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WORLD EXPERIENCE OF INDIVIDUAL INCOME TAXATION AND REALITIES OF TAXATION IN UKRAINE

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Currently many of the problems that foreign countries have to solve in relation to the transformation processes which affect the financial stability of their economies are similar in nature to the problems that exist in Ukraine. Therefore, studies of foreign practices of personal income taxation are extremely relevant.

The article analyzes the experience of foreign countries in the field of personal income taxation and presents the author's views on the possibility of its implementation in domestic tax practice. Methods of personal income taxation in different countries of the world are considered.

The experience of foreign countries in the taxation of personal income is rich in positive examples. The analysis showed that the lowest income tax rates are characteristic of countries with lower rates of economic development and usually without the use of progressive taxation. High - inherent in the developed due to the presence of a progressive scale of taxation, which allows you to shift the tax burden from the poorer to the more affluent.

Therefore, one of the priority areas in the development of tax policy in Ukraine should be its gradual socialization, which focuses not only on the fiscal function of the tax, which leads to increased tax revenues to the budget of Ukraine, but also the social function of the tax aimed at universal values.

The main direction of further improvement of the domestic legal framework in this area should be to reduce the tax burden on socially vulnerable groups and increase the responsibility of taxpayers for tax evasion. One of the priority areas in the development of tax policy in Ukraine should be its gradual socialization, which focuses not only on the fiscal function of the tax, which leads to increased tax revenues to the budget of Ukraine, but also the social function of the tax aimed at universal values. The practice of taxation of individuals in foreign countries cannot be an absolute basis for copying taxation in Ukraine.

***Keywords**: tax, income, rate, personal, taxation, budget, deductions, state, source, tax benefits, personal income tax, income tax, non-resident, resident, individual, progressive, taxpayer.*

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INTRODUCTION

The system of personal income taxation in each country is an important regulator of the relationship between the state and citizens - taxpayers. It, on the one hand, provides the financial base of the state, and, on the other hand, is the main tool for implementing its economic doctrine. Therefore, setting the size of personal income tax, the state seeks to ensure a stable income base and influence the size of citizens' savings, in order to optimally implement the development strategy.

Theoretical principles of taxation were developed in the works of such prominent scientists as A. Wagner, J. Keynes, A. Laffer, J. Mill, F. Nitti, D. Ricardo, A. Smith and others. The study of taxation of individuals in Ukraine and other countries is carried out in the works of such domestic scientists as: V. Andrushchenko, L. Barannik, O. Vasylyk, V. Melnyk, S. Onyshko, A. Sokolovska, L. Tarangul, V. Fedosov , L. Shablista, S. Yuri, I. Yakushchyk and others.

Highlighting unexplored parts of the overall problem: Ukraine lacks experience in effectively taxing the income of individuals. Therefore, it is expedient to deepen the issue of identifying elements of positive experience of foreign countries that have some success in this area, as well as to determine whether they can be applied in the practice of taxation in Ukraine.

AIM

The aim of the work is to identify the leading foreign experience in personal income taxation, systematization of its positive elements, as well as provide suggestions on the possibility of their implementation in Ukraine.

RESULTS

With the development of a market economy in Ukraine, taxes and other mandatory payments to the budget are the main source of budget formation. It's known that taxes appeared due to the society division and the emergence of the statehood.Opinions of scientists are divided on the interpretation of the term "tax", because each of them adheres to its theory, and rightly so (Table 1).

Table 1 – Opinions of scholars on the interpretation of the term "tax"

Author, source	Interpretation of the term "taxes"
K. Marx, F. Engels [1]	Taxes are contributions of citizens necessary for the maintenance of public power .. »
D. Ricardo [2]	Taxes - that part of the product of land and labor, which goes to the government
A. Smith [3]	Taxes - a fair price for services to the state
S.V. Barulin [4]	The tax is a kind of price of monopolistic purchase of services by the state in the performance of its functions
K.R. McConnell, S.L. Brue [5]	Tax is a forced payment to the government by a farm or firm of money (or transfer of services and goods) in exchange for which the farm or firm does not directly receive goods or services, and such payment is not a fine imposed by a court for illegal actions

Based on the analysis of researchers' opinions, we can note that the definitions emphasize the coercion and inequality of taxes.

