

THEORETICAL AND INSTITUTIONAL PREREQUISITES FOR THE FORMATION OF A PERSONAL INCOME TAXATION SYSTEM

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Abstract. This article provides an in-depth analysis of the institutional and economic foundations of the personal income taxation system. Within the framework of the topic, the role of this type of tax in ensuring the sustainable management of public finances, the fair distribution of income, and the stimulation of economic activity is examined. The study analyzes various tax systems applied in international practice and their effectiveness indicators, while also substantiating practical mechanisms relevant to the conditions of Uzbekistan and proposing ways to improve them. In particular, the article explores the essence of progressive, proportional, and indirect taxation methods, the importance of tax incentives, and digital tax administration. The article concludes with scientifically grounded proposals and conclusions aimed at enhancing the taxation of individual incomes.

Keywords: individuals, personal income tax, progressive scale, proportional tax, tax policy, institutional foundations, economic justice, tax incentives, tax administration, income distribution.

Introduction. In today's economic environment, the liberalization of market institutions, the transformation of fiscal policy, and the institutional modernization of budgetary mechanisms aimed at ensuring macroeconomic stability have positioned the personal income taxation system as a strategic tool for the effective management of public finances. Within the structure of tax revenues, the personal income tax serves as a key fiscal instrument, playing a decisive role in budget consolidation, financing social infrastructure, and ensuring inclusive welfare of the population.

The evolution of the taxation mechanism based on the principles of equity, transparency, and efficiency reinforces the social contract – namely, it helps build fiscal trust capital between the state and its citizens. This approach promotes modern concepts such as fiscal legitimacy and tax citizenship. In Uzbekistan, the institutional environment related to the taxation of individuals' income is undergoing significant transformation. Tax regulations are being simplified, progressive tax rates are being redesigned, and tax administration is being optimized through the implementation of digital technologies. The introduction of GovTech and FinTech solutions is streamlining real-time tax monitoring and declaration processes, thereby strengthening tax compliance and improving voluntary participation.

This article conducts a comparative analysis of the theoretical concepts and practical mechanisms of personal income taxation, using the experience of both developed and developing countries. Based on this, the paper explores the current state of the system in Uzbekistan and formulates proposals for reform, grounded in the principles of economic efficiency, fiscal inclusiveness, and social justice.

Literature Review. Scientific approaches to the taxation of personal income have been extensively explored by leading scholars in the fields of economics and finance. For instance, American economist Martin Feldstein emphasized that excessively high tax rates can dampen investment activity. He argued that reducing tax rates may stimulate economic growth and increase income levels. According to Feldstein, income tax policy plays a pivotal role in shaping economic decisions, and thus, the taxation mechanism should be simplified.

These views are supported by Emmanuel Saez, who highlights the necessity of progressive taxation to reduce income inequality and enhance economic activity. James Poterba, on the other hand, underlines that an effective tax system should not only serve as a means for generating government revenue but also act as a catalyst for stimulating economic activity. From this perspective, the tax system must be distinguished by its fairness, transparency, and simplicity.

Thomas Piketty places particular emphasis on the role of personal income taxes in promoting social justice and economic equality. He is a prominent advocate for wealth redistribution through inheritance taxes, aiming to limit wealth concentration and ensure a more equitable allocation of resources.

Among Uzbek scholars, A. Bozorov, Sh. Qiyasov, and M. Imamova stress the importance of simplifying tax administration, ensuring fair distribution of the tax burden, and enhancing transparency through the implementation of effective declaration systems in the context of Uzbekistan. The review of existing literature demonstrates that the success of a personal income taxation system largely depends on the extent to which fairness, simplicity, the ability to stimulate economic activity, and social protection principles are harmonized. Theoretical perspectives offered by various authors can serve as a solid foundation for the reform and modernization of the tax system.

Discussion of Analysis and Results. The collection of taxes on personal income serves as a fundamental instrument for ensuring the financial stability of the state and fulfilling its core functions in the interest of society.

The distribution of income and wealth is considered one of the primary objectives of most tax systems from the perspectives of social justice and economic efficiency. Taxation of individuals is a key tool used to achieve these objectives.

A well-designed tax policy based on the principles of equity and efficiency can contribute to the development of a fair and sustainable society, where resources are distributed more evenly and all members of the community have access to basic services and equal opportunities.

Personal income tax may also function as a tool to either stimulate or restrict certain types of economic activity. For example, lowering income tax rates can incentivize investment and economic growth, while increasing tax rates may lead to reduced consumption and investment.

Personal income taxation plays a crucial role in regulating economic processes and serves several important functions:

1. **Financing the State Budget.** Taxes on personal income represent one of the primary sources of government revenue. They are essential for financing public expenditures and sustaining the fiscal operations of the state.
2. **Equitable Distribution of Income and Wealth.** Taxation enables the state to reduce social inequalities and promote social justice through the redistribution of income. The use of progressive taxation—where tax rates increase with rising income—facilitates this process by shifting a greater tax burden onto high-income earners, thereby promoting equity.
3. **Incentivizing or Discouraging Economic Behavior.** Tax instruments can be employed to influence the economic behavior of individuals. For instance, tax incentives may be granted to encourage investment in strategic sectors or innovative technologies. Conversely, increasing excise taxes on harmful goods such as alcohol and tobacco can reduce their consumption and mitigate the associated social and economic consequences.
4. **Regulating Inflation and the Money Supply.** By adjusting tax rates and tax structures, the government can indirectly influence levels of consumption and investment. This, in turn, affects the rate of inflation and the overall money supply, serving as a tool for macro-financial stabilization.
5. **Stimulating Economic Growth.** Tax revenues are used to fund large-scale infrastructure projects and other developmental programs that promote economic growth. Moreover, a well-designed tax

policy fosters an environment conducive to investment attraction and entrepreneurial activity, thereby contributing to sustainable economic development.

