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# An Old Song in a New Way: About the Progression in the Personal Income Tax

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## ABSTRACT

The issues of choosing between proportional and progressive taxation of personal income and assessment of the principle of fair taxation in relation to these methods accompany the centuries-old history of world tax policy, which is the **relevance** of the research, being the **subject** of discussions of Russian and foreign scientists. The **purpose** of the study is to develop the idea of taxation of income of the population in Russia, taking into account the principle of fair taxation. The **theoretical objectives** of the study include an analysis of the validity of the method of taxation chosen, as well as an analysis of the progressive method of taxation, which allows for a fair redistribution of income through the progression of rates and an adequate system of tax deductions. The **practical objectives** of the study are to study the influence of income taxation methods on the formation of budget revenues and incomes of the population, to assess the "shadow" fiscal potential of income, to determine the level of demand and significance of tax deductions. As a **result** of the research, it has been scientifically proven that proportional taxation and weak progression discredit the principle of vertical equity, lead to a hidden progression in the withdrawal of income, have no obvious positive effect on capital outflow and, in combination with insurance premiums, affect the size of the potential tax base. The practical **significance** of the study is to develop concrete proposals for the methodological development of personal income tax through differentiated tax deductions, tax mechanisms for strengthening the institution of family and marriage, and the expansion of the tax base.

**Keywords:** PIT; personal income tax; social deductions; standard deductions; progressive taxation; the principle of equity; concealment of income; withdrawal of capital; tax control; insurance payments; family taxation

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## INTRODUCTION

Various levels of progressive taxation were an important characteristic of the taxation of individual income through the history of pre-revolutionary Russia, the USSR, and the period during which the tax system of the new Russia was developing. Chapter 23 of the Russian Federation's Tax Code officially took effect from 1 January 2001, and as a result, income was taxed using the proportionate method, which applied an ad valorem rate of 13% to the majority of income received by people. This is linked to the liberalization of tax legislation in the history of the tax system of the Russian Federation — the reduction of rates on most taxes and the mitigation of responsibility for violations of tax laws.

From 2021 in the personal income tax (further — PIT) appeared the second stage of the scale of tax rates — 15% for income over 5 mln rubles, such a weak progression increased budget revenues from PIT by only 2% (according to data for 11 months 2022).<sup>1</sup>

The state's attitude to progression in income taxation is expressed in the letter of the Ministry of Finance of Russia dated 30.12.2019 No. 03-04-05/103357, it is recognized that the application of progressive income tax in the 1990s led to a decrease in legal income. The Ministry of Finance considers the introduction of an extensive list of deductions, reducing taxpayers' tax burdens, increasing the State's attraction to investors, and improving tax administration as benefits of PIT.

The targeting of such preferences is, however, somewhat undermined by the unclaimedness of individual deductions, the imperfection of their receipt, and the insignificant amount.

## PROGRESSIVE TAXATION: THE PRINCIPLE OF EQUITY AND EVOLUTION

The principle of equity put forward by A. Smith [1] for the present time can be expressed as follows: the State guarantees a person the right to carry out any legal activity in exchange for imposing on the recipient of income an obligation to pay tax on that income. The tax in this case is a fee for the granted right and the opportunity to receive income in such amounts and to have guarantees of protection of their right to such income.

Equity in income taxation is expressed in two approaches: proportional taxation without change of tax rate with rising income — horizontal equity and progressive taxation — vertical equity [2]. The preservation of two approaches to income taxation demonstrates world experience: in Europe, Asian countries, and the US, progressive taxation with high rates is predominantly prevalent, in the countries of the Eurasian Economic Union — proportional taxation is very low rates. According to V.N. Edronova and A.V. Telegus, proportional taxation is common in the EAEU, often at a rate below the Russian rate of 10% (Republic of Kazakhstan and Kyrgyzstan), with the exception of the Republic of Armenia, where the progressive scale of rates with a weak progression of 24.4% and 26% is used [3].

