

**PERSONAL INCOME TAX: EVOLUTION, INTERNATIONAL
EXPERIENCE, WAYS TO IMPROVMENT**

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**ОПОДАТКУВАННЯ ДОХОДІВ ФІЗИЧНИХ ОСІБ: ЕВОЛЮЦІЯ,
СВІТОВИЙ ДОСВІД, ШЛЯХИ УДОСКОНАЛЕННЯ**

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Summary. Recent changes in the tax laws were made for the purpose of building a fair system of individuals' taxation as one of the ways to improve living standards and economic situation in the country. Despite the constant reform, the question of imperfection of the existing fiscal arrangements remains very important. Taxes on incomes form a significant proportion of the national budget, therefore the problem of their content, timely payment, redistribution and effective control over all existing tax rates are a priority in the formation of the new tax policy. The article's objective is to analyse the development of the modern state system of personal income tax in Ukraine and abroad, and to determine ways to improve it.

Key words: *income tax, taxation of income, improvement of the tax system.*

Анотація. *Сучасні зміни у податковому законодавстві здійснюються з метою побудови справедливої системи оподаткування фізичних осіб як одного з напрямів покращення рівня життя населення та економічної ситуації в державі. Але, незважаючи на постійне реформування, питання щодо недосконалості діючих фіскальних механізмів залишається досить актуальним. Податки з доходів населення формують значну частку бюджету країни, і тому проблема їх справедливого утримання, вчасної сплати, ефективного перерозподілу та діючого контролю за всіма рівнями оподаткування є першочерговою у формуванні нової податкової політики*

України. Метою статті є аналіз розвитку, сучасного стану системи оподаткування доходів фізичних осіб в Україні та за кордоном, а також виокремлення шляхів його удосконалення.

Ключові слова: *податок з доходів фізичних осіб, оподаткування доходів населення, удосконалення податкової системи.*

Household income is one of the main objects of taxation in Ukraine and in the world. This is due to the fact that they occupy a large share in the social reproduction, and therefore they form a significant contribution to the state budget. For instance in 2015, revenues from personal income accounted for 18.4% of all tax revenues to the state budget and 14.3% of state budget revenues [1, The Price of the State].

The establishment of the system of personal income taxation in Ukraine took place in two stages.

Ukraine's independence and the emergence of the issue of building a new and effective tax system were the beginning of the first phase. The first legal act concerning the regulation of tax incomes, the Decree "On income tax", was adopted in 1992 by the Cabinet of Ministers of Ukraine. The main characteristics of the first phase of the system of personal income tax in Ukraine were:

