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FOREIGN EXPERIENCE IN TAXING INDIVIDUALS' INCOME AND ITS ADVANTAGES

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Abstract
This article provides a comprehensive analysis of foreign experiences in taxing individuals' income, exemplified by the systems in the United States, Germany, Japan, Singapore, and Sweden. It examines the historical development, legislative frameworks, tax rate structures, incentives, and administrative mechanisms of these systems, evaluating their socio-economic effectiveness. The study highlights the advantages of these foreign models over Uzbekistan's current tax system, including social justice, economic incentivization, optimization of tax burden, and transparency, substantiated with concrete examples. The article concludes with practical recommendations for improving tax policy in Uzbekistan and suggestions for adapting these experiences to local conditions.

Keywords: Individuals, income tax, foreign experience, United States, Germany, Japan, Singapore, Sweden, social justice, economic efficiency, progressive taxation, incentives, Uzbekistan.

Introduction

The taxation of individuals' income constitutes a primary source of state budgets and serves as a critical instrument in implementing socio-economic policies (OECD, 2023). International practices in this domain demonstrate a variety of tax systems, ranging from progressive rate structures to low, flat-rate models (Piketty, 2014). These experiences offer valuable insights for developing countries like Uzbekistan, opening new avenues for refining tax policies. Since 2019, Uzbekistan has implemented a flat 12% taxation of individuals rate, simplifying tax administration but revealing limitations in promoting social justice and economic incentives (Ministry of Finance of the Republic of Uzbekistan, 2023). In 2023, taxation of individuals accounted for 20% of budget revenues; however, challenges such as income inequality (Gini coefficient of 0.35) and low economic activity persist (State Statistics Agency of Uzbekistan, 2023). Foreign experiences suggest that diverse tax approaches can address these issues effectively. This study analyzes the taxation of individuals systems of the United States, Germany, Japan, Singapore, and Sweden, focusing on their historical evolution, legal foundations, practical applications, and advantages.

Literature Review

Extensive research has been conducted on taxation of individuals globally. Thomas Piketty (2014) in Capital in the Twenty-First Century underscores the role of progressive tax systems in reducing social inequality, noting that high tax rates (up to 70%) in the U.S. during the 1950s and 1960s significantly lowered income disparities. Joseph Stiglitz (2012) in The Price of

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Inequality examines the impact of progressive taxation on economic stability, emphasizing its redistributive potential. In Germany, the taxation of individuals system prioritizes "tax justice" and support for family values (Bundesministerium der Finanzen, 2023). Japan's tax policy focuses on economic growth, offering substantial incentives for investment and entrepreneurship (National Tax Agency, 2023). Singapore leverages low tax rates and a streamlined system to enhance global competitiveness (IRAS, 2023), while Sweden is renowned for high tax rates paired with extensive social services (Skatteverket, 2023).
In Uzbekistan, studies on taxation of individuals predominantly focus on domestic legislation. The Ministry of Finance's 2020 report highlights that the flat-rate system has reduced administrative burdens but falls short in addressing social equity (Ministry of Finance, 2020). Exploring foreign models could provide new perspectives for enhancing Uzbekistan's tax framework.

Methodology

The study employs comparative and analytical methods to examine the taxation of individuals systems of the United States, Germany, Japan, Singapore, and Sweden, focusing on tax rates, incentives, tax bases, and administrative processes. Data were sourced from OECD reports (2023), World Bank statistics (2023), IMF analyses (2023), and national tax authorities. For comparative analysis with Uzbekistan, 2023 statistical data were utilized. Economic indicators (Gini coefficient, GDP growth, unemployment rate) and social outcomes (education and healthcare expenditures) were assessed to evaluate system performance.