However, according to the Tax Code of Ukraine [6], the tax is a mandatory, unconditional payment to the relevant budget or to a single account, which is collected from taxpayers.

Personal income tax is one of the main elements of tax revenues. Its role in the tax system is growing every year.

Personal income tax is a national tax levied on the income of individuals (residents) and non-residents who receive income from their sources of origin in Ukraine.

The system of income taxation of citizens in Ukraine was introduced in mid-1991. Consequence of the adoption of the Law of the Ukrainian PCP "On income tax on citizens of the Ukrainian PCP, foreign citizens and stateless persons" of July 5, 1991

Since December 26, 1992, the system of taxation of natural persons has been regulated by the Decree of the Cabinet of Ministers of Ukraine "On Personal Income Tax", which was in force until January 1, 2004. During this period, the rates of personal income tax changed quite often - sometimes several times a year. This was due to such factors as the development of market relations, changes in the form of income, equalization of income of the poor and high-income sections of the population through progression. For example, in 1993, rates changed three times. Moreover, from December 1, 1993 to October 1, 1994, there was the harshest scale of taxation - the maximum rate was 90%. But despite the increase in rates almost twice, budget revenues from personal income tax during this period did not increase, but decreased - due to evasion of payment at such economically unreasonable rates.

In May 2003, the Law of Ukraine "On Personal Income Tax" was adopted, which provides for significant changes in the mechanism of personal income tax. The Decree of the Cabinet of Ministers of Ukraine "On Personal Income Tax" has expired, except for the provisions of Section IV on the taxation of income of individuals from entrepreneurial activities.

The main innovations of this law were:

- abandonment of the progressive scale of taxation of physical income with a maximum rate of 40% and the establishment of a single tax rate of total monthly (annual) income of 15%, and for the period from January 1, 2004 to December 31, 2006 - 13%;

- establishment of the taxpayer's right to a tax credit, which is the sum of expenses incurred by the resident taxpayer in connection with the purchase of goods (works, services) from residents of Ukraine during the reporting year. The amount of such expenses may be reduced by the amount of the payer's total income received by him as a result of the calendar year;

- expansion of the tax base;

- provision of tax social benefits, which are determined as a percentage of the minimum wage per month (100%, 150% and 200%). In addition, the Law provides for a procedure for the taxpayer to independently choose the place of receipt (application) of social tax benefits and more.

In December 2010, the Verkhovna Rada of Ukraine adopted the Tax Code of Ukraine, which regulates the collection of personal income tax in Section Four.

At the end of 2014, the Law of Ukraine of 28 December 2014 №71-USH was adopted, which amended the Tax Code of Ukraine. This law increased the personal income tax rate (from 17% to 20%), which applies to income of more than 10 minimum wages, effective as of January 1 of the reporting tax year.

For most citizens and in the vast majority of cases, the personal income tax rate since 2016 is 18%.

According to Article 162 of the Tax Code of Ukraine, taxpayers are:

- natural person - a resident who receives income from the source of their origin in Ukraine, and foreign income;

- natural person - non-resident who receives income from the source of their origin in Ukraine;

- tax agent [6].

An exception is a non-resident who receives income from their source in Ukraine and has diplomatic privileges and immunities established by the current international treaty of Ukraine in respect of income received directly from diplomatic or equivalent activities.

The object of taxation of a resident is:

- total monthly (annual) taxable income;

- income from the source of their origin in Ukraine, which is finally taxed at the time of their accrual (payment, provision);

- foreign income - income (profit) received from sources outside Ukraine.

The object of taxation of a non-resident is:

- total monthly (annual) taxable income from the source of its origin in Ukraine;

- income from the source of their origin in Ukraine, which is finally taxed at the time of their accrual (payment, provision).

Article 164 stipulates that the tax base is the total taxable income, taking into account the features defined in this section. Total taxable income - any taxable income accrued (paid, provided) in favor of the taxpayer during the reporting tax period.