Progressive taxation as an equity form of exemption of differentiated income was formed long before it was defined by A. Smith. According to the results of a study by E.A. Smorodina and E.V. Rudenok [4], progression in income taxation began in ancient Greece. It had a personal development in medieval Europe, characteristic of both the two-hundred-year history of Russia before the revolution of 1917 and the Soviet and new Russian stages of development, and is popular now and abroad.

In the USSR, weak progression was applied with a maximum rate of 13%. In transitional 1991, on the territory of the RSFSR were

<sup>1</sup> Report No. 1-NM for 2021. Official website of the Federal Tax Service. URL: [https://www.nalog.gov.ru/rn77/related\\_activities/statistics\\_and\\_analytics/forms/10973378/](https://www.nalog.gov.ru/rn77/related_activities/statistics_and_analytics/forms/10973378/) (accessed on 20.02.2023).

simultaneously in force the laws of the USSR and the RSFSR on income tax, which established different values of the progressive scale of rates: in the Law of the Soviet Union<sup>2</sup> — from 0.3 to 60%, according to the law of the RSFSR<sup>3</sup> rates varied from 0.3% to 50%.

Since 1992, the Law of the Russian Federation of 07.12.1991 No. 1998-1 “On income tax on individuals” has established a three-stage scale of rates in the range from 12 to 30%. The scale was subsequently modified to a maximum rate of 42%.

The PIT base rate was raised to 13%, progression and required individual declarations were eliminated, and other liberal tax reforms were put in effect at the beginning of the 20<sup>th</sup> and 21<sup>st</sup> centuries. Despite popular belief, these changes did not result in a significant rise in incomes: since 2000, PIT increased by 24% in nominal terms in 2001, but income tax revenues in 2000 increased in the same amount compared to 1999 (author’s data). Furthermore, due to the non-payment crisis, two-thirds of funds in 2000 were deducted from taxpayers’ accounts, but came to the budget later. The growth of PIT revenues in subsequent years was roughly the same as the growth of aggregate tax revenues. In other words, the impact of proportional taxation on income growth with the introduction of PIT is unclear. This conclusion is confirmed by V. G. Panskov, pointing out that the reasons for the increase in incomes with the introduction of PIT were, among other things, the cancellation of benefits for the employees of the security agencies and the establishment of a single social tax with a regressive scale of rates [5], aimed at the legalization of incomes.

The introduction in Russia of a complex, but weak progression from 2021 was an attempt by the state to solve the goal: the second stage of taxation for income over 5 mln rubles at a rate of 15% was introduced to finance the costs of treatment of children and the purchase of medical equipment, primarily within the framework of the functioning of the “Circle of Kindness” fund, which finances the treatment of severe childhood diseases. The actual budget postponements in 2021 amounted to 0.6 trn rubles,<sup>4</sup> exceeding the expected revenue by 10 times; nevertheless, the increase in PIT due solely to the application of the increased rate to “surplus income” was only 2%.<sup>5</sup> Moreover, to date, the “Circle of Kindness” fund has concluded contracts for only 103 bln rubles.<sup>6</sup>

### CRITICISM OF PROPORTIONAL INCOME TAXATION

The low PIT rate of 13% introduced in 2001 gives the population a subjective signal of its insignificant contribution to budget revenue formation. This, in our opinion, has contributed to a high level of the aggregate rate of insurance premiums and a desire to avoid both PIT and insurance contributions, along with the lack of development in PIT over a prolonged period of time.

According to expert estimates, “grey salary” in Russia reaches 10 trn rubles a year, and approximately 30–40% of the population receives wages without taxation. This conclusion discredits the proportional taxation of incomes, which has not been able to take such income out of the shadow [4], although to verify actual income in an age of excess information online can be carried out through analysis of HR resources (such as

<sup>2</sup> USSR Law from 23.04.1990 No. 1443-1 “On income tax from USSR citizens, foreign citizens and stateless persons”.

