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**PROGRESSIVE TAXATION: GLOBAL PRACTICE AND
PROSPECTS FOR INTRODUCTION IN RUSSIA**

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Abstract

In any country taxation cannot remain indefinitely unchanged if only for the fact that it is not only a fiscal mechanism, but also a tool of state policy. Introduction of new methods aimed at improving the efficiency of the Russian system of taxation is unavoidable. There are ongoing hot arguments about progressive and flat rate of taxation. The sides of the argument continue pinning label to each other, while not many understand the matter. Is it true that progressive tax rate means a higher tax burden for citizens? The question of whether this rate fits Russian situation and what results may it bring to the country where the problem of working poor is quite acute. Progressive taxation is a system where the tax rate changes depending on the income bracket. In other words, the higher the taxable income, the higher the rate used to calculate the tax. It should be noted, that progressive taxation is primarily not high taxes for high incomes, but low (or zero) taxes for low incomes. From January 1, 2021, Russia switched to progressive taxation from flat rate, however, not all incomes are subjected to this scale. Increased rate will be applied only to the part of annual income exceeding 5 million rubles. Thus, problems and prospects of introducing progressive taxation into the Russian tax system and analysis of international practices are especially relevant nowadays.

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1. Introduction

According to economists, progressive taxation is necessary to achieve social justice in the Russian society. This justice means shifting the tax burden to tax payers with higher income and taxing low-income citizens with low or zero taxes. Further we are going to see how well progressive taxation succeeds in this task as exemplified by France.

2. Problem Statement

The problem of introducing progressive taxation of personal income is very relevant for our country and it is regularly discussed at various levels of government. It is related to the fact that under the current proportional system of taxation a less well-off taxpayer is bearing a heavier burden than a more well-off. Due to that, there is an acute necessity to introduce such a system of taxation that takes into account needs of every person.

3. Research Questions

The following objectives were set during the research:

- to provide definition of the term *progressive taxation*.
- to contemplate the system of taxation of France and compare it with the one currently used in Russia.

4. Purpose of the Study

The purpose of this study is in identifying both positive and negative socio-economic results from implementation of progressive taxation of personal income.

5. Research Methods

The research employed the following methods: analysis and processing of information obtained from studying scientific papers, reports, books and journals, legislative and other regulatory documents of state authorities of the Russian Federation; deduction for integration of obtained data into conclusions from the conducted scientific work.

6. Findings

Progressive taxation is a system of taxation based upon the principle of increasing the tax rate depending on the size of taxable income of the taxation subject (Khadzhirokova, 2014). Tax rate for progressive taxation is calculated with a simple or compound progression. The simple progression is an increase of tax rate with the increase of taxable base, that is, the tax rate is always applied to the whole sum of the income. The complex progression is determined by division of the income into parts, each of which is then taxed at a separate rate. A difference is that under the complex progression increased rates are applied not to the whole income, but only to the part exceeding the previous stage (Pankov, 2019).

Before considering the prospects of introducing progressive taxation in Russia, let us first analyze the taxation system of France in order to provide comparative characteristic of the taxation systems of the two countries.

In France, there are five tax rates and corresponding tax brackets (bands) for net taxable income made in 2020 (taxable in 2021), namely (Table 01):

Table 1. Personal income tax in France for 2021

no.	Bracket, euros annually	Income tax rate (%)
1	Under 10.084	0
2	10.085–25.710	11
3	25.711–73.516	30
4	73.517–158.222	41
5	Over 158.222	45

Taxation system of this country is reviewed and approved by French parliament every year (depending on inflation, budget and economic situation in the country).

The rates are used on partial basis, so the part of income for each household is calculated gradually.

Let us consider this system in more detail.

When defining tax liabilities, French tax authorities first determine the total income, called in French *revenu brut global*.

After that they make certain corrections due to deductions to obtain net taxable income, called *unfulfilled income*.

After that, tax liabilities will be calculated with a progressive scale, taking into account family composition, income level and tax benefits.

In order to minimize the influence of higher tax rates onto persons with dependents, family size and situation are taken into account when determining the total sum of payable income tax. It is called *private family household*.

The methods used consists in dividing a household into parts (portions) in accordance with their size and situation. Then, the total income of the household is divided between its members. Conditional tax payments are created for a separate part using the progressive scale and income brackets. The obtained value is then multiplied by the number of parts, in order to get the household tax liabilities.

As to be expected, there is a complex set of rules for calculation of head count in each household that takes into account different situation in various families.

In general, however, each adult is deemed a single part/portion, while each child is considered a half of the part/portion and third and subsequent children or dependents are considered as one part/portion.

