

# Potential to Mitigate Social Inequality Through Individuals Taxation Reform

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**Abstract.** The paper provides a calculation-based analysis of the real Russian citizen's fiscal burden, since the flat scale, which is one of the lowest in the world, does not fully reflect the facts on the ground. In the context of the multiple gap between the poor and the wealthy segments of the population, the existing tax system in Russia is structured in such a way that it erodes the lion's share of the family budget of the poor, in stark contrast to the rich, who have more opportunities for investment, and this seems illogical in terms of social justice. From this, a conclusion is made about the necessity to come back to the progressive personal income tax since the costs of this seem insignificant, and the gain in the economy is essential. This decision should also bridge the significant gap in financial terms between the poor and the rich and reduce the social tension in Russian society.

## 1. Introduction

In the 1990s, in course of privatization which was carried out under imperfect legislation and, in many respects, accompanied by illegal actions with unequal access to property distribution, the national wealth accumulated by generations of people was mainly divided among a narrow circle of "clansmen". This circumstance led to the fact that the new nature of relations in the economy could be legitimized neither in the mass consciousness nor in the consciousness of the owners themselves. Some may say that the social tension took the form of a cold civil war.

Polls show that the most common emotion among Russian citizens is a sense of injustice of everything that is happening around, it is experienced by more than 90%. Moreover, 34% of the respondents constantly have and 38% sometimes have the desire to "shoot all the bribe takers and speculators who have made the life in Russia what it is now." [1] So, the awareness of social injustice, which is typical for most Russians, is clearly acute and poses a threat to social stability.

Today, the polarization in income, status, and the degree of power between a relatively small group of officials, representatives of large business, and the rest of the population in Russia has become a factor of social tension, disintegration of the society, a threat to the security, and an economic drag. All this is happening against the background of crisis phenomena, weakening the government social protection, and with a low level of social responsibility of the business environment to the society. The so-called reforms resulted in a Western society simulacrum built in Russia — with the formal signs of democracy but contemptuous of its backbone, with high aspirations but without sufficient sources of income, and, most importantly, with the Golden calf cult but without a hint of the Protestant ethic limiting its destructive force [2, p. 4].

At the same time, the necessary conditions for reducing social inequality are well known and have been repeatedly tested in many countries. These include introduction of progressive taxation (used in most countries), as well as wealth and luxury taxes, measures to create an effective labor market, reduce income inequality through social transfers and increasing the minimum guarantees in social security, etc.

Currently, the proceeds from personal income tax in the Russian Federation reach only 10% of the total revenues of the consolidated budget. The mature economies show an order of magnitude higher than this figure. Here, personal income tax accounts for about a third of state budget revenues. For example, in the United States, income tax now accounts for about 48% of all Federal budget revenues and about 34% of consolidated budget revenues. The experience of the vast number of countries shows that progressive taxation allows withdrawal of the excess profits and returning these funds into the economy through new job formation and social benefits [3, p. 107].

For example, in course of the thesis research, Olga Izotova estimated that the change of the income tax schedule will increase the cash income by at least 52% in comparison with the existing one [4, p. 100]. Experts of the Institute of Social and Economic Studies of Population of RAS calculated that introduction of the progressive taxation scale on total income with tax rates within the rates adopted in Europe will allow increasing pension benefits four times, the minimum wage 3.5 times, public sector wages 2.5-3 times [1, p. 4]. Igor Grekov, Dr.sc.oec., in his article from the standpoint of an in-depth scientific analysis demonstrates the low efficiency of the introduced flat income tax, and shows this clearly in the figures, especially its separation from the actual growth rates of money incomes, by turning to official sources, Rosstat in particular [5].

Practice shows that in mature economies personal income tax is a significant part of the budget at all levels and at the same time does not evoke any strong resistance and rejection from the wealthy part of the society. This mechanism is non-inflationary and allows solving a significant number of social problems.

## **2. Results**

The goal of showing the unevenness and injustice of the existing personal income taxation scale in Russia is achieved by using the system analysis method, a number of sociological, marketing and other data; an important role was also played by information on direct and indirect taxes, statistical reports of Rosstat.

As is known to most, employees pay only one tax on wages, i.e. the 13% personal income tax, but in reality it turns out that insurance deductions, which in fact are the responsibility of the employer, are to some extent the disguised taxes imposed on the employee. Let's make some calculations that will reveal this problem which is without exaggeration of social nature.

A hypothetical employee, if it was not for the insurance deductions, with a salary of RUB50,000 net of personal income tax, would have received RUB43,500. But there are deductions, and therefore the employee will get a smaller amount. In the general case, the rate of contributions is 30.2% (22% of Compulsory Pension Insurance (CPI) + 5.1% of Compulsory Health Insurance (CHI) + 2.9% of Compulsory Social Insurance (CSI) + 0.2% of compulsory contributions for occupational injury and disease insurance (the compulsory contributions to social insurance fund against work injuries and occupational diseases are paid by the policyholder in accordance with the types of economic activities by classes of professional risk)).

