

IMPROVING THE PERSONAL INCOME TAX REVENUE IN OUR COUNTRY THROUGH EVALUATING THE ECONOMIC EFFICIENCY OF THE UNIFIED AND PROGRESSIVE TAX SYSTEM BASED ON FOREIGN EXPERIENCE

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ABSTRACT

This article examines the economic essence of personal income tax, its collection mechanisms in foreign countries, as well as the current practices in Uzbekistan. In addition, personal income tax revenues over the past five years are analyzed, existing problems are identified, and recommendations are developed.

Keywords: Personal income tax, individuals, tax system, foreign experience, progressive rate, fiscal policy

INTRODUCTION

The tax system is considered an important lever in the economic development of any country. Taxes constitute the main part of state budget revenues. Therefore, they serve as one of the primary sources of financing all areas of government activity.

In our country, the current tax system includes nine types of taxes, each of which is separately reflected in the parameters of the state budget. For example, personal income tax has its own specific structure and collection mechanism.

The following individuals are recognized as taxpayers of personal income tax under two conditions:

1. Individuals who are residents of the Republic of Uzbekistan;
2. Individuals who are non-residents of the Republic of Uzbekistan but receive income from sources within Uzbekistan.

To be registered as a taxpayer, an individual must be a tax resident of the Republic of Uzbekistan and must stay in the territory of Uzbekistan for more than 183 calendar days within any consecutive 12-month period corresponding to the beginning or end of the relevant tax period. The income received by any registered individual is subject to taxation as the tax object, and the tax base is determined separately for each taxable object.

Currently, in accordance with Article 381, Part 1 of the Tax Code of the Republic of Uzbekistan, personal income is taxed at a rate of 12 percent. According to Article 393, Part 1 of the new version of the Tax Code, the following types of income of resident individuals are subject to taxation based on a declaration:

1. income in the form of wages;
2. property income;
3. income in the form of material benefits;
4. other income.

In other cases, the taxation of income is considered to be contrary to the legislation

REVIEW OF LITERATURE

According to the flat tax theory developed by Robert Hall and Alvin Rabushka, a single-rate tax system simplifies the tax structure, reduces the size of the shadow economy, and encourages investment.

In his renowned work “Capital in the Twenty-First Century”, Thomas Piketty places strong emphasis on progressive taxation. According to him, progressive income tax is one of the most effective tools for reducing economic inequality, as it redistributes resources by imposing higher taxes on higher-income groups.

Joseph Stiglitz takes a deeper approach to progressive taxation. He argues that:

1. A market economy inherently tends to increase inequality
2. The government should mitigate this inequality through tax policy
3. A progressive tax system strengthens social stability

In his view, a well-designed progressive tax system not only redistributes income but also does not negatively affect economic growth.

RESEARCH METHODOLOGY

In preparing this article, a comparative analysis methodology on income tax was employed, and it was studied through comparison with the tax systems of foreign countries. The research was conducted based on observation, and conclusions and recommendations were formulated based on the results.

ANALYSIS AND DISCUSSION OF RESULTS

As part of foreign experience, the taxation of personal income is analyzed based on the example of the United States.

The United States tax system is structured according to the principles of fiscal federalism and serves as a primary source of revenue for federal, state, and local governments. In recent years, the distribution of tax revenues has slightly evolved, with the federal government accounting for approximately 65-67% of total tax revenues, state governments contributing around 20-23%, and local governments comprising about 10-12%.

According to data from OECD and the Internal Revenue Service, the total tax revenues collected by federal, state, and local authorities amounted to approximately 26-27% of GDP in 2023-2024. This level remains below the average of OECD member countries, indicating a relatively moderate overall tax burden in the United States. However, it is still higher compared to certain countries such as Mexico, Chile, and Turkey.

The U.S. budgetary system represents one of the most significant institutional frameworks of the state, enabling the mobilization of financial resources and facilitating the resolution of key socio-economic challenges.