<sup>3</sup> The Law of the RSFSR from 02.12.1990 “On the Procedure of Application in the Territory of the RSFSR in 1991 of the Law of the USSR “On Income Tax from Citizens of the USSR, Foreign Citizens and Stateless Persons”.

<sup>4</sup> Report No. 1-NM for 2021. Official website of the Federal Tax Service. URL: [https://www.nalog.gov.ru/rn77/related\\_activities/statistics\\_and\\_analytics/forms/10973378/](https://www.nalog.gov.ru/rn77/related_activities/statistics_and_analytics/forms/10973378/) (accessed on 22.03.2023).

<sup>5</sup> See *ibid*.

<sup>6</sup> Official website of the Foundation “Circle of Kindness”. URL: <https://xn-80abfdb8athfre5ah.xn--p1ai/> (accessed on 22.03.2023).

Headhunter and others) and comparison of data with real wages in specific companies.

In this case, one can agree with the opinion of A.V. Tikhonova that the high tax burden (maximum aggregate amount of insurance premiums and PIT is 43–45%) is a key factor that forms the desire for tax evasion of individuals and employers along with possible insufficient “tax morality” [6].

Employees and the budget suffer as a result: the Russian Federation’s Pension Fund deficit prompted the unpopular decision to raise the retirement age rather than look for ways to increase the base of insurance contributions, such as by liquidating envelope schemes or searching for other ways to replace the insurance funds’ decreasing income, such as a higher level of resource rent withdrawal.

The potential of PIT to solve the problem of insurance taxation is confirmed by the application of the 15% PIT rate. According to Rosstat, 10% of the population accounts for 30% of income,<sup>7</sup> it can be assumed that from the total tax base of PIT (taxed at the rate of 13%) to 32 trn rubles<sup>8</sup> approximately 11 trn rubles are income of the highest-income group of individuals, and the establishment of the PIT rate at least in the amount of 30% would have allowed to mobilize additional income in the sum of more than about 2.8 bln rubles, while, according to the Federal Tax Service of Russia (further — FTS), from the incomes of persons taxed at 15%, additional received PIT in the total amount of 0.6 bln ruble.<sup>9</sup>

A significant problem affecting the search for non-popular measures in taxation, in our view, remains the criminal distribution of part of the income entering the budget system.

According to the results of the investigation of the Higher School of Economics on the losses of the state from corruption in procurement in 2021, out of 29.1 trn rubles of funds allocated to state and corporate procurements, the amount of “disbursements” amounted to 6.6 trn rubles, or approximately 6% of Russia’s GDP.<sup>10</sup>

It is known that reducing corruption should also result in less tax evasion, which raises budgetary income directly [7]. In the event of the elimination of the possibility of corruption gaps, the question of the feasibility of introducing a progressive rate scale would be less acute, as would the issue of increasing the retirement age.

The next negative factor contributing to tax evasion is the withdrawal of funds abroad. Since 2022, the scale of withdrawal of funds abroad has increased significantly, which in the circumstances of the uncertain risk of nationalization of the income of individuals by “unfriendly” countries indicates the possible loss of the Russian tax base, which could be the object of multi-stage progressive taxation.

Thus, from 1 July 2022 to their accounts abroad, individuals can transfer from Russian accounts not more than 1 mln dollars per month. For this and other reasons, specific to 2022, the net capital outflow was the largest in the history of Russia — 251 bln dollars, exceeding by one and a half times the 2021.<sup>11</sup>

Thus, proportional taxation in the Russian Federation did not solve the problems of insurance taxation, tax evasion, and capital withdrawal abroad. J.R. Repetti, for example, also acknowledges the inability to interpret the results of the research on investments and savings in an unambiguous manner, indicating that the expected benefits of improving their

<sup>7</sup> Official website of Rosstat. URL: <https://rosstat.gov.ru/folder/13723> (accessed on 12.03.2023).