Thus, the system of personal income taxation is a vital instrument of state policy, enabling the achievement of multiple socio-economic objectives through effective regulation of the national economy.

The collection of taxes from individuals not only provides the necessary financial resources for the functioning of the state but also plays a critical role in ensuring social equity, economic cohesion, and macroeconomic balance within society.

Functions of Personal Income Taxation:

1. Budget Financing Function

Personal income tax serves as a crucial source for financing essential government programs and services, including healthcare, education, social protection, and infrastructure. Through these tax revenues, the state secures the necessary financial resources to carry out its core functions and deliver services that directly affect citizens' quality of life. This category of taxes typically constitutes a significant portion of national budget revenues and plays a fundamental role in ensuring the stable operation of government institutions.

2. Income Distribution and Social Equity Function

Personal income taxation is used as a tool to promote social justice and reduce income inequality. Properly designed and equitably implemented tax systems can help to alleviate economic disparities among various segments of the population.

Progressive taxation, in particular, supports the redistribution of income by imposing higher rates on higher earners, thus contributing to a more equitable economic structure.

3. Economic Incentive Function

Taxes on personal income can also be employed to stimulate economic activity and encourage investment. When efficiently structured, the tax system can promote entrepreneurship, support innovation, and foster private sector development. The use of tax exemptions, reduced rates, or targeted incentives for investments in education, research, or start-ups can lead to job creation and economic growth.

4. Income Data Collection and Monitoring Function

Personal income taxation provides the government with important data on household and individual earnings. This information is critical for monitoring compliance with tax legislation and for ensuring fairness within the fiscal system.

Furthermore, it enables the state to effectively combat tax evasion and reinforce public trust in the tax system by promoting accountability and transparency.

5. Fiscal Stability and Planning Function

Personal income tax contributes to **fiscal stability** by offering a stable and predictable revenue base. This allows the government to plan its expenditures, forecast budgetary needs, and maintain overall macroeconomic stability.

Reliable income tax flows enable long-term planning of public finances and help in designing sustainable fiscal policies.

These multifaceted roles of personal income taxation highlight its importance not only in financing public needs but also in achieving broader economic and social development objectives. Through this tax, the government is empowered to improve living standards, ensure financial stability, and implement policies aimed at greater social equity.

Effective income taxation relies on the consistent application of fundamental principles such as fairness, transparency, efficiency, and stability. These guiding norms form the basis of a trustworthy and performance-oriented tax system.

This section provides an in-depth examination of the various methods, forms, and principles of personal income taxation, and discusses their relevance to the implementation of the government's socio-economic policies.

Conclusion and recommendations.

1. Personal income taxes constitute a primary source of government revenue. Through these taxes, the state mobilizes the financial resources necessary to cover public expenditures, finance social programs, and support infrastructure development.
2. The structure of personal income taxation has undergone significant evolution across various countries. Notably, in the 20th century, many nations adopted progressive taxation systems by applying higher rates to higher income brackets. This approach is widely regarded as equitable from a social justice perspective and enables governments to collect increased revenue for redistributive purposes.
3. Over time, numerous tax deductions and exemptions have been introduced to ease the burden on individual taxpayers. These include child allowances, deductions for education, healthcare, and other essential personal expenditures, enhancing the system's fairness and responsiveness to household needs.
4. In most countries, income tax applies to both capital and labor income. This includes earnings such as interest, dividends, and capital gains, as well as wages and fees for services. These income types are often subject to different tax rates or may benefit from specific incentives, reflecting differentiated treatment within the tax code.
5. Technology and globalization have introduced new challenges to tax administration. Taxing digital income, addressing cross-border income of individuals working or investing abroad, and enforcing international tax compliance have become increasingly complex. Consequently, many governments are continuously reforming their tax systems to simplify tax collection and stimulate economic growth in a globalized digital economy.
6. Between 1992 and 1996, Uzbekistan undertook major reforms in its economic and tax systems. Personal income taxation was aligned with the principles of a market economy. In 2017, additional reforms were introduced to reduce the tax burden on individuals and to stimulate domestic consumption, improving the overall efficiency of the tax system.
7. Lowering personal income tax rates in Uzbekistan can help attract investment and boost entrepreneurship. This policy direction fosters business activity, promotes job creation, and contributes to sustainable economic development.
8. Reducing tax rates can also enhance the attractiveness of formal entrepreneurship over informal economic activity. This, in turn, may lead to a decline in the shadow economy and an increase in tax revenues, thereby strengthening fiscal capacity and transparency.

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