

Taxation of Personal Income in Russia: Areas of Improvement

Nikolay Zotikov
*Department of Finance, Credit and
 Economic Security*
*Chuvash State University named after
 I.N. Ulyanova*
 Cheboksary, Russia
 zotikovcontrol@yandex.ru

Elena Lyubovtseva
*Department of Finance, Credit and
 Economic Security*
*Chuvash State University named after
 I.N. Ulyanova*
 Cheboksary, Russia
 ORCID: 0000-0003-2408-1442

Alina Savderova
*Department of Finance, Credit and
 Economic Security*
*Chuvash State University named after
 I.N. Ulyanova*
 Cheboksary, Russia
 savderova@mail.ru

Abstract— In the taxation of individuals a personal income tax (PIT) occupies a special place. Being federal, this tax does not enter the federal budget, and according to the established standards is credited to the budgets of the subjects of the Russian Federation and local budgets, being one of the main sources of tax revenues of these budgets. Personal income tax is a direct personal tax withheld directly from the taxpayer's income, and therefore affects the interests of the majority of the country's population. The social function of personal income tax concerns the problems of fair taxation and is implemented through the use of the method of taxation (progressive, proportional), the use of tax deductions (discounts). In essence, the social function regulates the level of the tax burden based on the amount of income of an individual. The article analyzes the consequences of the introduction of a proportional system of taxation of personal income since 2001, identifies both negative and positive sides, justifies the need to make changes to the system of taxation of personal income. Special interest in personal income tax is caused by the fact that it directly affects the formation of monetary incomes of the population, the structure of savings and consumption of citizens, tax revenues of budgets, gross domestic product (GDP) of the country. The role of personal income tax is also that its share in the budget depends on the level of economic development.

Keywords—progressive tax system, tax deductions, tax revenues, social justice, living wage, R/P 10% ratio, Gini coefficient.

I. INTRODUCTION

Until 2001, a progressive tax system was used, according to which a tax rate of 12% was applied to income up to 20,000 rubles, for income exceeding this amount, higher rates were established (for income from 100,001 rubles and above – 20,400 rubles +35% from the amount exceeding 100,000 rubles).

Since 2001, a circular taxation system has been introduced using a proportional taxation scale with rates ranging from 9 to 35% depending on the type of income. The basic tax rate was 13%, and more than 90% of all personal income was taxed at this rate. As a motive of introduction since 2001 of a flat scale of the taxation legalization of incomes of physical persons and, as a consequence, increase in the income of budgets was proclaimed. If at the initial stage the tax revenues increased, since the 2010s there has been a decrease in the share of tax in the tax revenues of local and regional budgets, as well as in the

GDP of the country. Since 2001, the application of the same tax rate to all income has led to the fact that "after taxation, some have at their disposal an amount equal to, and sometimes even below the subsistence level, while for others tax payments are insignificant"[1].

II. LITERATURE REVIEW

Recently, one of the most discussed issues in the field of taxation is the question of returning to the progressive rate on personal income tax. Bills introduced periodically to the State Duma are not accepted for the reason that "the state is afraid that the population will begin to hide their income, to conduct "shadow" business" [2].

The main function of personal income tax, like any other tax – fiscal. Its regulatory function is that the income tax ensures the redistribution of social income between different categories of the population. Income taxation should ensure social balance by redistributing funds in favor of poorer and more vulnerable categories of citizens by imposing a tax burden on the rich and wealthier segments of the population [3].

Arguments for the introduction of a progressive scale: increase social justice and equalization of income of the rich and the poor; the introduction of progressive scale for the rich people will exempt from tax citizens receiving wages at the minimum wage. The progressive tax scale allows to avoid too big dispersion in the income of different layers of the population and by that promotes emergence of numerous middle class [4].

"The introduction of a flat scale of taxation of personal income and even the establishment of a regressive scale of contributions to state social funds in no way affected the concealment of personal income from taxation and could not destroy the practice of issuing "envelope" wages. The task of the individual income tax should be not so much to withdraw part of the income from the rich and transfer it to the poor, but to help reduce the stratification of the population in terms of security" [5].

In favor of the introduction of the progressive scale for personal income tax, the authors also argue that almost all developed countries of the world use progressive scale. In particular, the tax rate is 47.5% in Germany; 51.1% in Finland and 50.0% in France.

