Annotation: This article explores the methods and principles of individual income taxation as a fundamental aspect of a country's economic policy. Taxation systems play a critical role in forming state budgets, ensuring economic stability, and addressing social inequality. The article discusses the advantages and challenges of various taxation methods, including progressive, proportional, and regressive scales, as well as direct and indirect taxation methods. Forms of taxation, such as the declaration and automatic systems, are analyzed for their efficiency, fairness, and applicability. Furthermore, scientifically justified proposals are made to enhance the taxation framework, focusing on hybrid systems, digital transformation, targeted incentives, and taxpayer education. The article concludes that an effective taxation system should balance fairness, simplicity, and efficiency while aligning with socio-economic development goals.

Key words: individual income taxation, economic policy, progressive taxation, proportional taxation, tax fairness, tax administration, tax reforms, digital tax systems, targeted tax incentives.

The system of taxation of individual incomes is an integral part of the economic policy of every country. This process plays a key role in forming the state budget and ensuring the social and economic stability of the country. Effective methods and forms of taxation are of great importance in implementing the social and economic policies and reforms of the state.

A well-structured and fair taxation system strengthens citizens' trust in the state and serves to enhance the culture of tax payment. Applying effective methods and principles of taxation of individual incomes contributes to the country's social and economic development.

Effective methods and forms of taxation play an important role in implementing the state's social and economic policies. In this process, the main principles of taxation fairness, transparency, efficiency and stability are particularly significant.

The following methods are used in the taxation of individual incomes:

1. **Progressive tax scale.** This method assumes that the tax rate increases with income growth. The higher the income, the higher the tax rate. A progressive scale can consist of several stages, with different tax rates applied at each stage. For example, the first stage may impose a 10% tax rate on low income, while higher income brackets are taxed at 20%, 30%, or more.

2. **Proportional (flat) taxation method.** In this system, the tax rate remains constant regardless of income level. For example, if the proportional tax rate is 15%, every dollar earned will be taxed at 15%. This approach simplifies tax calculations and collections but may not always align with principles of fairness, as it does not account for income differences.

3. **Regressive tax scale.** In this method, the tax rate decreases as income increases. This approach is not commonly used, as it often contradicts principles of social justice, requiring lower-income individuals to pay a higher percentage of their income in taxes than wealthier individuals.

4. **Income tax on expenditures (progressive consumption tax).** In this method, the tax is levied not on income but on the amount spent on consumption. Typically, this includes taxes on luxury goods or services and high-value items. For example, taxes may be higher for expensive cars, jewelry, or premium services, targeting wealthier consumers.

5. **Combined methods.** Many countries use a combination of various methods for taxing individual incomes. For instance, a progressive tax rate may apply to primary incomes, while additional taxes may target specific types of income or expenditures.

Direct taxation methods can be divided into two types:

- **Progressive taxation.** Under this system, tax rates rise with income levels, meaning individuals with higher incomes pay more taxes than those with lower incomes. This method helps distribute the tax burden fairly and reduces income inequality. For example, lower-income groups may pay a 10% tax rate, while higher-income groups face rates of 30% or more.
- **Proportional taxation.** Here, all taxpayers pay a fixed percentage of their income, regardless of its amount. While this simplifies tax administration, it may increase inequality, as it does not consider the varying ability of individuals to pay taxes.

Principles and Comparison of Taxation Systems:

- **Progressive taxation.** This system is considered fairer, as it takes into account income levels and provides relief to lower-income groups. However, it may be more difficult to administer, and higher rates could incentivize tax evasion.
- **Proportional taxation.** Known for its simplicity and transparency, this system is easier to administer. However, it may exacerbate inequality as it does not consider income differences.

Forms of Taxation of Individual Incomes:

1. **Declaration system.** In this form of taxation, individuals must independently declare their income and pay taxes based on this declaration. Taxpayers provide information about their income and deductible expenses to tax authorities.
2. **Automatic tax benefits.** Under this system, taxes are directly withheld by the employer or paying agent from the individual's wages or other income and transferred to the state budget.

In the declaration system, individuals independently declare their income and expenses, enabling more accurate financial accounting and the ability to utilize all available tax benefits. However, this process can be complex, time-consuming, and prone to errors during declaration completion.

The automatic tax benefits system simplifies the process, as taxes are automatically withheld by the employer or agent, reducing the likelihood of tax evasion. However, this method may restrict the full utilization of all available tax benefits.

This system is designed to ease tax procedures for small businesses and sole proprietors, offering simplified calculations and exemptions from certain accounting and reporting obligations.

This system requires detailed reporting of income and expenses. While offering various tax benefits, it involves more complex tax regulations and administrative processes.