The tax rate is 18 percent of the tax base on income accrued (paid, provided) (except for the cases specified in paragraphs 167.2-167.5 of this article), including but not limited to: wages, other incentive and compensation payments or other payments and remuneration accrued (paid, provided) to the payer in connection with the employment relationship and under civil law contracts. Also, the tax rate can be 0% and 5%.

Tax rates on passive income to the tax base are set at the following rates:

- 18 percent - for passive income, except for those specified in sub-clauses 167.5.2 and 167.5.4 of this clause;

- 5 percent - for income in the form of dividends on shares and corporate rights accrued by residents - payers of corporate income tax (except for income in the form of dividends on shares, investment certificates paid by mutual investment institutions);

- half the rate set in paragraph 167.1 of this article - for income in the form of dividends on shares and / or investment certificates, corporate rights accrued to non-residents, collective investment institutions and non-income taxpayers.

Each state chooses its own methodological approaches to the taxation of personal income, but the defining feature of such taxation is that it should increase the savings of the population, which further serve as a source of financing the economy. Each country forms an individual system of income taxation. Therefore, consider the concepts of personal income tax in different countries.

Figure 1 shows each territory in a color that corresponds to its highest statutory PIT rate (including additional taxes and excluding local taxes). From here, let's identify the top 10 countries with the highest personal income tax rates - in 2022. It includes: Côte d'Ivoire - 60%, Finland - 56.95%, Japan - 55.97%. Denmark - 55.90%, Austria - 55.00%, Sweden - 52.90%, Aruba - 52.00%, Belgium - 50.00%, Israel - 50.00%, Slovenia - 50.00% [7].

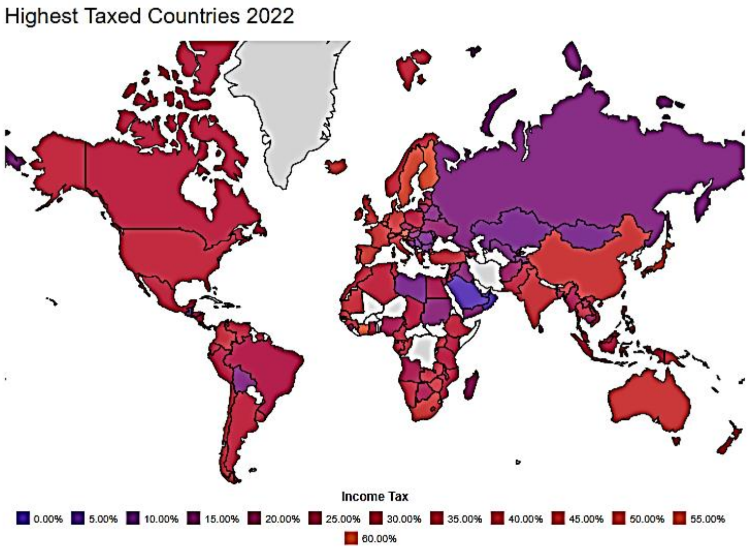

Figure 1 - Countries with the highest rates of personal income tax 2022
Source:[8]

Côte d'Ivoire is an African country with a so-called regular income tax. This tax is not levied on the entire income of the taxpayer, but only some specific type. In particular, it is a tax on income from business activities in industry, agriculture and trade (rate 35%); commercial income tax (also 35%); tax on wages, pensions and other benefits, which are levied on 80% of wages received at a rate of 1.5%.

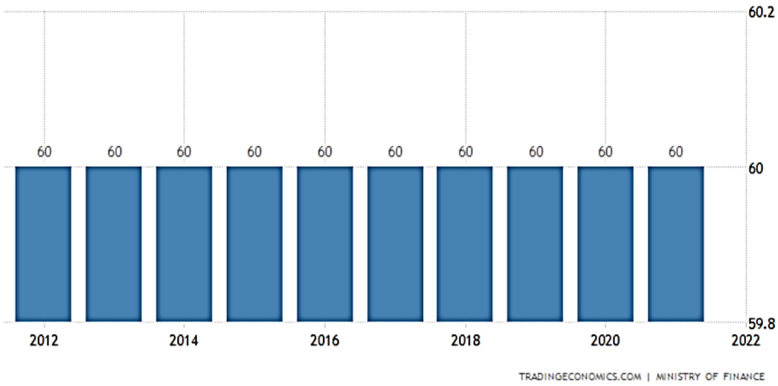

Figure 2 – Personal income tax rates in Côte d'Ivoire 2012-2021
Source:[9]

In addition, Côte d'Ivoire has a general, or global, income tax levied at progressive rates (maximum 60%) (Figure 2). It also does not tax the entire income of the taxpayer, but certain components.