According to Chernik D.G., "to achieve social justice and improve the welfare of the people, it is necessary to adopt a

The work was carried out in the framework of RFBR Grant No. 18-010-00357 on the subject of "Improving the fiscal mechanism and its impact on the regional economy" for 2018-2020.

set of economic, tax and administrative measures aimed at solving a single task – ensuring the socio-economic development of Russia. Isolated measures, such as the introduction of a progressive tax on personal income, will not lead to the desired results. In addition, progressive tax can not be introduced, if the legislation does not establish the need to match large expenditures of citizens to their income. With the introduction of flat scale of taxation violated one of the basic principles of taxation, proclaimed by A. Smith in 1776, namely, the principle of justice" [6].

According to Aksenova A.A., "it is necessary to introduce not only a system of control over the compliance of expenses with the level of income received, but also the practice of taxation of family income, by introducing the so-called "tax reporting unit"" [7].

The application of the proportional scale has created such problems as "a huge and widening income gap, increasing poverty, escalating social problems related to social justice. It is necessary to introduce a non-tax minimum income or a standard tax deduction in the amount of the subsistence minimum for each household member (the taxpayer, his spouse and children) [8].

Arguments against the introduction of progressive scale: withdrawal of income "into the shadow"; tax rates that are too

high can weaken incentives to work, which creates unemployment, reduced consumer demand, and this, in turn, leads to lower GDP.

III. RESEARCH METHODOLOGY

The study used statistical and official data of Rosstat and the Ministry of Finance of Russia. The study used index methods, coefficient method (income coefficient and Gini coefficient), comparison method (by region and over a number of years), tabular and graphical methods. The article shows the empirical relationship of population income indicators with quantitative indicators of economic development, the relationship between the monetary income of the population and wages.

IV. RESEARCH RESULTS

To justify the need to improve the taxation of personal income, we examine the following indicators in the dynamics: the share of personal income tax in tax revenues of budgets of various levels, the share of tax revenues and personal income tax in GDP, the impact of the minimum wage on the average wage and the subsistence minimum, the differentiation of regions by the level of average wages, R/P 10% ratio and the Gini coefficient are studied.

TABLE I. THE SHARE OF PERSONAL INCOME TAX IN TAX REVENUES OF BUDGETS OF DIFFERENT LEVELS, MILLION RUBLES

Years	Local budgets of the Chuvash Republic		Consolidated budgets of RF entities		Consolidated budget of the Russian Federation	
	<i>tax yield</i>	<i>of these personal income tax</i>	<i>tax yield</i>	<i>of these personal income tax</i>	<i>tax yield</i>	<i>of these personal income tax</i>
2008	3976.9	2910.4	4382241.8	1666321.5	10101805.7	1666321.5
2009	3718.6	2627.4	3793265.7	1665824.5	7372537.5	1665824.5
2010	4319.6	2836.8	4519893.9	1790498.0	8963359.7	1790498.0
2018	6076.0	3988.6	9428657.1	3654196.6	23601416	3654196.6
Growth rate 2018 to 2008,%	152.8	137.0	215.2	219.3	233.6	219.3

^a the table is made by authors based on the Report on execution of the consolidated budget of the Russian Federation and budgets of the state extra budgetary funds <https://roskazna.ru/ispolnenie-byudzhetov/konsolidirovannyj-byudzhet/>

The data of table 1 confirm the conclusion that "in recent years, the growth of personal income tax revenues has become significantly inferior to the growth rate of other budget-forming tax revenues, due to their effective reform and the practical absence of changes in the tax system of personal income" [9].

With an increase in 2018 compared to 2008, tax revenues received by the local budgets of the Chuvash Republic and the consolidated budget of the Russian Federation by 52.8% and

133.6%, respectively, personal income tax revenues increased by 37.0% and 119.3%, respectively. At the same time, personal income tax receipts in the consolidated budgets of subjects of the Russian Federation for the period increased by 119.3%, outstripping growth in tax revenue (115.2%), due to the change of the standard of the admission tax to the budgets of subjects of the Russian Federation: up to 2005 - 85%, from 01.01.2005 - 70.0%, from 01.01.2012 - 80.0% from 01.01.2014 - 85.0%.