Importantly, the federal government does not have the authority to directly interfere in state tax systems. Each state maintains its own independent tax structure, which may differ substantially from those of other states. Furthermore, within the country, multiple tax

jurisdictions coexist. For instance, counties and municipalities are authorized to levy their own taxes in addition to those imposed at the state level.

1-table. Percentage of Tax Revenues (2025).

Taxes	Federal (%)	State (%)	Local (%)	All Levels (%)
Corporate Income Tax	7	5	1	6
Personal Income Tax	48	24	5	36
Social Insurance (Payroll Taxes)	35	25	5	28
Excise Taxes	7	32	12	13
Property Tax	-	2	70	11
Other Taxes and Fees	3	12	7	6

The table provides a comparative overview of the distribution of tax revenues across different levels of government in the United States, highlighting the relative importance of major tax categories within the fiscal system.

A key observation is the dominant role of the federal government in personal income taxation, where it accounts for 48% of revenues, compared to 24% at the state level and only 5% at the local level. This indicates a high degree of centralization in income taxation, which remains the primary source of federal revenue. Similarly, social insurance (payroll taxes) constitute a substantial share at the federal level (35%), reflecting the importance of funding nationwide social security programs.

In contrast, property taxes are overwhelmingly concentrated at the local level, representing 70% of local government revenues, while being almost negligible at the federal level. This highlights the fiscal autonomy of local governments and their reliance on immovable property as a stable tax base.

Excise taxes demonstrate a more balanced but still decentralized structure, with a significant share at the state level (32%) and a notable contribution from local governments (12%). This suggests that consumption-based taxation is an important revenue instrument for subnational governments.

Corporate income taxes contribute a relatively modest share across all levels, with a slightly higher concentration at the federal level (7%). This reflects both tax competition and the mobility of corporate profits, which limit the reliance on this tax source.

Finally, other taxes and fees show moderate distribution across all levels, indicating a diversified approach to revenue generation within the U.S. fiscal framework.

Overall, the structure of tax revenues illustrates a highly decentralized fiscal system, consistent with the principles of fiscal federalism. According to data from OECD, such a distribution ensures a balance between central government efficiency and subnational fiscal autonomy. The system allows different levels of government to specialize in tax instruments best suited to their economic base, thereby enhancing both revenue stability and administrative efficiency.

Direct taxes are imposed directly on income, wealth, or property, and are typically borne by the taxpayer without the possibility of shifting the burden to others. The main categories include:

Personal Income Tax - levied on individual earnings at the federal, state, and, in certain cases, local levels.

Corporate Income Tax -imposed on the profits of corporations by federal and state authorities, with limited application at the local level.

Property Taxes -primarily administered by state and local governments, constituting a major source of subnational revenue.

Social Insurance Contributions (Payroll Taxes) -mandatory contributions paid by employees and employers to finance social security systems, mainly at the federal level, with some state-level components.

Estate and Gift Taxes - applied to the transfer of wealth, predominantly at the federal level, with supplementary state-level taxation in selected jurisdictions.

Vehicle Taxes and Other Individual Levies - including registration fees and transport-related charges imposed at state and local levels.

Indirect taxes are levied on goods, services, and transactions, and their burden can be shifted from the taxpayer to another party, typically the consumer. The principal categories include: Excise Taxes and Customs Duties - Imposed on specific goods (such as fuel, tobacco, and alcohol) and international trade, primarily at the federal level, with additional state and local excise taxes.

Social Insurance Contributions of the Self-Employed - federally mandated contributions functioning similarly to payroll taxes.

Motor Vehicle Charges and Other Transaction-Based Taxes - including registration fees, usage charges, and certain business-related taxes imposed at state and local levels.

In the United States, the personal income tax represents one of the most significant sources of government revenue and constitutes a central component of the federal fiscal system. It is primarily levied on individuals residing and economically active within the country. As of 2024-2025, personal income tax revenues account for approximately 45-50% of total federal tax revenues, underscoring their dominant role in financing public expenditures. Data from the Internal Revenue Service confirm the continued importance of this tax within the overall revenue structure.