The second place is occupied by Finland, where income tax is levied on various sources of income, such as wages, pensions, interest and dividends. Personal income tax revenues are an important source of income for the Finnish government.

In 2004, the income tax rate in Finland was reduced from 53.5% to 49.2%. However, the government could not just leave it at that, and the decline was offset by an increase in property tax, gift tax and capital gains tax. Finland also has a tax requirement for the Finnish church, and if you belong to one, you have to pay a church tax of 1% to 2%. The personal income tax rate in Finland in 2019 was about 53.75%, and now in 2022 - 56.95% (Figure 3).

Figure 3 – Personal income tax rates in Finland 2012-2021
Source: [10]

A non-resident individual (for example, who occasionally works in Finland) is taxed only on income from a Finnish source. If the tax agreement does not provide for lower rates, the tax rates are 35% on employment income and 30% on dividends, interest (but interest income is usually not taxed for non-residents) and royalties. In principle, retail deductions from the above income are not allowed. However, the standard deduction of € 510 per month or, if income is accrued for less than one month, € 17 per day is deducted from income subject to 35% withholding tax (excluding director's fees). Retirement income in Finland is taxed at a progressive tax rate (unless the tax agreement prohibits Finland from taxing the pension).

A non-resident can also claim taxation of his income received in Finland by levying a tax (ie progressive taxation) instead of a flat-rate tax. The provisions apply to non-residents residing in the European Economic Area (EEA) or in a country with which Finland has concluded an agreement on assistance in the implementation and exchange of tax information, or those who have a residence permit with the status of a researcher.

Provisions on the tax on sources of income remain in force for those non-residents who do not apply for a non-resident card from the tax on sources or otherwise express a desire that taxation will be carried out by accrual. In general, non-residents who are subject to withholding tax have no reporting liabilities in Finland, as the income-paying entity assumes withholding tax as well as reporting obligations in Finland.

Progressive taxation of a non-resident's earned income takes into account the non-resident's worldwide income (ie salary income, pension income and social security benefits) when calculating income tax in Finland (progressive dismissal). However, income received abroad or income received from Finland that is not taxed in Finland in accordance with the provisions of the relevant tax treaty is not taken into account in the progression if the person resides in the EEA or has a residence permit with research status. and taxable earned income received from Finland is at least 75% of the total earned income of the person.

Remuneration of artists and athletes is taxed at 15% at the source (no deductions). The tax is collected from sources by withholding.

Income from Finnish sources, in addition to the above, is subject to income tax at ordinary tax rates (earned income is taxed at a progressive tax rate, and capital income - at a rate of 30% or 34%), unless otherwise provided by the tax agreement. For example, income from the lease of property located in Finland is subject to assessment, and net rental income is taxed at a rate of 30% or 34% [11].

The third position is occupied by Japan. Income tax in Japan is paid by all individuals - both citizens of the country and non-residents who receive a certain income in Japan. Unlike many other countries, income tax in Japan is levied not only at the national level, but also at the local level - established contributions to the budgets of prefectures and municipalities. Therefore, the total amount that the Japanese have to pay is quite significant.

Personal income tax in Japan is accrued on a progressive scale depending on the total amount of income received by a person during the reporting period. The higher the amount of earnings, the higher the rate. The minimum rate of national personal income tax is 10%, and the maximum - 55.97% (Figure 4). It is also necessary to pay additional prefectural income tax at a rate of 2% to 4%, as well as municipal income tax in the range of 3-12%.