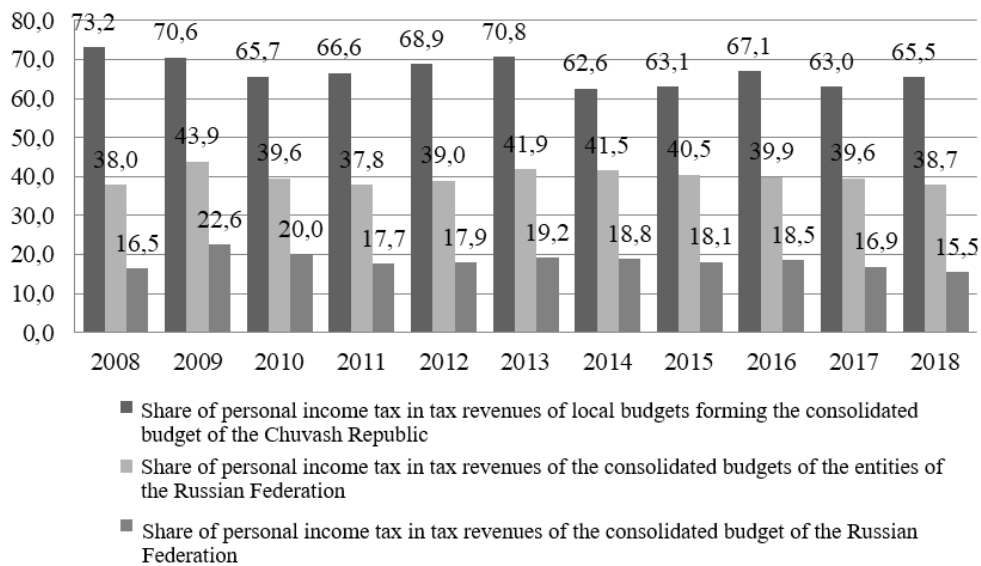


Fig. 1. Dynamics of personal income tax share in tax revenues, % (the figure is compiled by the authors based on table 1)

From Fig. 1 it can be seen that in 2018, compared to 2008, the share of personal income tax in the tax revenues of local budgets forming the consolidated budget of the Chuvash Republic decreased from 73.2% to 65.5%; the share of personal income tax in the tax revenues of the consolidated budget of the Russian Federation from 16.5% to 15.5%. The share of personal income tax in the tax revenues of the consolidated budgets of the subjects of the Russian Federation for the period increased from 38.0% to 38.7%.

"Since the introduction of part one (since 1999), part two of the tax code (since 2001) many changes were adopted. Since 1999, on average, changes have been made about 30 times annually" [10]. With so many changes to the Code minor changes were made to Chapter 23: the amount of

standard deductions for children has been increased since 2016, while these deductions are valid until the month in which the taxpayer's income exceeds 350 thousand rubles (instead of 280 thousand rubles), the dividend rate for residents has been changed from 9 to 13% since 2012. Such important elements of the tax as the amount of deduction for education, property deduction for the purchase of apartments remain unchanged since 2008. Current norms and provisions of the tax code "in terms of providing standard deductions for children, social, property deductions do not sufficiently perform their social function" [11].

Next, consider what role personal income tax plays in the country's GDP.

TABLE II. SHARE OF TAX REVENUES AND PERSONAL INCOME TAX IN GDP

Years	GDP, billion rubles	Tax yield		Personal income tax		Personal income tax share in tax revenues, %
		billion rubles.	share in GDP, %	billion rubles.	share in GDP, %	
2008	41429	10101.8	24.4	1666.3	4.02	16.5
2009	39101	7372.5	18.8	1665.8	4.26	22.6
2010	46309	8963.3	19.4	1790.5	3.87	20.0
2011	59698	11276.6	18.9	1995.8	3.34	17.7
2012	66927	12653.1	18.9	2261.5	3.38	17.9
2013	71017	13030.6	18.3	2499.0	3.52	19.2
2014	77945	14413.8	18.1	2693.4	3.46	18.7
2015	80804	15515.8	19.2	2807.8	3.47	18.1
2016	86044	16308.2	18.9	3018.5	3.51	18.5
2017	92819	19276.9	20.8	3252.3	3.50	16.9
2018	103626.6	23601.4	22.8	3654.2	3.53	15.5
Growth rate 2018 to 2008, %	250.1	233.6	93.4	219.3	87.8	93.9

^a the table is made by authors based on the Report on execution of the consolidated budget of the Russian Federation and budgets of the state extra budgetary funds <https://roskazna.ru/ispolnenie-byudzhetov/konsolidirovannyi-byudzhet/>

After analyzing the data in table 2, we can draw the following conclusions.