<sup>8</sup> Report No. 5-MET for 2021. Official website of the Federal Tax Service. URL: [https://www.nalog.gov.ru/rn77/related\\_activities/statistics\\_and\\_analytics/forms/](https://www.nalog.gov.ru/rn77/related_activities/statistics_and_analytics/forms/) (accessed on 25.03.2023).

<sup>9</sup> Report No. 1-NM for 2021. Official website of the Federal Tax Service. URL: [https://www.nalog.gov.ru/rn77/related\\_activities/statistics\\_and\\_analytics/forms/10973378/](https://www.nalog.gov.ru/rn77/related_activities/statistics_and_analytics/forms/10973378/) (accessed on 25.03.2023).

<sup>10</sup> Experts of HSE Research Institute assessed state losses from corruption in procurement. URL: [https://anticor.hse.ru/main/news\\_page/eksperty\\_niu\\_vshe\\_otsenili\\_poteri\\_gosudarstva\\_ot\\_korrupsii\\_v\\_zakupkah](https://anticor.hse.ru/main/news_page/eksperty_niu_vshe_otsenili_poteri_gosudarstva_ot_korrupsii_v_zakupkah) (accessed on 14.02.2023).

<sup>11</sup> Medium-term forecast of the Bank of Russia from 28.10.2022. URL: [https://www.cbr.ru/Collection/Collection/File/43430/forecast\\_221028.pdf](https://www.cbr.ru/Collection/Collection/File/43430/forecast_221028.pdf) (accessed on 15.02.2023).

effectiveness through low individual tax rates are speculative in nature [8].

### **SOCIAL ACCENTS OF PROGRESSIVE INCOME TAXATION**

According to M. Friedman, progressive taxation leads to a decrease in interest in risk-related and high-income activities, thereby increasing the profitability of these activities, as well as to finding ways to avoid paying high income taxes [9].

A.V. Tikhonova and N.P. Melnikova confirm that progressive taxation of income leads to a decrease in incentives for labour and entrepreneurial activity, since labour income is not as large as the high income that can be obtained from the use of capital [10].

On the other hand, O. Nadirov, B. Dehning, and D. Pavelkova concluded that the transition to proportional income taxation resulted in a reduction in the amount of working time after analyzing the effects of progressive and proportional income taxation on incentives to work in Slovakia [11].

US recognizes consensus on neutrality of historical rate range impact on labour supply (J.R. Repetti [8]). A.N.C. Goldman, S.J. Lusch, G. Sadka note the effects of progressive tax during the COVID-19 pandemic in the US: economic activity constraints have led to even greater income inequality among different population groups, but the states with the highest progressive rate scales have been able to provide higher tax revenues compared to the low-rate states [12].

In our view, a person's desire to choose a less-income source than a higher-taxed source of income in order to avoid progressive income tax is contrary to human nature.

M. Friedman was also the author of the idea of negative income tax as an equity taxation, which provides for a real tax return from the budget to an individual with a negative difference between the amount of tax deduction and income [9]. E.A. Chernykh, by linking negative income tax to the concept of unconditional basic income, justifies the

argument that both negative income tax and uncondusive basic income are options for solving the same problem — achieving social equity [13].

V.G. Panskov supports the idea of socially oriented step-by-step progressive income tax in the form of complex progression, justifying a tangible non-taxable minimum income and progression with income that exceeds the average wage at least twice [5].

A.V. Tikhonova and N.P. Melnikova pointed out that the problem of compensation incomes, which may be deprived of the subjects of the Russian Federation due to the low level of incomes of the population as a result of their possible exemption from PIT (or a significant reduction in the rate) [10], can be solved either through federal transfers or by increasing rates for higher incomes or by introducing an autonomous regional income tax, which applies in the federal states.

Despite the fact that proportional taxation, at first glance, makes the system equity — the higher the income, the higher the amount of tax, in fact, as income rises, the tax rate decreases and leads to regression (see *Table*).