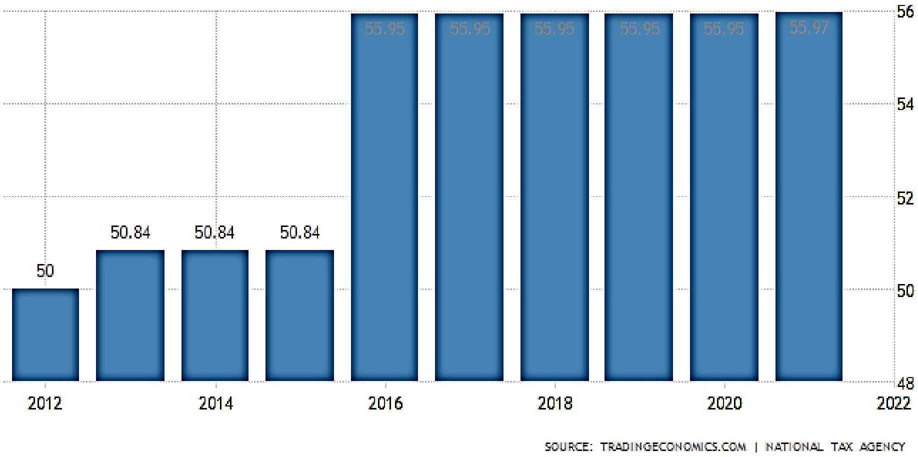

Figure 4 – Personal income tax rates in Japan 2012-2021
Resourse: [12]

Countries with the lowest tax rates include Guatemala (7%), Montenegro (9%), Kazakhstan (10%), Romania (10%), Serbia (10%), and Libya (10%). , Bulgaria (10%), Mongolia (10%), Bosnia and Herzegovina (10%), Uzbekistan (10%) and others.

Guatemala shall tax its nationals and residents or non-residents on their compensation in respect of services rendered in Guatemala and on other income derived from Guatemala.

Taxable income (GTQ*)		Tax on column 1 (GTQ)	Tax on excess (%)
Over (column 1)	Not over		
0	300,000	0	5
300,000		15,000	7

Figure 5 – Guatemalan personal income tax rates [13]

Personal income taxes are formed by any remuneration or income in cash, regardless of their face value, from personal work provided in a dependent relationship to individuals residing in the country. Income taxed under this regime is credited to the period when it was received by the recipient or available.

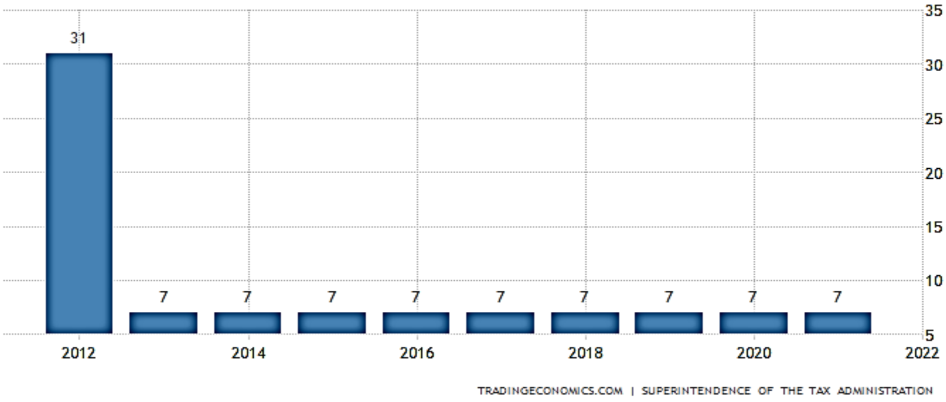

Figure 6 – Personal income tax rates in Guatemala in 2012-2021
Source: [14]

However, based on Figs. it can be seen that the tax rate was not always 7%, and in 2012 it was 31% (Figure 5-6). Income tax rates are an important source of income for the Guatemalan government.

In Montenegro, personal income tax is levied on the gross income of tax residents. Investment income, employment income, royalties, interest, dividends and other income streams are subject to income tax.

Personal income is taxed at a flat rate of 9% (Figure 7). The tax rate may be 11%, but it is levied only on any taxable income that exceeds the average income. Montenegro declares its average for the year (approximately 765 euros for 2020), and any income below or equal to the national average is taxed at a flat rate of 9%, and any additional income above the average is taxable income for at a rate of 11%.

