

## ВЛИЯНИЕ НАЛОГОВ НА ДОХОДЫ ДОМОХОЗЯЙСТВ

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*Аннотация.* Несмотря на устойчивое развитие экономики нашей республики, что приводит к последовательному росту национального дохода и увеличению доходов домохозяйств, существует потребность в финансовых механизмах, направленных на сокращение неравенства доходов путем соблюдения принципов социальной справедливости.

*Ключевые слова:* доходы населения, налоговая система, вертикальное и горизонтальное равенство, налоговый режим, полезность дохода, предельная полезность, неравенство доходов, интервал доходов, подоходный налог, прогрессивная система налогообложения.

## THE IMPACT OF TAX TO HOUSEHOLDERS INCOMES

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*Abstract.* Despite the steady development of the economy of our republic, which leads to a consistent increase in national income and an increase in household incomes, there is a need for financial mechanisms aimed at reducing income inequality by observing the principles of social justice.

*Key words:* personal income, tax system, vertical and horizontal equality, tax regime, utility of income, marginal utility, income inequality, income interval, income tax, progressive taxation system.

**Enterance.** One of the priorities of the socio-economic reforms implemented in our republic is to consistently increase the real income of the population in household finances and reduce income inequality in their social strata. Reforms aimed at the innovative development of the economy in our country will lead to the formation of a stable middle layer of the population, an increase in the well-being of the population, and an improvement in the quality and quantity of the consumer budget. Ensuring the balance of incomes and expenditures of a wide social stratum of the population and expanding the scope of real personal disposable income will affect the reduction of poverty in the country and the further increase of the country's investment potential due to excess savings from the consumption budget.

The ultimate goal of the household income regulation mechanism is to ensure the maximum level of well-being of all layers of the population. Incomes form the material basis of the population's well-being, but the formation of consumption and

savings funds at the expense of these incomes, the quality of the consumption fund constitute the main criteria of living well-being or poverty. From this point of view, in most cases, it was observed that the impact of the tax system on the income of the population is studied, in our opinion, it is appropriate to conduct a comprehensive study of the impact of the tax system on the well-being of the population and, in particular, on their expenses in parallel with their income.

**Literature review.**In our country, modern studies have been conducted on the scientific-theoretical and practical foundations of the financial mechanism of consistently increasing the incomes of the population and regulating income inequality between its social strata.

According to Lynch et al., based on the hypothesis of income inequality and health dependence, income distribution has a strong influence on population mortality and health. Evidence for the hypothesis supports redistributive policies aimed at reducing income inequality. With some exceptions, including Wagstaff and van Doorslaer, Mellor and Milieu, Gravelle, Beckfield, and Jen et al., the results of most recent scientific studies by economists (Shmueli, 2004; De Vogli et al., 2005; Ram, 2006; Dorling et al., 2007; Babones, 2008; Karlsson et al., 2009; Biggs et al., 2010; Idrovo et al., 2010) support this hypothesis.

Also, according to Tsiddon and Galor, Zweimuller and Foellmi, income inequality promotes research and development, and technology development, which leads to economic growth[1].

A. Marshall's argument that the one shilling monetary unit brings happiness to the poor is significantly higher than that of the rich social stratum of the population[2].

According to Saez, economic growth is widely used as a measure of a country's economic stability, and the impact of development and other events on economic growth is an important problem in macroeconomics. Income inequality has been increasing significantly around the world over the past few decades[3].

Politicians have shown great interest in assessing the impact of income inequality on economic growth in order to achieve positive results during crises[4].

Nevertheless, various debates in explaining the channels through which income inequality affects economic growth have led to the emergence of many theories with uncertain predictions. For example, Perotti, Alesina, and Rodrik argue that income inequality has a negative impact on economic growth due to disparities introduced by governments through redistributive policies and higher income taxes for the wealthy[5].

According to Acemoglu, state bureaucracy and inefficient institutions affect economic growth, and this problem is exacerbated by increasing income inequality[6]. In addition, Galor, Zang, Aghion, and others argue that income inequality has a negative impact on economic growth, hinders access to education for the underprivileged due to imperfect capital markets, hinders people's access to education in the country, and can have a negative impact on the formation of capital. Also, income inequality leads to political instability due to the increase in social problems and therefore has a negative effect on economic growth because there are

no incentives for investment. Other economists, however, believe that income inequality contributes to growth because it increases savings among the wealthier sections of the population, which allows for large-scale investment.