That is, in a household with two adults, the household income will be divided by two, while in a household with two parents and two children the household income will be divided by three.

Thus, for a couple, the number of parts of the house is going to be equal to 2. Assuming, net income of 30,000 euros, the cost of each part will be 15,000 euros. After that, income tax payable against 15,000 euros will be calculated and the result will be multiplied by 2. Basing on this, a single person will

pay tax to a higher rates, than a family of three with the same income, because in the latter case the tax is calculated from part of each family member. (French Income Tax Rates).

Let us use the following example to compare taxation system in France and Russia.

1 – Let us assume that a couple with two children had an annual income of 64,000 in 2020.

There is a standard deduction of 10 % applied to the income, resulting in net taxable income of 57,600 euros.

Then, the income is divided into three parts of 19,200 euros each (57,600 euros / 3).

Tax calculations for 19,200 euros using rates and brackets for 2020:

- 0 % for 10,084 euros = 0 euro;
- 11 % for up to 19,200 euro (9,116 euro are taxable at 11 %) = 1002.76 euro.

The sum is then multiplied by 3 to obtain 3,008 euro, which is payable tax.

In Russia, where only personal income of a taxpayer is taken into account, the tax rate for this family is going to always be 13 %.

2) Second, tax rate is not applied to the whole income, but only to the part exceeding previous bracket. Thus, maximum rate is used only to the top part of income. Subsequently, lower parts of the income are taxed at lower rates.

As a result, in Russia such a family will need to pay 13 % tax to the whole income. The sum of the tax will be more than three times larger than that in France. Thus, this system of taxation is disadvantageous for less well-off taxpayers. (Income Tax rates and allowances: Income Tax rates and taxable bands).

So, let us consider the taxation system of the Russian Federation in more detail. After 2001, a flat rate of 13 % has been used in the territory of the Russian Federation. It was assumed, that introduction of such a system of taxation would simplify tax collection and increase attractiveness of Russia for private investors (Skakunova, 2012).

Introduction of progressive taxation would solve a number of problems, both economic and social ones.

The economic problem lies in underdevelopment of the subjects of the federation. As most federal subjects of Russia receive subsidies, increasing revenues of regional budgets would facilitate their development.

The problem of social tension is also relevant in Russia. Difference between more and less well-off taxpayers is highly visible. It would be possible to support less well-off taxpayers by means of high-income citizens, by using a progressive rate (Kogalov, 2019).

Of course, transition to progressive taxation would not lead to exclusively positive results. It is necessary to be prepared to negative consequences as well. Let us point out the more expectable ones:

First, increased rates may result in appearance of shadow economy, where taxpayers will hide their income, thus reducing state revenues instead of increasing them. However, this problem is solvable: it is necessary to tighten responsibility for breaking tax legislation and increase the quality of work of tax institutions in this domain.

Second, inequality may increase between subjects of the Russian Federation, as more well-off taxpayers usually live in more developed regions. However, this problem may be solved by adopting

relevant regulations aimed at correcting distribution of monetary funds between the federal subjects of Russia (Chernysh, 2008).

These are the most expectable and acute problems that may arise in case of introducing a progressive scale of taxation, however, correct implementation of the approach would allow resolving the issues.

7. Conclusion

The first steps in transition to progressive taxation have been made in Russia. Starting from January 1, a progressive scale substitutes previous flat rate. Now, not every citizen will be paying income tax at the same flat rate of 13 %. Incomes of Russian citizens earning more than 5 million rubles a year (about 416,000 rubles a month) will be now taxed at a rate of 15 %.

Thanks to that, the budget of the Russian Federation will grow:

- by 60 billion rubles in 2021;
- by 64 billion rubles in 2022;
- by 68.5 billion rubles in 2023.

These funds will be spent on treatment of children with rare serious diseases, including on purchase of expensive medications, equipment and rehabilitative means and high-tech surgery (Markelov, 2020).

Here, it is appropriate to quote Olga Kryshchanovskaya, head of the Center of Elite Studies under Sociological Institute of the Russian Academy of Sciences, who said that "in countries where wealth has a long history, wealthy people consider it their duty to be serious persons and spend a significant part of their money on charity". In Russia, however, introduction of progressive taxation may be a solution.

Thus, in this paper the authors provided a definition of progressive taxation, gave their considerations to the system of taxation in France and compared it to that in Russia. Positive and negative socio-economic consequences from introduction of progressive scale of taxation for personal income had been identified, thus, the earlier set objectives have need attained.

Progressive taxation shall be introduced in the near future, as there is a dire necessity in increasing efficiency of the Russian system of taxation.

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