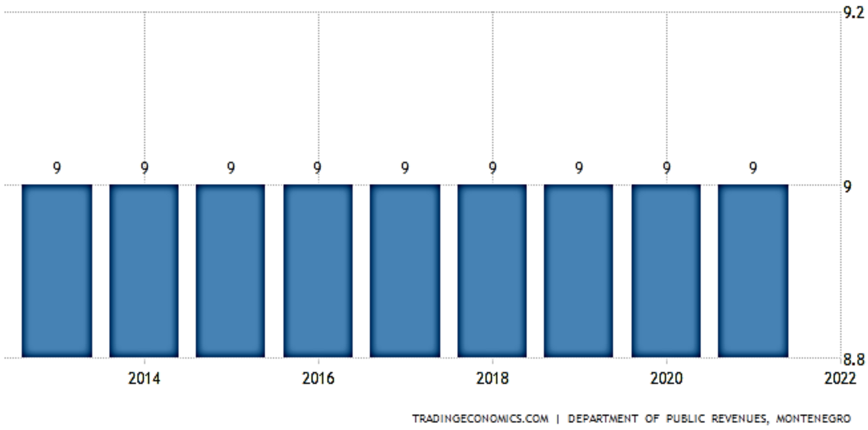

Figure 7 – Personal income tax rates in Montenegro 2012-2021
Source:[15]

To be considered a tax resident and subject to Montenegrin tax, an individual must be a full-time resident for at least 183 days a year, tax residents are taxed on regional and global income that is part of Montenegro. A non-resident who spends less than 183 days a year is not subject to Montenegrin income tax, but they pay 5% income tax. Like other steps taken by the Montenegrin government, it is likely to stimulate the inflow of loan capital into the country.

Personal income tax is paid annually, and tax residents must register with local tax authorities. There is a local surcharge that also needs to be paid, and a surcharge tax of 13% is payable in all municipalities except Podgorica and Cetinje, where the rate is 15%. Local taxes are paid directly to the municipality in which it is registered.

There are no joint tax returns for married Montenegrins. The government also does not offer deductions or tax credits on personal income tax returns.

All individuals in Bulgaria, with some exceptions, are subject to a single tax rate of 10% (Figure 8). Individuals are taxed in Bulgaria on the basis of their tax resident status. Bulgarian tax residents are taxed on their income worldwide. Non-residents are taxed in Bulgaria only on income from a Bulgarian source, which has a very broad legal definition. As a rule, these are all incomes received as a result of economic activity carried out on the territory of Bulgaria, or as a result of alienation of property in Bulgaria.

Any income received as a result of working or providing services in Bulgaria is considered income from a Bulgarian source, regardless of where and by whom it is paid. Income from rent or income from the alienation of real estate located in Bulgaria is considered income from a source in Bulgaria.

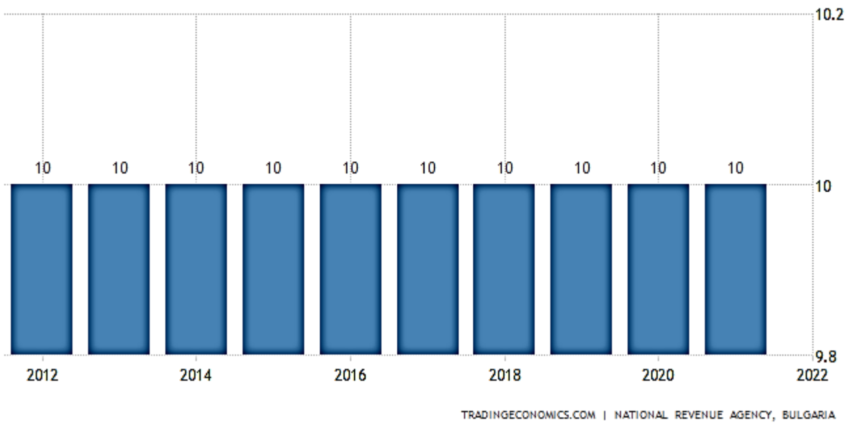

Figure 8 – Personal income tax rates in Bulgaria 2012-2021
Source:[16]

However, countries such as Saudi Arabia, the UAE, Oman, Kuwait, Qatar, Bahrain, Brunei, the Bahamas, the Cayman Islands and Bermuda have no personal income tax at all.