As noted by economist A. Agzamov, referring to the reforms related to the transition from a progressive model of personal income tax to a model based on a flat scale in Uzbekistan, "The basis of the minimum wage on scales 2 and 3 of progressive tax rates applied to the tax base for calculating income tax leads to an increase in tax payments due to their increase"[7].

**Research methodology.** Law of the Republic of Uzbekistan "On Employment of the Population" dated October 20, 2020 No. O'RQ-642, PF-60 of the President of the Republic of Uzbekistan dated January 28, 2022 "On the New Development Strategy of Uzbekistan for 2022-2026", and No. PF-5718 dated May 14, 2019 "On measures to radically improve the system of support and protection of entrepreneurial activity", resolution No. 529 of the Cabinet of Ministers of the Republic of Uzbekistan dated August 29, 2020 "On measures to restore economic growth and continue structural structural reforms in economic sectors and sectors in 2020-2022" as well as the implementation of tasks defined in other regulatory legal documents related to this activity were analyzed.

**Analysis and discussion of results.** Various types of income and statistical indicators are used to analyze, measure and evaluate the level of income of the population. We will consider their most common types.

*Table 1*

**Population income groups and their elements**

№	Income group	Source of income
1	Salary	Income from the main job; Income from non-main work; Funds of military personnel; Seasonal income; Others
2	Income from the sale of labor results	Farm income; Income from personal property; Household income; Right; Others
3	Income from business activities	Income from business activities; Others
4	Return on capital	Dividends from shares; Rent; Capital gain; Interest on deposits; Others
5	Risk return	Payment of insurance risk; Bond advances; Lottery winnings; Achievements in sports competitions; Achievements in games; Achievements in various competitions; Others
6	Deferred income	inheritance; A gift; Sponsorship assistance; alimony; Income left to the heirs of the author; Others
7	Social income	Payment for temporary disability; Pregnancy and postpartum payment; Birth allowance; disability benefits; Others
8	Loan income	Bank loans; Enterprise loans; Debt amounts received from individuals; Others
9	Other income	Others

In the table above, we can see that part of the population's income is spent on ensuring material well-being, and the rest is spent on using services. The composition of needs is affected not only by the increase in monetary income, but also by the change in the composition of the population, the growth of its scientific and cultural level. In economic literature, people's incomes are divided into nominal, discretionary and real incomes depending on the level of use. Nominal income describes the amount of monetary income excluding taxes and prices. Discretionary income is nominal income after deduction of taxes and other mandatory payments. Personal household plays an important role in the formation of personal and family income. In the complex socio-economic period of society's development, the private economy remains the main source of income for some groups of the population.

When analyzing the total income of the family, the following indicators are considered: food expenses; costs of purchasing non-food products; costs of household services, taxes, fees, payments; increase in cash, deposits in savings banks, livestock, poultry and other natural growth of savings. It also calculates subsidies for education, health care and housing, as well as the amount of total income added. These indicators are usually used in international comparisons.

*By improving the system of taxation of individuals, the conceptual basis for increasing their real income and stabilizing income inequality should be as follows:*

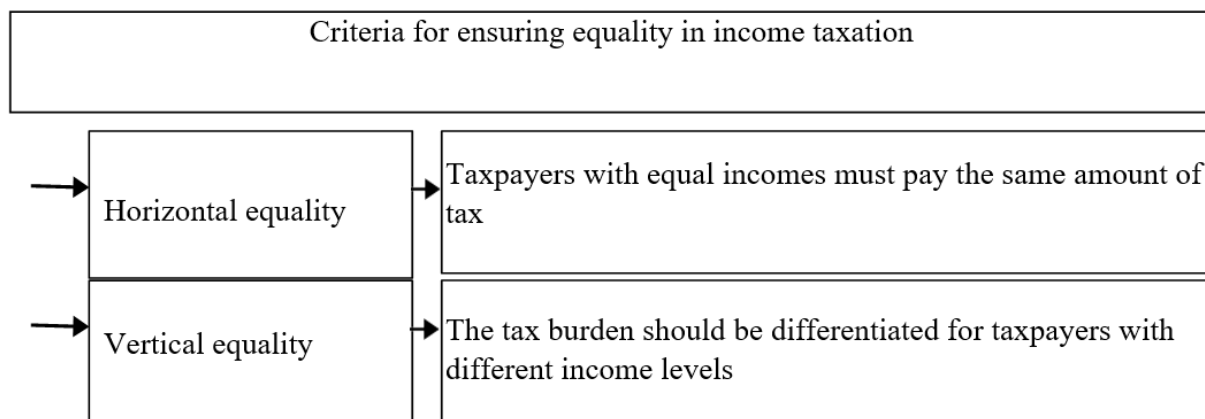
1. The system of taxation of the population's income should be directed to ensure the principles of vertical and horizontal equality, regardless of the social importance of their activities.