Results

Table 1. Comparative and analytical data are presented in detail in the table below:

Indicator	USA	Germany	Japan	Singapore	Sweden	Uzbekistan
Historical Origin	1913	1874	1887	1947	1862	1991
Tax Rate	10%–37% (progressiv)	0%–42% (progressiv)	5%–45% (progressiv)	0%–22% (progressiv)	30%–57% (progressiv)	12% (flat)
Tax Base	All incomes (wages, capital, business)	Wages, capital; exemption based on family	Wages, investment; business incentives	Wages, capital; up to $20,000 exempt	All incomes; no high exemption	Wages and other incomes
Example of Incentives	Additional tax depending on states (e.g., 13% in California)	€7,800 exemption for family	¥500,000 incentive for startups	Up to $20,000 income tax-free	Free education and healthcare	Minimal incentives
Share in Budget	50% (2,5 trln $)	35% (400 mlrd €)	25% (50 trln ¥)	15% (12 mlrd $)	45% (500 mlrd SEK)	20% (30 trln so'm)
Gini Coefficient	0,48 → 0,39	0,50 → 0,30	0,33 (little change)	0,45 (little change)	0,45 → 0,27	0,35 (no change)
Unemployment Rate	3,7% (2023)	3,1% (2023)	2,5% (2023)	2,1% (2023)	6,8% (2023)	9,5% (2023)

The comparative analysis of taxation of individuals systems reveals distinct characteristics and outcomes:

- United States: Progressive rates (10%–37%) and a federal-state structure ensure social justice but entail high administrative complexity (IRS, 2023).
- Germany: Rates ranging from 0%–42%, with family-oriented exemptions, bolster social stability (Bundesministerium der Finanzen, 2023).
- Japan: Progressive rates (5%–45%) and business incentives drive economic growth (National Tax Agency, 2023).
- Singapore: Low progressive rates (0%–22%) and a simple digital system attract investment (IRAS, 2023).
- Sweden: High rates (30%–57%) fund comprehensive social services, reducing income inequality (Gini 0.27) (Skatteverket, 2023).
- Uzbekistan: A flat 12% rate simplifies administration but limits economic incentives and social equity (Ministry of Finance, 2023).

Foreign models demonstrate advantages over Uzbekistan's system, including enhanced social balance, economic stimulation, and transparency. For instance, Sweden's high-tax model supports education and healthcare, while Singapore's low-tax approach fosters global competitiveness.

It is known that, from the perspective of state structure, the United States is considered a federal state, and its tax system also consists of three levels: federal taxes, state taxes, and municipal local taxes. In the United States, the income tax collected from the population is called "personal income tax" or "individual income tax" and is divided into four types:

1. Federal income tax (Federal income tax).
2. State income tax (State income tax).
3. Social security tax (Social Security tax or Social Insurance Tax).
4. Payments for medical insurance (Medicare tax).

The Federal income tax (Federal income tax) is collected uniformly across the entire country using progressive tax rates. However, this tax is not collected in some states (e.g., Alaska, Florida, Nevada, South Dakota, Texas, Washington, New Hampshire, and Tennessee), meaning that residents of these states only pay the federal income tax. Nevertheless, in these states, other taxes replace the income tax; for example, in Nevada, special taxes are collected from gambling and show business (gambling tax) (particularly in Las Vegas), while in New Hampshire and Tennessee, a 5-6 percent tax is levied on the profits individuals earn from bank deposits and dividends. When paying the federal income tax, the taxpayer—individual—chooses whether to pay taxes for themselves, for their family (spouse), or for their entire family, or not to pay. In the following year, based on the income earned in the previous year, they submit a tax declaration and pay taxes accordingly. In the U.S., the mechanisms for collecting this tax have unique characteristics. The first of these characteristics is that the income earner chooses the procedure for paying the tax. That is, when an employee joins an organization (enterprise, firm, etc.), they select how the tax can be paid. The first form is that the employer withholds the income tax and gives the remaining portion to the income earner. In this case, tax rates are calculated using special scales, and on average, around 17-18 percent tax is collected. In the second form, the income is given to the earner in full without tax withholding, and in this case, at the end of the year, the individual calculates and pays the tax themselves. In both forms, the individual submits a declaration about their earned income to the tax authorities. The introduction of such a tax payment procedure has influenced the development of tax consulting in the U.S. This is because the individual's choice of tax payment method increases their обращения (appeals) to tax consultants to determine economic efficiency and responsibility.