Although there is no personal income tax in Bermuda, for example, they levy a payroll tax on employers

In Ukraine, the income gap between the poor and the rich is growing rapidly. The population with incomes below the subsistence level is growing every year. According to the official data of the State Statistics Service, 600 thousand citizens in 2020 received less than the statutory subsistence level, 8.8 million - less than the so-called actual subsistence level [17].

Analyzing the experience of foreign countries, we note that the basis of income taxation of their citizens is the principle of social justice, which pays more to those members of society who have higher incomes.

The transition to a progressive tax scale is increasingly being discussed. However, an immediate increase in tax rates can have negative consequences, as society is not ready for radical change, especially if the existing stability is threatened. It is advisable to start this transformation by establishing a non-taxable minimum, which will be equal to the subsistence level. It is important to take into account the size of progressive rates to avoid violations of the basic principle of taxation. Also, it is necessary to transform the system of tax deductions, the management of which will enable the implementation of the social function of personal income tax.

CONCLUSIONS

Therefore, one of the priority areas in the development of tax policy in Ukraine should be its gradual socialization, which focuses not only on the fiscal function of the tax, which leads to increased tax revenues to the budget of Ukraine, but also the social function of the tax aimed at universal values. . The need and expediency of reforming the personal income tax to achieve the optimal balance between social justice and economic efficiency of the tax.

The main direction of further improvement of the domestic legal framework in this area should be to reduce the tax burden on socially vulnerable groups and increase the responsibility of taxpayers for tax evasion. The practice of taxation of individuals in foreign countries cannot be an absolute basis for copying taxation in Ukraine.

It is important to understand that the introduction of any innovations in tax legislation should be carried out taking into account the peculiarities of Ukraine's economy and its social sphere. The new system should provide high budget revenues, as well as promote the redistribution of national income in favor of the least vulnerable.

АНОТАЦІЯ

Нині багато проблем, які зарубіжні країни мають вирішувати у зв'язку з трансформаційними процесами та які впливають на фінансову стабільність їх економік, за своєю природою подібні до проблем, які існують в Україні. Тому дослідження зарубіжної практики оподаткування доходів фізичних осіб є надзвичайно актуальними.

У статті проаналізовано досвід зарубіжних країн у сфері оподаткування доходів фізичних осіб та представлено уявлення автора щодо можливості його впровадження у вітчизняну податкову практику. Розглянуто методи оподаткування доходів фізичних осіб у різних країнах світу.

Досвід зарубіжних країн з оподаткування доходів фізичних осіб багатий на позитивні приклади. Аналіз показав, що найнижчі ставки податку на прибуток характерні для країн із нижчими темпами економічного розвитку та, як правило, без застосування прогресивного оподаткування. Високий - властивий розвиненим, завдяки наявності прогресивної шкали оподаткування, що дозволяє перекласти податковий тягар з бідніших на більш заможних.

Тому одним з пріоритетних напрямів при розробці податкової політики в Україні повинна стати її поступова соціалізація, що передбачає спрямованість не тільки на реалізацію фіскальної функції податку, яка призводить до збільшення надходжень податкових платежів до бюджету України, а й виконання соціальної функції податку, спрямованої на загальнолюдські цінності.

Основним напрямом подальшого удосконалення вітчизняної законодавчої бази у цій сфері має стати зменшення податкового навантаження на соціально незахищені верстви населення та зростання відповідальності платників податку за ухилення від оподаткування. Одним із пріоритетних напрямків у розвитку податкової політики в Україні має стати її поступова соціалізація, яка зосереджує увагу не лише на фіскальній функції податку, що призводить до збільшення податкових надходжень до бюджету України, а й соціальній функції. податк, спрямованого на загальнолюдські цінності.

Практика оподаткування фізичних осіб у зарубіжних країнах не може бути абсолютною основою для копіювання оподаткування в Україні.

Ключові слова: *податок, прибуток, ставка, фізична особа, оподаткування, бюджет, відрахування, держава, джерело, податкові пільги, податок на доходи фізичних осіб, податок на прибуток, нерезидент, резидент, фізична особа, прогресивний, платник податку.*

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