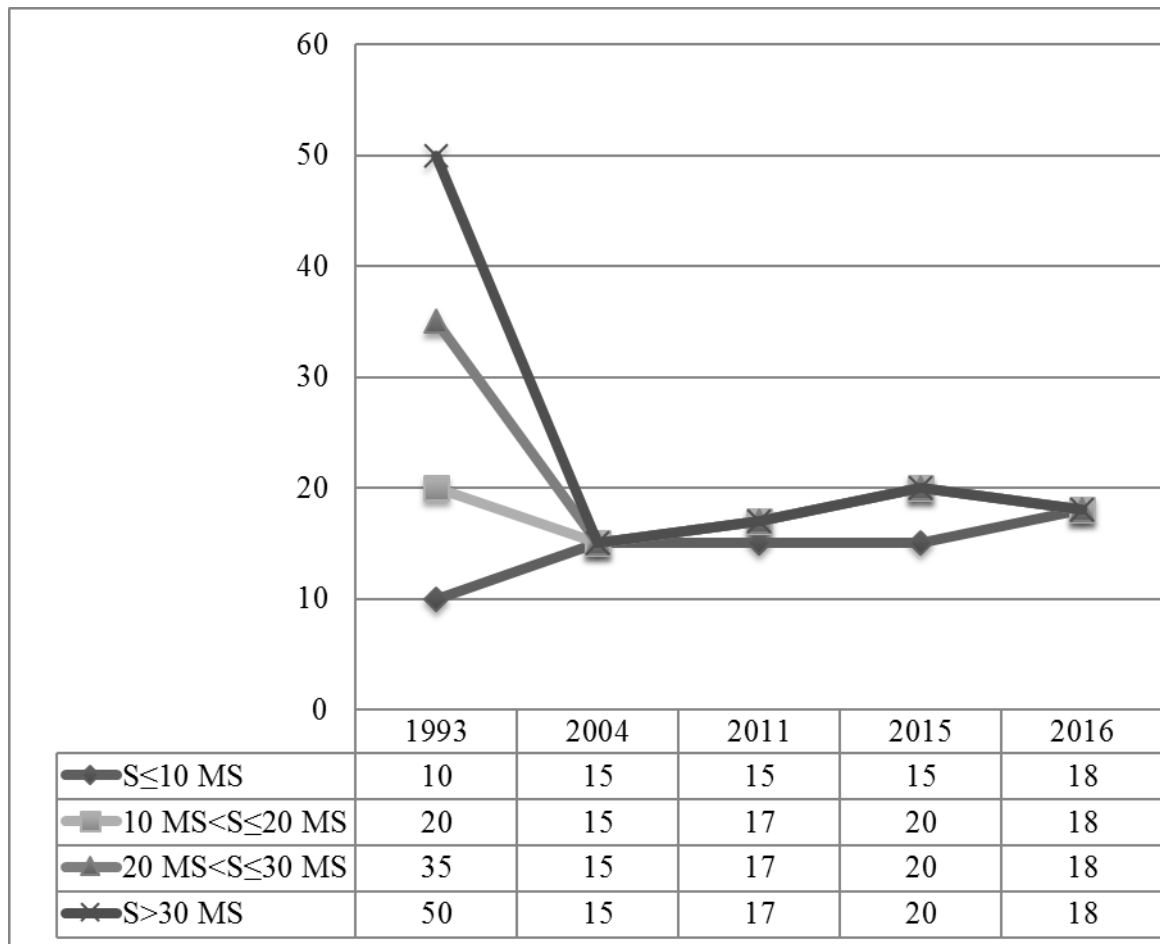
- progressive tax rate;
- tax-free for at least the minimum wage;
- carrying out payments for current monthly income and the subsequent adjustment of the amount of tax depending on the total annual income;
- the division of revenues into types: from the main workplace and beyond and therefore establish different tax rates for each of them;
- unjustified taxation due to high inflation [2, Sidel'nykova, Kostina, 2013].

The second phase began in 2004 with the commencement of the Law of Ukraine "On income tax". At this point, there are significant changes in the tax system and establishment of a stable law.

The second phase is characterized by the following features:

- installation of fixed tax rates for different types of revenues;
- separation of the types of income that are not related to the total taxable income;
- the introduction of a tax agent – the person who is obliged to calculate, withhold and pay the tax on behalf and at the expense of the taxpayer;
- simplification of tax administration procedures, reduction of transaction costs of taxation [2, Sidel'nykova, Kostina, 2013; Financial Portal of the Ministry of Finance].

Changes in personal income tax rates for basic income allow them to analyze the dynamics and draw the following conclusions (Fig. 1).



Type Codes: S – Salary; MS – Minimum Salary.

Fig. 1: Changes in personal income tax rates on the amount of the basic salary for the 1993-2016.

According to the Ministry of Finance of Ukraine, site <http://zakon3.rada.gov.ua/>

Establishing an effective tax rate of incomes is a very complicated procedure. Progressive income scale, which operated until 2004, is not justified because of high risk of harboring real incomes. In order to reduce the level of the shadow economy, the introduction of the Law "On income tax" set a unified tax rate of 15%. This technique is universal to improve level of disclosure of information about remuneration of taxpayers. However, the next step in the reform of the tax system was the introduction, in 2011, of the new Tax Code of Ukraine that increased rates for income that exceeds 10 times the minimum wage. The purpose of this differentiation is to ensure social justice and raising additional funds to the state budget.

In 2016, it was decided to return to a single tax rate. The main objective of the reform was to simplify the taxation for the population and attract additional revenue to the state budget.

Innovation in the Tax Code of Ukraine, which became effective on 01.01.2016, has significant differences compared to its previous version because of the reform of national tax system (Table. 1).