Thus, out of 50,000 rubles, allotted by the employer for the worker expenses, the latter will receive only RUB33,410 ( $50,000/1.302=38,402$  = fixed salary;  $38,402*13\%=4,992$  = personal income tax;  $38,402-4,992=33,410$  = "net salary"). To pay his employee a salary of RUB33,410 after taxes, the employer must pay to the budget RUB16,589 ( $38,402*30.2\% + 38,402*13\% = 16,589$ ). As can be seen, the tax burden on the payroll in Russia is about 33% ( $(11,597 + 4,992)/50,000 = 33.2\%$ ).

However, payroll taxes are not the only ones for individuals. Russians own property for which they also have to pay taxes – transport tax, land tax, individual property tax. There is a need to pay for housing and communal services, to travel long distances, to drink and eat, to buy imported products

(which is associated with the customs duty). Inside all of these inevitable payments there are also taxes. Value added tax is an indirect tax, but in the end it still falls on the shoulders of the end user. Excise taxes are included not only in the cost of motor fuel, but also in alcohol and tobacco products, which often affects the poorest Russians above all others. Of course, it is impossible to calculate the exact amount of various taxes, VAT, and excise taxes, each case should be treated individually, but we have summarized our own calculation data in a table.

**Table 1.** Actual fiscal burden on individuals (calculations as of 2019).

RUB50,000	Taxes, fees, excises and charges
	CPI, CHI, CSI, compulsory contributions for occupational injury and disease insurance up to 33.2%
RUB33,410	VAT up to 20%
At least RUB26,728	Excise taxes and other expenses (compulsory contributions, loan servicing, real estate tax, housing and communal services, paid public services, etc.) up to 100%
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0 - RUB26,728 for "net consumption"	

And for the poorest, these taxes constitute a significant expenditure item, since it is impossible to do without food and basic clothing. On the contrary, the rich can save "extra" money "on interest", buy real estate, etc. In fact, official statistical bodies often take into account the "white", i.e. the officially shown wages, which make up the lion's share of the income of poor Russians and a small part of the income of the richest segments of the society. The statistics do not take into account the income from business activities, property rent and securities sales, profits generated and deposited in offshore jurisdictions, and hidden income from cash-in-hand employment (illegal and semi-legal activities) [3, p. 108].

At present, it is necessary to change the status of the standard tax deduction and replace it with a tax-exempt minimum basis on the subsistence minimum. We need to exempt from taxation the individuals whose income is below the subsistence level which is now a little less than RUB11,185 per month; to apply progressive taxation scale to the working people whose income, for example, exceeds the amount of 6 minimum wages. So, these measures will not affect those who receive wages below the median income for the country (about 22,000 rubles) and will result in an improvement, though small but still increasing the quality of life of the working poorest and members of their families [7, p.14].

We also need to introduce a tax-exempt minimum which is the most important benefit. Even in the time of Adam Smith, the principle of taxation of the taxpayer's net income was proclaimed, i.e. the tax should not be imposed on the part of income that is necessary to maintain the minimum standard of living of the taxpayer and his family. Based on the essence of the "net income" concept, the taxpayer should be provided with a non-taxable minimum, the value of which should be ideally aligned with the subsistence minimum [8, p. 146].

In 2018, 15.2% of working people earned less than 13.8 thousand rubles per month, which constitutes about 11.4 million potential beneficiaries. According to the Federal Tax Service, Russians paid more than RUB3.65 trn income tax. The share of payments made by citizens with a minimum income

is about 150 bln rubles. Only by as much will the state receive less if it introduces a tax-exempt minimum. As a result, the consolidated budget may lose up to 0.5% of revenues for the year, or less than 5% of all tax revenues from personal income tax, believes the chief analyst of Promsvyazbank Denis Popov. However, exemption from personal income tax will allow low-income citizens to spend this money on consumption [9, 22].

### 3. Conclusions

Based on the results of the study, we can conclude the following. First, the current tax system as a whole has shown its inefficiency in terms of fair redistribution of income. Hence, secondly, it is necessary to revive the progressive personal income taxation, taking into account the current realities in the country's economy, which should lead to an increase in budget revenues. Thirdly, introduction of a tax-exempt minimum will help somewhat revive the domestic market by increasing the income basis of the poor. These measures will reduce social tensions in Russian society.

In our view, there is a need to take urgent measures to bring social inequality to reasonable proportions. Otherwise, there is little hope for economic well-being, innovative development, and demographic growth in the Russian Federation. Undoubtedly, these innovations can cause a rush of indignation and criticism from the top political and financial-economic establishment, which will be affected in the first instance. On the other hand, in current Russian realities, there is no alternative to restructuring the taxation mechanism and other than the existing channels of income redistribution that works the vast majority of the population.

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