It is known that the optimal tax system in the modern economic space is the formation of a tax regime based on the principles of social justice for taxpayers with the same income or based on income from different activities. This tax system, first of all, forms the economic basis of taxpayers' willingness to pay taxes to the state budget. If we look at it from this point of view, one of the other problems in the system of taxation of individuals is the existence of horizontal inequality, which means that the tax regime of the same approach does not apply to tax-paying individuals with the same income.

In particular, the tax system should ensure a balanced tax burden for the category of taxpayers with the same income level. In addition, the differentiation of tax rates depending on specific types of activity creates problems of vertical inequality.

For example, in accordance with the current Tax Code, the income of individuals who are residents of the Republic of Uzbekistan is taxed at a tax rate of 12 percent [8]. In addition, dividends and tax income are taxed at the rate of 5 percent. Therefore, for the taxpayer working in a joint-stock company and considered a shareholder to a certain extent, receiving income in the form of dividends creates unknown fiscal advantages. Although the taxation regime based on these tax rates encourages enthusiasm for the promotion of financial entrepreneurship, in our opinion, it is appropriate to set the same tax rate on dividend income, i.e. at 12 percent.

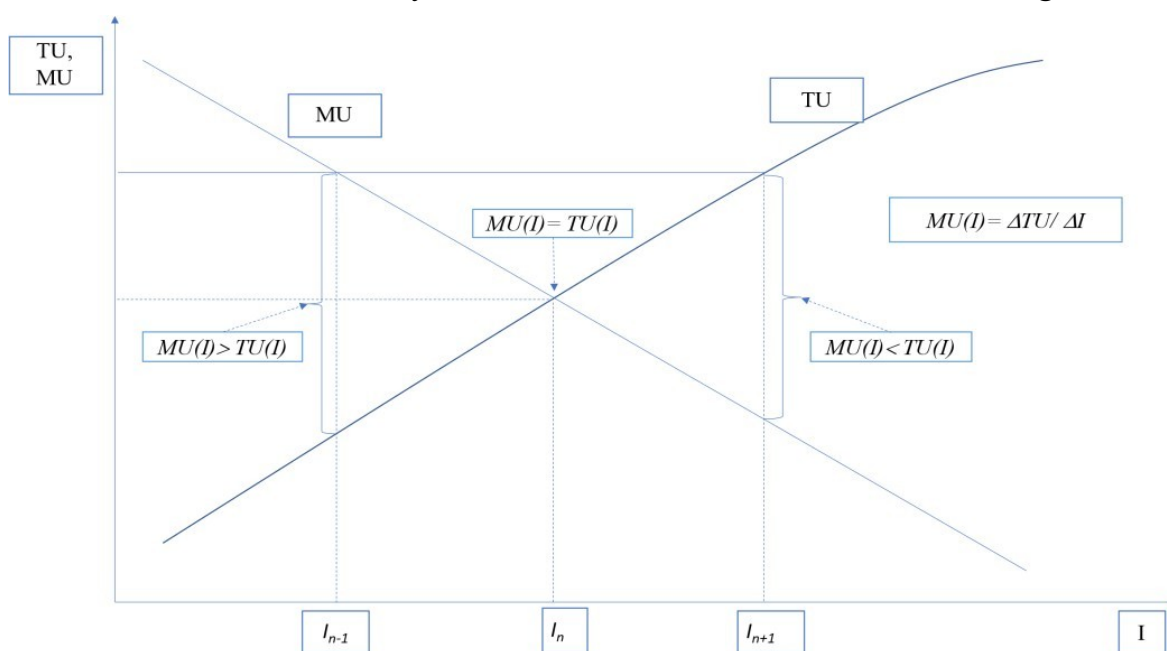
We can also observe the emergence of vertical inequality as a result of the application of the same tax regime to tax-paying individuals with different levels of income (Figure 1).



**Figure 1. Equality criteria in the field of income taxation[9]**

The current income taxation system is based on flat-scale tax rates, and this taxation system does not meet the criteria of marginal utility of income. In this regard, it is worth noting that the usefulness of 1.0 million soums of income depends on the level of profitability of individuals who dispose of this income. For example, the benefit of 1.0 million soums of income for the rich population is lower than that of poor individuals. An increase in income increases its total utility (TU) and ensures a decrease in marginal utility (MU).