In 2018 compared to 2008 GDP increased by 150.1%, tax revenues – by 133.6%, personal income tax - by 119.3%. The share of tax revenues in GDP decreased from 24.4% in 2008 to 22.8% in 2018, or 6.6%. The share of personal income tax

in GDP decreased more significantly – by 12.2% (from 4.02% to 3.53%). The share of personal income tax in tax revenues for the period decreased by 6.1%, compared with the maximum value in 2009 (22.6%) - by 31.5%.

Next, consider the impact of changes in the minimum wage on average wages and living wage.

TABLE III. MINIMUM WAGE, AVERAGE WAGE, THE SUBSISTENCE MINIMUM OF THE WORKING POPULATION, RUB

Indicator	2008	2011	2014	2018	The change in 2018 to 2008, times
	Minimum wage	2300	4611	5554	
average wage	17290.1	23369	32495	43445	2.5
subsistence rate (SR)	4971	6878	8683	11125	2.2
Minimum wage share, %:					
in average wage	13.3	19.7	17.1	25.7	1.9
in the amount of SR	46.2	67.0	64.0	100.3	1.9
Population with incomes below the subsistence rate:					
million people.	19.0	17.9	16.1	18.9	99.5
in % of the total number	13.4	12.7	11.2	12.9	96.3

^{a.} the table is compiled by the authors based on data of the Federal state statistics service <https://www.gks.ru/folder/13397>

According to the data given in table 3, in 2018, compared to 2008, the minimum wage increased by 4.8 times, the average wage by 2.5 times, the subsistence rate for the working-age population by 2.2 times. The share of the minimum wage in the average wage is insignificant: from 13.3% in 2008, it increased 1.9 times and amounted to 25.7% in 2018. The share of the minimum wage in the subsistence rate increased from 46.2% in 2008 to 100.3% in 2018. The population with monetary incomes below the subsistence minimum in 2008 was 19.0 million people (13.4% of the total population), in 2018 - 18.9 million people (12.9% of the total population). And since 2011, the population with incomes below the subsistence rate decreased from 17.9 million people to 15.5 million people in 2013, since 2014, it has again begun to increase both in absolute and relative terms.

TABLE IV. AVERAGE MONTHLY SALARY OF EMPLOYEES

	Amount, RUB.		Growth rate, 2018 to 2008, %	Number of employees, thousand people	
	2008	2018		2008	2018
The Russian Federation	17290.1	43445	251.3	71003.1	76109.0
Central Federal District	20665.7	54470	263.6	19901.1	21282
North-West Federal District	19396.0	49469	255.0	7356.7	7557
Southern federal district	12514.0	31532	252.0	6616.3	8178
Volga Federal District	13209.9	31849	241.1	14834.8	15185
Ural Federal District	21826.0	47572	218.0	6221.9	6385
Siberian Federal District	5381.4	37497	243.8	8322.8	9621
Far East Federal District	20778.3	54151	260.6	4140.3	3340
North Caucasian Federal District	9862.0	26721	270.9	3609.6	4559

^{a.} the table is compiled by the authors based on data of the Federal state statistics service <https://www.gks.ru/folder/13397>

From the data in Table 4, it follows that workers living in the Southern, Volga, Siberian, and North Caucasian federal districts, in which 33383.5 thousand people lived in 2008, had lower than the average Russian level (47.0% of the total number of employees), in 2018 –37543 thousand people

(49.3%). Of the districts, the minimum value of indicators is observed in the North Caucasus Federal District.

The ratio between the maximum value of wages (96846 rubles in YNAD) and the minimum value (24780 rubles in the Republic of Dagestan) is 3.9 times.

The degree of stratification of the population in terms of income can be judged by indicators: R/P 10% ratio, Gini coefficient. According to the Federal State Statistics Service, almost half of the money income of the population in our country is concentrated in the group of people with the highest incomes.

R/P 10% ratio – the ratio of total income, which accounts for 10% of the population with the highest incomes, to total income, which accounts for 10% of the population with the lowest incomes, decreased slightly from 16.6 in 2008 to 15.5 in 2018. This gap exceeds the maximum allowable values recommended by the UN.