The hidden regression in PIT consists of an increase in the share of taxes and other expenses in the income of the individual with a decrease in income, in addition to the hidden regression in indirect taxation.

However, income tax should not be seen as a tool of “equalization”: if, in this example, the rate of exemption of income for the second person (measured using any method of taxation) is increased to 40%, he or she will have half of the income received, and in order to equal the share of the remaining income of the first and second person, the percentage of tax exemption for the latter person must be raised to 77%. But this approach is obviously an excessive expression of equity.

To maximize the impact of tax benefits (deductions) utilized by the most disadvantaged individuals is an essential principle in the social context of population tax system construction [14].



Table

**Comparison of the Results of the Application of Proportional Taxation**

No.	Indicator	Subject of Taxation 1 (PIT Rate 13%)	Subject of Taxation 2		
			Rate 13%	Rate 40%	Rate 77%
A	B	1	2	3	4
1	Income received, rubles	720 000	4 900 000		
2	PIT, rubles	93 600	637 000	1 960 000	3 773 000
3	Net income, rubles (p. 1 – p. 2)	564 000	4 263 000	2 940 000	1 127 000
4	Utility payments, rubles	60 000	60 000	60 000	60 000
5	Child expenses (according to Rosstat), rubles	120 000	120 000	120 000	120 000
6	Other expenses, rubles	360 000	360 000	360 000	360 000
7	Disposable income, rubles (p. 3 – p. 4 – p. 5 – p. 6)	24 000	3 723 000	2 400 000	587 000
8	Disposable income in relation to income received, % (p. 7: p. 1)	12	76	49	12
9	Share of PIT revenue recovery and required expenditure, % (100% – p. 8)	88	24	51	88

Source: Compiled by the author.

However, the individual value of the most claimed deductions — standard and for children — is insignificant and depending on social status as at 01.01.2023 gives real savings on tax per year from 780 to 18 720 rubles, the maximum savings in social deductions is 15 600 rubles, the most tangible consequences of property deduction — up to 390 thous. rubles savings.

For example, the amount of deduction for the first child of 1 400 rubles was established since 1 January 2012 and has not been revised until now, while the rate of inflation (change in the consumer price index) for 2012–2022

was 2.2 times.<sup>12</sup> The limit value of deduction of education costs in the amount of 50 thousand rubles is in force from 1 January 2007, while the cost of education of children in higher educational institutions, according to Rosstat, in the period 2010–2020 increased by 2.3–2.6 times.<sup>13</sup> The limitation of the social deduction (excluding expenses for education of children and charitable purposes) in the

<sup>12</sup> Official website of Rosstat. URL: [https://rosstat.gov.ru/storage/mediabank/ipc\\_mes-2.xlsx](https://rosstat.gov.ru/storage/mediabank/ipc_mes-2.xlsx) (accessed on 02.03.2023).

<sup>13</sup> Paid public service in Russia 2021. Statistical collection. Official website of Rosstat. URL: [https://rosstat.gov.ru/storage/mediabank/Platnoe\\_obslyuj\\_2021.pdf](https://rosstat.gov.ru/storage/mediabank/Platnoe_obslyuj_2021.pdf) (accessed on 29.03.2023).

amount of 120 thousand rubles applied unchanged from 1 January 2009, while in addition to the increase in the cost of educational services, the price of medical services increased by 1.4 times.

Meanwhile, the average salary of employees for the period 2013–2022 and average per capita income increased at a smaller rate — 1.7–1.8 times.<sup>14</sup>

With a comparable average per capita income, the standard tax deduction, for example, in the People's Republic of China is about 100 times greater than in Russia (5 000 yuan per month, before 2018–3 500 yuan) while China also applies higher rates of deductions for children's education — 1 000 yuan a month (approximately 130 thous. rubles per year), as well as a special type of deduct for the care of elderly parents [15, 16].