Table 1: Comparative characteristics of changes in the Tax Code of Ukraine concerning personal income tax.

| Indicator | Before 01.01.2016 | After 01.01.2016 |
|---|---|---|
| Salary | 15% 20% - in excess of 10 minimum monthly wage | 18% - any wage |
| Revenues other than the wages and investment income | 20% | 18% |
| Other investment income | 5% | 18% |
| Dividends | 20% | 18% |
| Pensions | 15% (20%) exceeding 3 times the minimum monthly wage or pensions from foreign sources | 15% exceeding 3 times the minimum monthly wage or pensions from foreign sources |
| Winning prizes | 30% 15% - lottery | 18% |
| Interests | 20% | 18% |

According to the Ministry of Finance of Ukraine

Thus, the new tax system is more simplified due to the failure of progressive tax rate and introduces a single fixed rate for most income. The increase of tax rates are compensated by the abolition of the single social contribution deductions from wages because so it has no significant impact on the living standards of Ukraine. Obviously, the rejection of the progressive personal income tax rate violates one of the main functions of taxation – equitable distribution of wealth among the different categories of the population, but it is an effective way to reduce the level of shadow economy.

In order to identify ways to improve the domestic tax systems, the study of foreign experience needs considerable attention. The methods and components of personal income tax, established by the legislation of different states, have significant differences.

It should be noted that the basic principles of taxation of income tax for individuals have common features in most developed countries. The composition of taxable income includes wages, various forms of remuneration, income from entrepreneurship, pensions, rents, interest, dividends, royalties, etc.

For example, personal income tax is the main source of Sweden's budget and is an effective redistribution of incomes, because people with significant income are paying a large part to cover the cost of vulnerable segments of population. Payers of this tax are all Swedish residents and non-residents if they receive income in Swedish territory. Tax is divided into national and municipal. National tax rate is progressive:

- 0% - to 430 200 SEK;
- 20% - to 616 000 SEK;
- 25% – from 616 000 SEK [4, Tax Service of Sweden].

Municipal tax rate differs depending on the region of Sweden and is calculated on a flat scale. It is from 29.19% to 35.11% and is deducted from income if it exceeds the exemption limit [5, Central Bureau of Statistics Sweden].

It is important to note the level of tax administration in Sweden. The tax authorities have access to all databases of income taxpayers to independently

calculate the tax share of the individuals. The legislation provided for the country quite heavy fines in the event of underpayment of tax and in case of overpayment, this amount shall be returned with interest. Every person has the ID bill, by which he can follow the movement of tax funds [6, Kashyn, Abramov, 2008]. Therefore, the main purpose of taxation of incomes of Sweden is the redistribution of wealth in order to ensure a stable standard of living of disadvantaged groups and introducing transparent mechanisms of public tax collection and organization of control by the public authorities and tax payers in the movement of funds.

French law provides taxation of income not of the individual but of the family (spouses and their children: minors, unmarried under 21 years or students up to 25 years). Another feature is the formation of taxable income: the main income deductible expenses for charity, caring for elderly parents and children, construction and the protection of others. Estimated tax base is divided by the family factor, which depends on its size, and after get a share of a family member, which determines the tax rate. Taxes are paid by individuals personally, without mediation by the employer [7, Izotova, 2011]. It is important to note that the average rates and coefficients are made so that large families with children pay a lower amount of tax than a single person with the same income. The maximum tax rate is 50.3% [Trading Economics]. It means that the main goal of tax policy is to encourage the demographic development of society, to support the family and establish the social relations between different sectors of the population.

A common method of establishing differential rates of tax is income differentiation pathways revenues. For instance, the classification that is used in Denmark contains:

- personal income: wages, pensions, entrepreneurial income tax refund;
- income from capital: rent, interest, dividends, foreign companies;
- income from shares: dividends Danish companies, income from the sale of shares available more than 3 years) [8, Knyazyev, Chernyk, 1997].