The historical development of the personal income tax in the United States dates back to the nineteenth century. It was first introduced in 1861 during the American Civil War as a mechanism to finance wartime expenditures. In 1862, the U.S. Congress enacted the Internal Revenue Act, which established the institutional foundation for federal taxation.

Following the end of the Civil War, the tax was repealed. However, in 1894, Congress reintroduced an income tax at a rate of 2% on incomes exceeding \$4,000.

A fundamental transformation occurred in the early twentieth century with the ratification of the Sixteenth Amendment to the U.S. Constitution in 1913, which granted the federal government the authority to levy income taxes without apportionment among the states. This constitutional change laid the groundwork for the modern income tax system, further institutionalized through subsequent legislation, including the Revenue Acts adopted in the following years.

2-Table. Annual Income Tax Rates in the United States (2025).

Single Filers		Joint Filing		Head of Household	
Income (\$)	Tax rates	Income (\$)	Tax rates	Income (\$)	Tax rates
0 - 11,000	10%	0 - 22,000	10%	0 - 15,700	10%
11,001 - 44,725	12%	22,001 - 89,450	12%	15,701 - 59,850	12%
44,726 - 95,375	22%	89,451 - 190,750	22%	59,851 - 95,350	22%
95,376 - 182,100	24%	190,751 - 364,200	24%	95,351 - 182,100	24%
182,101 - 231,250	32%	364,201 - 462,500	32%	182,101 - 231,250	32%
231,251 - 578,125	35%	462,501 - 693,750	35%	231,251 - 578,100	35%
578,125 above	37%	693,750 above	37%	578,100 above	37%

CONCLUSION AND RECOMMENDATIONS

The analysis of personal income taxation systems demonstrates that the structure and design of tax policy play a crucial role in ensuring both fiscal sustainability and social equity. The experience of the United States shows that personal income tax remains a dominant source of budget revenues, accounting for a significant share of total federal income. At the same time, the progressive tax structure contributes to income redistribution while maintaining economic efficiency.

The U.S. tax system is characterized by a high degree of decentralization, diversified revenue sources, and the application of progressive tax rates. This allows the government to balance fiscal objectives with social fairness. In contrast, the current personal income tax system in Uzbekistan is based on a flat rate (12%), which ensures simplicity and administrative efficiency but limits the potential for redistributive impact and revenue growth.

The study reveals that while the flat tax system has certain advantages, including transparency and ease of administration, it may not fully address issues of income inequality or optimize tax revenues in the long term. Therefore, evaluating the economic efficiency of both unified (flat) and progressive tax systems is essential for improving fiscal policy outcomes. Based on the comparative analysis and international experience, the following recommendations are proposed:

Uzbekistan should consider the phased implementation of a progressive personal income tax system, where higher income groups are subject to higher marginal tax rates. This would enhance social equity and increase budget revenues without placing excessive burden on low-income groups.

A hybrid approach combining elements of both flat and progressive taxation is advisable. For example, maintaining a base rate (e.g., 10–12%) for lower-income groups while introducing additional brackets for higher-income earners can ensure both simplicity and fairness.

Efforts should be made to broaden the tax base by reducing the informal economy, improving income reporting mechanisms, and strengthening tax compliance. This would increase revenues without necessarily raising tax rates.

Following the experience of advanced economies, including the Internal Revenue Service, Uzbekistan should further develop digital tax administration systems, including e-filing, data integration, and automated compliance monitoring.

A progressive tax system should be complemented by targeted social policies, ensuring that additional revenues are effectively redistributed to support vulnerable groups and reduce inequality.

It is recommended to introduce differentiated taxation for various income types (e.g., wages, capital income, and entrepreneurial income), which would improve fairness and align taxation with economic realities.

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