In the U.S., incomes paid by enterprises to individuals and individuals themselves are divided into two groups. Incomes are categorized into "Payments (compensations) for dependent services" (Compensation for Dependent Services) and "Payments for independent services" (Compensation for Independent Services). Accordingly, those who receive incomes in the form of "Payments (compensations) for dependent services" are called employees, while those who receive "Payments for independent services" are referred to as independent contractors. Paying income and collecting tax from independent contractors (independent contractor) is considerably more convenient, and for this, employers have the employee fill out special W-9 forms and submit information in the 1099 form by January 31 of the following year, which reflects details about the employee's calculated wages and the taxes withheld from them, with a copy of this form also sent to the Federal Tax Service. The Federal Tax Service then compares the data from this form with the information in the tax declaration submitted by the individual, performing additional calculations (refunding the excess or collecting the shortfall). If income is paid in the first form, i.e., "Payments for independent services," then this imposes more responsibility on employers. This is because, in such an arrangement, employers must calculate and withhold the social security tax (Social Security tax or Social Insurance Tax) and payments for medical insurance (Medicare tax). Additionally, from the individual's wages (from a value of $117,000), a tax of (4.2 + 1.45) 5.65 percent is withheld, and at the same time, the employing enterprise also pays an additional tax in the same amount, i.e., 7.65 percent from the wage fund. Moreover, in this arrangement, the employer also pays a federal unemployment tax (Federal Unemployment Tax) at a rate of 6 percent ($540) from the $117,000 value. From this perspective, paying income in the form of "Payments for independent services" is considered inconvenient for employers.

2. California Income taxe table California

№	Tax Bracket (Single)	Tax Bracket (Couple)	Marginal Tax Rate
1.	$ 0+	$ 0+	1.000%
2.	$ 10.099+	$20,198+	2.000%
3.	$ 23.942+	$47,884+	4.000%
4.	$37,788+	$75,576+	6.000%
5.	$52,455+	$104,910+	8.000%
6.	$66,295+	$132,590+	9.300%
7.	$338,639+	$677,278+	10.300%
8.	$406,364+	$812,728+	11.300%
9.	$677,275+	$1,000,000+	12.300%
10.	$1,000,000+	$1,354,550+	13.300%

http://www.tax-rates.org/california/income-tax

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These tax rates are established for the state of California, which is one of the wealthiest states in the USA, and the inclusion of a scale exceeding 1 million dollars in determining tax rates is also established based on the fact that such income earners constitute the majority in this state. As in the federal system, in the states as well, the taxpayer can submit a tax declaration either for themselves (alone) or jointly with their spouse. For such cases, income thresholds and the tax rates assigned to them are also determined differently. Now, based on this information, we determine how the tax is calculated for a taxpayer in a single status (based on their own income) through the tax declaration (in dollar terms).

In the USA, the submission of a tax declaration by individuals is primarily based on three factors. These include the individual's family status, age, and total income. According to U.S. tax legislation, for every income-earning individual, the criteria for submitting a tax declaration involve determining income using standard deductions (Standard Deduction) and personal exemptions (Personal Exemption). The threshold for submitting a declaration is also determined by these two levels of deductions. The maximum amount of such deductions is set by the U.S. government based on price levels and inflation rates and is periodically adjusted.

Conclusion and Recommendations

Foreign experience provides valuable lessons for enhancing the taxation system of individuals' income (TII) in Uzbekistan. It has been demonstrated that progressive tax rates are effective in promoting social justice and reducing income inequality, while low tax rates play a significant role in stimulating economic incentives and attracting investments. Based on these findings, the following recommendations have been developed:

- **Introduction of Progressive Rates**: Differentiating tax rates according to income levels ensures social justice.
- **Expansion of Incentives**: Offering tax relief for small businesses, startups, and innovations fosters entrepreneurial development.
- **Digitalization**: Improving electronic tax systems enhances transparency and administrative efficiency.
- **Adaptation of Foreign Experience**: Singapore's simplified system and Sweden's socially oriented model can be adapted to Uzbekistan's conditions.

These measures will increase the effectiveness of tax policy in Uzbekistan, contributing to the achievement of economic and social equilibrium.

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