Income tax consists of three components: the state tax (differentiated depending on the income), municipal tax and church tax (voluntary for

parishioners of the Lutheran Church). The tax is paid in advance and the overpayment is returned with interest of 4%, the underpayment is deducted from the fine at 9% of its amount [7, Izotova, 2011]. Maximum deduction rate is 55.6% [9, Trading Economics]. A systematic approach to determine the tax base allows to isolate the main and secondary types of income, to analyze their share in total household income in order to analyze the level of state and public life, developing of economic processes and to promote the full tax payers for timely replenishment of the state budget.

In this manner, creating or reforming the tax system should come out of the main goals of the state and fiscal policy. The world experience of redistribution of funds between different sectors of the population, stimulating demographic situation, monitoring the implementation of the current tax laws to encourage savings, investment, charity could all be a starting base in the reorientation of state goals and fiscal policy in Ukraine.

Tax system and control of personal income has certain risks that threaten the financial security both at the state and local budget levels. First of all it is:

- tax evasion by hiding the real level and sources of income;
- the risk of not detecting violations of tax laws in the controls;
- lack of permanent control over the execution of their duties by tax agents;
- increase the tax burden of individuals, and as a result, reduce tax collection and all the negative social consequences.

The objective of reducing these risks is to improve controls by the fiscal authorities by establishing methods of evaluation for certain categories of individuals and sources of income. Analytical approach allows delineating areas of inspection and isolating the most problematic areas that need additional resources. One of the most effective measures to reduce the likelihood of tax evasion is to develop methods to control costs and compare them with further information about the income and property status of taxpayers.

In addition, reducing the risk of the tax system is possible by unifying the payment terms, methods of calculating and withholding tax, systematization of

fiscal responsibility for the development of tax legislation and its application in the real economy. Control over the duties of tax agents can be done by declaring their commitment and not timely recovery of these taxes by using collection orders.

As for taxpayers, legal reduction of payments to the budgets is possible if the events of tax optimization is a system of different schemes and techniques that allow legally to plan calculation and payment of taxes in the budget. It has to be remembered that the taxpayer has the right to use legitimate grounds for exemption, to choose the most profitable form of business activity, the optimal type of payment. However, misunderstanding of the legal limits optimization, indiscriminate application of the civil and tax laws and simultaneous leveling mechanisms to protect taxpayers significantly impede implementation of the law.

Increasing tax efficiency is possible by improving the system of interaction between taxpayers and tax authorities. One of the first measures of this improvement is to reduce the volume of documents, to rise informative, content analyticity of documents. This will simplify the tax accounting at enterprises, and as a result, will increase the efficiency of the tax authorities.

In modern conditions it is necessary not only to reduce the risks of the tax system, but also to redirect public policy towards improving the social function of taxes. This is possible by increasing the allowances in accordance with the current level of prices on the priority necessary to ensure the goods and services for normal life. Thus, it is important to note that the losses of the state budget for such activities are partially compensated by revenues from indirect taxes by increasing consumption of goods and services by the low income levels of the population.

World experience of the possibility of taxpayers to personally track the movement of deductions from their income, to have access to information on the distribution of tax revenue and to improve tax awareness will improve the level of tax culture and reduce distrust of the state.

Income tax is a tax that is most suitable for the realization of the distribution function of the tax system. Simplifying the tax rates and the rejection of a progressive scale is effective in fighting the underground economy and to increase

revenue. But the absolute advantage of setting different tax rates for different income levels is giving back money to improve living standards and provide protection to significant tax burden vulnerable layers of the population. The effectiveness of the progressive rates has been proven with the experience of many countries. It is particularly important in providing a significant gap in the level of income for different people in Ukraine.

So, the main areas of optimization and improvement of the tax population in Ukraine should be:

- improvement of control measures of the fiscal authorities;
- simplification and harmonization of requirements for taxpayers regarding tax procedures;
- improvement of the efficiency of the tax collection process in order to increase revenue;
- socialization of the process of taxation;
- analysis and consideration of foreign experience in the principles of taxation of individuals.

Reforming of personal income tax is one of the main direction of the tax policy of Ukraine for the stable development of the country and to improve people's lives. It should take place gradually and focus on providing social, transparency, reducing inequality and mistrust from the part of taxpayers.

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