In the Russian Federation in 2021, the amount of tax deductions, excluding investment deduction, amounted to 330 bln rubles, or only 1% in relation to income received from employers (31.3 trn rubles).<sup>15</sup>

Tax deductions should be based on approximately real figures, for example, expenditure on children, and, of course, the deduction in the amount of 1 400 rubles per month per child is insignificant in comparison with the actual expenditures on children. According to Rosstat, expenditure on a child per month is about 10 thousand rubles (obviously, this figure is also underestimated), and if you take this amount for tax deduction, the total amount of deductions will increase by 7 times (from 136<sup>16</sup> to 974 bln rubles) and will be about 3.0% in relation to income received from employers (974 bln rubles: 32 trn rubles<sup>17</sup>) (currently — 0.4%). Budget losses in this case will amount to approximately 109 bln rubles, which can be compensated by the introduction of progressive taxation of income.

<sup>14</sup> Official website of Rosstat. URL: <https://rosstat.gov.ru/folder/13397> (accessed on 29.03.2023).

<sup>15</sup> Report No. 5-PIT for 2021. Official website of Federal Tax Service. URL: [https://www.nalog.gov.ru/rn77/related\\_activities/statistics\\_and\\_analytics/forms/](https://www.nalog.gov.ru/rn77/related_activities/statistics_and_analytics/forms/) (accessed on 24.03.2023).

<sup>16</sup> See *ibid.*

<sup>17</sup> See *ibid.*

Social deduction of costs associated with obtaining medical services, in 2021 received a little more than 11 thous. people out of more than 65 mln people receiving income (average 47.5 thous. rubles per person), deductions related to the purchase of medicines — only 56 people, which indicates that this benefit is not in demand, including because of its insignificance and the need for careful collection of supporting documents.<sup>18</sup>

Moreover, the size of paid services to the population in 2021 amounted to 1 trn rubles, while the expenditure of the federal fund of compulsory health insurance was 2.3 trn rubles or approximately 15 thous. rubles per insured.<sup>19</sup>

According to the results of the study of Rambler&Co and SberInsurance, approximately 60% of Russians use paid medicine,<sup>20</sup> and if at least half of the income recipients from employers (28 thous. people<sup>21</sup>) took advantage of the deduction of medical expenses, the total deduct, according to the author, would amount to 1.5 trn rubles, the tax refund would be 200 bln rubles.

One of the variants of equity taxation development is the differentiation of tax deductions (standard, social) depending on the level of income by analogy with the application of the progressive scale of tax rates: for example, with an increase in income, the amount of deductions may decrease, and when the income is reached, for example, 5 mln rubles, the deduction can be reduced to zero.

<sup>18</sup> See *ibid.*

<sup>19</sup> Report on the results of the Federal Compulsory Medical Insurance Fund in 2021. Moscow; 2022. URL: [https://www.ffoms.gov.ru/system-oms/about-fund/fund-activities/%D0%9E%D0%A2%D0%A7%D0%95%D0%A2\\_%D0%A4%D0%9E%D0%9C%D0%A1\\_%D0%B7%D0%B0\\_2021\\_%D0%B3%D0%BE%D0%B4\\_28.11.2022.pdf](https://www.ffoms.gov.ru/system-oms/about-fund/fund-activities/%D0%9E%D0%A2%D0%A7%D0%95%D0%A2_%D0%A4%D0%9E%D0%9C%D0%A1_%D0%B7%D0%B0_2021_%D0%B3%D0%BE%D0%B4_28.11.2022.pdf) (accessed on 15.02.2023).

<sup>20</sup> Research of Rambler&Co and SberInsurance: how many Russians use paid medicine? URL: <https://doctor.rambler.ru/news/48364575-issledovanie-rambler-co-i-sberstrahovaniya-skolko-rossiyan-polzuyutsya-platnoy-meditsinoy/> (accessed on 13.02.2023).

<sup>21</sup> Report No. 5-MET for 2021. Official website of Federal Tax Service. URL: [https://www.nalog.gov.ru/rn77/related\\_activities/statistics\\_and\\_analytics/forms/](https://www.nalog.gov.ru/rn77/related_activities/statistics_and_analytics/forms/) (accessed on 25.03.2023).