As can be seen from Figure 2, the more balanced the distribution of incomes in the society is, first of all, by reducing the difference in the level of income degradation, it will have opportunities to balance the distribution of the marginal and total utility level among the social class of the population. The level of fair distribution of benefits in society affects the formation of social well-being.



## **Figure 2. Income of the population and the effect of its change on the change in the total and marginal utility of income.**

At a certain stationary point ( $I_{n-1}$ ) of the population income level, the total utility of income ( $TU(I)$ ) is less than the marginal utility ( $MU(I)$ ). In this case, the economic or social value of the income is very high, and the income in this interval is typical for the low-income population. The interval ( $I_{n+1}$ ) in which the total utility of income ( $TU(I)$ ) is greater than the marginal utility ( $MU(I)$ ) is provided at the stationary point, and the incomes in this interval belong to the rich social stratum of the population. In exaggeration, the value of 1 million soums is very high for an individual who earns 5 million soums a month compared to an individual who earns 50 million soums a month.

2. While the system of taxation of population incomes on a flat scale has a positive effect on the composition of consumption and the rate of accumulation from the point of view of ensuring macroeconomic stability, it creates the risk of increasing income inequality between social strata of the population.

There are 3 main established models of the system of taxation of individual incomes, and in the practice of Uzbekistan, a system of flat taxation or a system of proportional taxation is used from the system of progressive taxation. The purpose of the transition to this practice of taxation is, first of all, to improve the tax administration, to increase the personal income of the population by reducing the tax burden, and to increase the income to the budget due to the increase of the tax base by legalizing their informal income.

However, the system of income taxation based on a flat scale is ineffective compared to the progressive taxation system in terms of regulating and balancing incomes in the presence of differences in the level of income of the population in terms of wages and other sources of income.

In the segment of progressive tax rates, a higher weight of the number of taxpayers in the lower ranges of income is assumed, and in the conditions of transition to a flat scale (the current taxation system), the 12 percent tax rate is set, and conclusions are drawn on the increase in the tax burden for the population with low income. In reality, IMF experts confirmed that taxpayers in the income range of the minimum wage make up the majority of total taxpayers. It can be seen from Figure 3 below that in 2018, the incomes in the 1-3 minimum wage range made up about 18 percent of the total population income, and when added with the 3-4 minimum wage incomes, they made up about 25 percent of the total incomes.

Under the conditions of the flat-scale taxation system, the comparative analysis of the tax burden in the income range confirms that there is a relatively equal distribution of the tax burden for the low-income population and the high-income population. Analyzes show that there is a relative equalization of the tax burden on a progressive and flat scale in the range of 8-9 minimum wages.

In other words, as a result of the introduction of the flat taxation system, setting the central rate at 12 percent ensures an increase in the tax burden on the low-income population and a decrease in the tax burden on the high-income population.

So, in the above case, due to the relatively equal distribution of the tax burden at different levels of incomes, the effect of the tax system is to increase the difference between incomes.

We can see this in the following statistical data on the incomes of the population and their distribution by different groups in the following years.

*Table 2*

**Uneven distribution of incomes of the population of the Republic of Uzbekistan by 20 percent groups of the population[11]**

<b>Quintile groups</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>I</b>	9,3	9,1	8,5	8,4	8,6
<b>II</b>	13,6	13,6	13,3	13,4	13,1
<b>III</b>	17,2	17,4	17,2	17,5	16,8
<b>IV</b>	22,0	22,6	22,6	23,0	22,0
<b>V</b>	37,8	37,3	38,3	37,6	39,5
<b>The coefficient of differentiation of population incomes by quintile groups</b>	<b>4,065</b>	<b>4,099</b>	<b>4,506</b>	<b>4,476</b>	<b>4,604</b>

From the data of Table 2, we can see that in parallel with the introduction of the system of personal income taxation based on a flat scale from 2019, the coefficient of population income differentiation by quintile groups is 4,506 in 2020, 4,476 in 2021, and 4,604 in 2022, making it a higher indicator compared to 2018-2022. Therefore, the level of differentiation between the incomes of the population is high. We can see this from the comparative analysis of the income index of the population by categorizing the income of the population according to the 10 percent group.