Combining elements of simplified and general taxation systems, this form allows taxpayers to choose aspects that suit their needs, balancing simplicity with flexibility.

The choice between systems depends on the goals of the state's tax policy. Progressive systems aim for fairness by reducing inequality, while proportional systems are valued for their simplicity and transparency.

Indirect taxation includes various tax benefits and mechanisms to effectively distribute financial resources. Benefits are often targeted to ease the tax burden on specific groups or for specific purposes, such as education or healthcare expenses.

For example:

- Fixed benefits reduce the tax burden by a set amount or percentage.
- Targeted benefits focus on reducing specific expenses, like healthcare costs.
- Special benefits are often designed for particular groups, such as retirees or individuals with disabilities.

Taxation methods and systems must be chosen based on efficiency, fairness, and alignment with the state's socio-economic objectives. While progressive taxation addresses inequality, proportional taxation offers simplicity. A balanced approach, considering the strengths and weaknesses of each system, is essential for effective implementation and the economic development of the country.

The taxation of individual incomes plays a pivotal role in ensuring the financial stability of a country, promoting equitable wealth distribution, and fostering economic growth. A well-structured taxation system directly impacts social justice, income equality, and public trust in state institutions. The choice of taxation methods and forms is critical, as it influences not only the efficiency of revenue collection but also the economic behavior of taxpayers and the overall economic environment.

Progressive taxation, which aligns with the principle of fairness, is particularly effective in addressing income inequality and providing financial relief to low-income groups. However, its complexity may increase administrative costs and create opportunities for tax evasion. Conversely, proportional taxation offers simplicity and transparency but risks exacerbating income inequality, as it does not consider the taxpayer's ability to pay.

The declaration-based system empowers individuals to declare their income and expenses, enabling more accurate tax assessments. However, its implementation is resource-intensive and requires a high level of taxpayer literacy. The automatic system, while simplifying the process, may limit the utilization of available tax benefits and reduce taxpayer engagement. Simplified systems, such as those for small businesses, are effective in reducing administrative burdens but may lack the flexibility needed for more complex financial operations.

Indirect taxation methods, including tax benefits and exemptions, are essential tools for balancing social and economic objectives. These methods not only ease the financial burden on vulnerable groups but also incentivize investments in priority sectors like education and healthcare.

Scientifically Justified Proposals:

1. Integrated Taxation Systems. Introduce a hybrid taxation system that combines progressive and proportional elements. For instance, apply progressive rates to higher income brackets while maintaining a flat rate for lower income levels. This approach balances fairness with administrative simplicity and encourages compliance.

2. Digital Transformation in Tax Administration. Leverage digital technologies, such as artificial intelligence and blockchain, to enhance the efficiency of tax collection and minimize administrative costs. Implementing automated systems for income declaration and tax calculation can reduce errors and improve taxpayer satisfaction.

3. Targeted Tax Incentives. Design tax benefits that are strategically targeted toward specific socio-economic goals. For example, introduce additional deductions for investments in renewable energy, research and development, or small business startups. These measures will stimulate economic growth while aligning with national priorities.

4. Comprehensive Taxpayer Education Programs. Develop educational campaigns to improve taxpayer awareness and understanding of tax laws and benefits. This will foster a culture of voluntary compliance and reduce the likelihood of unintentional non-compliance.

5. Dynamic Tax Policy Framework. Establish a flexible tax policy framework that adapts to changing economic conditions. For example, adjust tax rates and benefits during economic downturns to stimulate consumption and investment, and increase rates during periods of growth to ensure fiscal stability.

6. Enhanced Equity Through Tax Adjustments. Regularly evaluate and update tax brackets to reflect inflation and changes in income distribution. This ensures that tax policies remain fair and relevant to the current economic environment.

7. Strengthening the Role of Local Taxation. Empower local governments to administer specific taxes, such as property or consumption taxes. Decentralization of tax administration allows for more tailored approaches to local economic conditions and improves the efficiency of revenue utilization.

8. Performance-Based Evaluation of Tax Reforms. Implement a system to monitor and evaluate the impact of tax reforms on economic growth, inequality, and compliance rates. Use these insights to fine-tune tax policies and ensure they achieve their intended objectives.

Taxation systems are not just revenue collection mechanisms but also powerful tools for achieving broader socio-economic objectives. A well-designed taxation policy promotes economic inclusivity, supports sustainable development, and enhances social cohesion. By combining progressive principles with innovative technologies and adaptive policies, countries can create taxation systems that are both efficient and equitable, fostering long-term economic resilience.

The recommendations provided above are grounded in economic theory and supported by empirical evidence from countries that have successfully implemented similar reforms. Integrating these proposals into Uzbekistan's tax system could significantly enhance its effectiveness, fairness, and alignment with national development goals.

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