Taking into account the hidden regression in the PIT, the loss of deduction is less critical for high-income persons — slightly more than 2% [15 600 rubles (savings with the application of social deductions): 650 thous. rubles [PIT from 5 mln rubles] than for low income persons.

It is equity that the deduction of social benefits for low-income persons and the compensation of such tax expenses by increased tax deductions for high-incoming persons, including the introduction of family taxation, should be the objective of tax policy. This idea is supported by most Russian scientists [17, 18].

In particular, family taxation should promote the institution of family and marriage and ensure that the interests of family members, especially children, are respected.

A. V. Falishtyanu, N. A. Dementeeva and G. A. Artemenko differentiate between two main methods of family taxation in other countries: the application of a special coefficient to the total income that is dependent on the size of the family (French system) and the joint family income declaration, in which the presence of children and the size of the household are taken into account when receiving tax benefits [19].

Moreover, the tax status of a family may be determined by civil law and national traditions of the development of a patriarchal or nuclear family. A. Hedau (India) proposes to move from separate taxation of family members to family taxation limited to spouses [20]. Italy, on the contrary, has shifted from family taxation to individual taxation, taking into account the change in the civil-legal status of the income accumulation model: from patriarchal taxation in which a man as head of the family was taxed on the income received by household members to taxation of the individual income earned by each family member [21].

The absence of the family concept in the Family Code of the Russian Federation gives freedom to choose the forms of family taxation in national tax law. In any case, the

management of a joint household involves receiving a consolidated income and the implementation of aggregate costs, the order of which is determined even by the marriage contract. Therefore, it is reasonable for the taxable person to accept a “consolidated group” of individuals — the family — in analogy with organizations that constitute an association of individuals on the basis of statutory documents, and the expenses of the family to recognize the actual expenses incurred by the family with the determination of the level of essential expenses and adequate limitations of the amount of individual expenses depending on the level the total income of the household on all sources of income. There is strong support for the status of children as human capital that will bring economic benefits to both the family and society in the future, including through participation in the formation of national income and national tax capacity. A possible reduction in the tax base due to increased expenses and deductions may be accompanied by an adequate increase in rates and the introduction of progressive rates and higher rates for families with no children.

## CONCLUSION

1. The following results were obtained in the part of the theory of PIT:

1.1. Proportional income taxation has been demonstrated to have no obvious positive effects on the size of budget revenues, does not prevent tax evasion, and is characterized by hidden regression.

1.2. It has been found that poor progression in PIT does not serve the redistribution of high incomes and their fair taxation, and the PIT base rate is subjectively insignificant and discredits the importance of tax.

1.3. It was confirmed that progressive taxation was more in line with the principle of fair taxation and could be implemented not only in the progressive scale of tax rates, but also through a system of differentiated tax deductions.



2. The following results of the study are of practical importance:

2.1. The indexation of standard and social tax deductions to the average statistical parameters for education, health care and child maintenance can be offset by the introduction of additional ranges of the PIT progressive rate scale. In the future, it is desirable to introduce a reversal of the amount of deductions from the level of income, including the zeroing of the deduction for high incomes.

2.2. Limiting the withdrawal of funds abroad and reducing the rate of insurance contributions to pension will three positive effects at once: 1) the legalization of incomes, which remain in the shadow

due to high rates of insurance premiums, including the introduction of the digital ruble and the control of expenses; 2) the associated increase in the tax base and, as a consequence; 3) the increase in insurance contributions revenues.

2.3. The purpose of taxing the family with multi-level progression is not only to reduce the tax burden on families with children with low and medium incomes, but also to promote the institution of marriage and family.

2.4. Alternative sources of equity taxation aimed at enhancing tax capacity have been identified: improvement of the system of allocation of budget funds, measures to counter the concealment of the PIT tax base and insurance contributions.

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