*Table 3*

**Uneven distribution of incomes of the population of the Republic of Uzbekistan by 10 percent groups of the population[12]**

<b>Decile groups</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
I decile	3,9	3,7	3,4	3,3	3,5
II decile	5,4	5,3	5,1	5,1	5,1
III decile	6,4	6,4	6,2	6,2	6,1
IV decile	7,3	7,3	7,1	7,2	7,0
V decile	8,1	8,2	8,1	8,2	7,9
VI decile	9,1	9,2	9,1	9,3	8,9
VII decile	10,3	10,5	10,5	10,6	10,2
VIII decile	11,7	12,1	12,1	12,5	11,9
IX decile	14,1	14,7	14,8	15,2	14,7
X decile	23,7	22,6	23,5	22,5	24,8
<b>Coefficient of stratification by groups of 10% of population income</b>	<b>6,1</b>	<b>6,0</b>	<b>6,9</b>	<b>6,8</b>	<b>7,0</b>

From the data of Table 3, we can see that the coefficient of differentiation of population income by decile groups was 6.1 in 2018, and this indicator will be 7.0 by 2022.

Although the level of income of the population affects their desire to consume and save, the increase in the level of income also affects the increase in the marginal propensity for investment activity through savings. So, naturally, taxes not only affect the nominal value of the income of the population, but also affect the consumption and savings rate of households by affecting the purchasing power parity expressed through its real value.

This, in turn, creates opportunities to regulate the current and future development of the country's economy by influencing household consumption and savings standards through the tax system.

**Table 4**

**Comparative analysis of the impact of flat scale and progressive taxation system on population consumption and savings funds[13]**

Alternatives to Personal Income Tax								
Types of scale	Progressive (statistics based on 2018 data)				Flat scale (2022 statistics)			
Income range	1 MW	up to 5 MW	up to 10 MW	Above 10 MW	1 MW	up to 5 MW	up to 10 MW	Above 10 MW
Rates, %	0	7,5	16,5	22,5	12			
Share of the income range in the total paid tax, in %	-	38,7	41,9	18,4	17,6	42,8	23,1	16,3
Average marginal rate, in %	9,6				12			
The composition of the population's expenses on the consumption of personal income after tax payment, in percent								
Consumption, (C)	100	100	68,91	64,81	100	100	61,32	43,64
Savings (S)	-	-	21,86	19,37	-	-	12,37	14,51
Investments (I)	-	-	9,23	15,82	-	-	26,31	41,85
The impact of the introduction of a flat scale of income tax on the ratio of population consumption and savings funds								
Consumption, (C)					-	-	-7,59	-21,17
Savings (S)					-	-	-9,49	-4,86
Investments (I)					-	-	+17,08	+26,03

**Source:** Formed by the author based on the information of the State Statistics Committee of the Republic of Uzbekistan

It can be seen from Table 4 above that in the system of taxation until 2018, the marginal tax rate calculated on the basis of the tax rates in the section of the (progressive) income range was 9.6 percent.



In the system of taxation based on a flat scale, the system of taxation at the rate of 12 percent applies, the incomes in the first (1 MW) and second (up to 5 MW) intervals are mainly spent on the formation of the consumer budget to spend on consumer needs, and the system does not change in both taxation systems. While a change is observed in the ratios of consumption and accumulation of personal income formed in the third and fourth intervals, we can see the increase of investment passion (+17.08; +26.03), which embodies the target direction of savings.

**Conclusions and suggestions.** The above cases can systematize the following conclusions on income tax:

*First*, personal income tax is a tax that plays the role of the main fiscal factor in the formation of budget revenues, and it is a tax that has a high impact on the income of the population.

*Secondly*, although the transition from a progressive taxation system to a taxation system based on a flat scale is necessary to reduce the tax burden in the general context, this provides a relatively high tax burden for low-income residents in the income range. A reduction in the tax burden is observed for the income-earning population in the upper income range.

These circumstances have led to an increase in the influence of the tax system on the consumer spending of the population on the macro scale of the income tax from individuals.

*Thirdly*, the current system of personal income taxation, which is one of the main tools of the macroeconomic regulatory system, has the feature of accumulating the income of the population created in the country as savings and stimulating investment activity.

*Fourthly*, it is desirable to introduce a non-taxable minimum in order to improve the consumption expenses of the population receiving income from personal income tax, to reduce the tax burden on them and, ultimately, to comply with the principle of social justice in the taxation of income.

So, as a general conclusion, it is worth noting that the policy of regulating the incomes of the population by means of taxes should perform the task of preventing and balancing the stratification of incomes in the conditions of optimal social usefulness of the incomes at their personal disposal ( $MU(I)=TU(I)$ ).

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