The Gini coefficient characterizes the degree of deviation of the actual distribution of total income (consumer spending) of the population from the uniform distribution. The value of the coefficient can vary from 0 to 1, and the higher the value of the indicator, the more unevenly incomes are distributed in society. In Russia, this indicator did not fall below 0.409 (in 2017). The Gini coefficient is: in Iceland - 0.246; Denmark - 0.256; Germany - 0.289; France - 0.297; UK - 0.36; USA - 0.39 [1].

V. CONCLUSIONS

1. The performed study showed that the current proportional system of taxation of personal income has not provided social justice, the gap between the incomes of the rich and the poor, the stratification of society is increasing; the share of personal income tax in the tax revenues of budgets, GDP tends to decrease; the population with incomes below the subsistence rate is not reduced; the impact of the minimum wage on wages is negligible; the current tax deductions on personal income tax are ineffective, they do not perform a social function.

2. For these reasons, the current system of taxation of personal income needs further improvement in the following areas:

- introduction of a progressive system of taxation of high incomes, simultaneous exemption from taxation of low incomes (at the level of the subsistence rate);
- implementation of control over large purchases of individuals (by declaring income);
- increase of the size of tax deductions on personal income tax to the sizes which have developed in practice;
- establishment of a standard tax deduction for children in the amount of the subsistence rate;
- increase of share of minimum wage in wages.

REFERENCES

- [1] T. V. Zvereva, "Assessment of the proposed model of income taxation in the Russian Federation," *Innovative development of the economy Journal*, No. 4 (46), pp. 182-187, 2018. (in russ.)
- [2] G. I. Mamedova, *Personal income tax: russian and international practice*, Moscow: Auditor, pp. 312-316, 2018. (in russ.)

- [International scientific and practical conference of young scientists of the REU n.a. G.V. Plekhanov: Education, science and business – indicators of digital economy development, April 2018]
- [3] L. Sevryukova and S. Belousova, “Trends in taxation of personal income: Russian and foreign experience,” *Economic Annals-XXI*, Vol. 157, No. 3-4(1), pp. 41-43, 2016. <http://doi.org/10.21003/ea.V157-0012>
- [4] R. A. Tikhomirov, “Progressive taxation as a regulation tool of inequality in the distribution of income,” *Vesti BDPU. Seryya 2. Gistoryya. Filosofiya. Palitalogiya. Satsyyalogiya. Ehkonomika. Kul'turalogiya*, No. 1 (99), pp. 85-92, 2019. (in russ.)
- [5] V. G. Panskov, “Progressive or Proportional Scale of Taxation: which is Fairer and More Effective?,” *Ehkonomika. Nalogi. Pravo (Economy. Taxes. Right)*, Vol. 10, No. 2, pp. 105-112, 2017.
- [6] D. G. Chernik, “On the Issue of Progressive or Proportional Taxation of Personal Incomes,” *Ehkonomika. Nalogi. Pravo (Economy. Taxes. Right)*, Vol. 11, No. 3, pp. 114-120, 2018. (in russ.)
- [7] A. A. Aksenova, “Topical issues of the progressive scale of personal income tax in Russian Federation,” *Moscow: Auditor*, pp. 33-37, 2018. (in russ.) [International scientific and practical conference of young scientists of the REU n.a. G.V. Plekhanov: Education, science and business – indicators of digital economy development, April 2018]
- [8] L. N. Lykova, “A return to progressive personal income tax in the Russian Federation: some estimations,” *Journal of Tax Reform*, Vol. 4, No. 2, pp. 174-187, 2018. <http://doi.org/10.15826/jtr.2018.4.2.051>
- [9] S. S. Velichko, “Income taxation system in the russian federation: history of formation and optimization methods,” *Karelian Scientific Journal*, Vol. 8, No. 1 (26), pp. 66-68, 2019. (in russ.)
- [10] N. Z. Zotikov and A. F. Savderova, “Tax system of Russia: problems and prospects of reforming,” *Naukovedenie*, Vol. 9, No. 3, p. 79, 2017. (in russ.)
- [11] N. Z. Zotikov, “Social function of taxes and insurance contributions,” *The Eurasian Scientific Journal*, No. 2, pp. 23, 2019. (in russ.)