



International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at <http://www.econjournals.com>

International Journal of Economics and Financial Issues, 2015, 5(Special Issue) 105-112.



The Spatial Transformation of the Urban Environment in the Conditions of Post Industrial Development of Society: Dedicated to the 100th Anniversary of Jean Gottmann, Immanuel Kant Baltic Federal University, 23-26 August 2015, Russia.

Problems of Implementation of Principles of Social Justice and Economic Efficiency in the Mechanism of Charging Personal Income Tax in the Russian Federation

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ABSTRACT

The main objective of the study is to analyze problems of implementation of principles of social justice and economic efficiency in the existing mechanism of charging personal income tax (PIT) in the Russian Federation (RF) and to identify ways of the fullest implementation of the potential of PIT as a fiscal and regulatory instrument of state policy. To substantiate the theoretical principles and practical results of the study we've used the methods of abstraction, induction and deduction, the economic-statistical methods (summarizing and grouping, etc.), as well as the principles of comparative and logical analysis, system and complex approach. The scientific novelty of the work consists in development of proposals and recommendations of scientific and applied sphere aimed at adherence to the principles of social justice and economic efficiency in the mechanism of charging PIT in the RF. The main conclusions of the study are to identify problems and to assess ways of the fullest implementation of the potential of PIT as a fiscal and regulatory instrument in the RF. In particular, the study shows non-adherence to the principles of economic expediency and social orientation in the existing mechanism of calculating and charging PIT in the RF. The recommendations for improving the administration of PIT and increasing its role as a fiscal and regulatory instrument of tax policy in the RF are proposed. The experience of the mechanism of charging individual income tax both in the industrialized countries and developing ones is studied; the comparative analysis with the practice of taxation of personal incomes in the RF is conducted. The analysis of factors curbing growth of volume and level of PIT revenues to the consolidated budget of the RF and the Republic of Dagestan is featured. The expediency of introduction of a progressive scale of PIT, which will permit to implement the fiscal and social potential of PIT at the present stage of the RF to the greatest extent, is shown. The necessity of differentiation of social and property PIT deductions depending on the personal income and the reasonability of family considerations when charging PIT, as a factor determining the ability of a taxpayer to pay, are substantiated.

Keywords: Economic Efficiency, Social Justice, Excess Profit, Personal Income Tax, Individual Income Tax, Charging Mechanism, Deductions, Progression, Problems

JEL Classifications: H21, H24, H26

1. INTRODUCTION

More than 15 years have gone by since the beginning of significant changes to the tax system of the Russian Federation (RF). Over the past period a great deal of changes has been carried out but there are still unsolved problems. Besides, the socio-economic situation has changed which causes the need to make further amendments and additions to the existing tax system in the RF.

In general, the modern key problems in taxation, in the author's opinion, can be combined into the following groups:

- Problems of existing mechanisms of calculating and charging taxes, both at the federal and at the regional and local levels
- Problems of compliance in the practice of the principles of taxation, implementation of the principles of fiscal federalism and ensuring a reasonable tax competition
- The issues of increasing the efficiency of the tax agencies' performance, of achieving better responsibility of the tax-payers, of legalizing "shadow" incomes, of making the community more financially aware and of instilling in it the taxation-compliance culture.

The task of providing a balance between the fiscal and the management functions of taxes still remains a very important problem. It should be noted, that providing the balance between the fiscal and the management functions of a tax, the parallel adherence to the principles of both social justice and economic efficiency, is an important connecting link between the theory and the practice of taxation. It is mainly the income tax, that is capable of playing simultaneously a social and a highly fiscal role in the economy, or, as it is termed in the RF – the personal income tax (PIT).

In more than 60 countries of the world, the income tax is the main tax in the economy. It is known, that in the industrial countries, the income tax generates significant receipts to the state budget. For instance, in the United States the income tax generates over than 45% of the budget revenues. Such was the trend in the USA in the 1980-1990s, and it has been retained up to now, as well (Atkinson and Sandmo, 1980). According to the prognostic estimates by the US Internal Revenue Service, by the year of 2018 the fiscal role of the income tax will have grown up to 49% (A New Era of Responsibility, 2009). In Norway, Denmark, Finland, Sweden, Austria, Belgium, Germany, Canada, the income tax amounts to more than one third of all the revenues of the consolidated budget. However, in Russia the fiscal role of the tax has never exceeded 12.5% of all the revenues of the consolidated budget, since the replacement of the income tax by the PIT.

An essential role in providing a socially oriented taxation system belongs to the choice of the model and the mechanism of levying the income tax. In many industrial countries, being continually reformed, the income tax charged from the population, is not only an effective fiscal tool, but also a tool for implementing the tasks of the social policy, an effective means of social support and of guaranteeing justice in taxation (Kakhrimanov, 2012).

The RF realities are such that the principle of the social partnership is violated, when levying the PIT, the system of declaring

individual incomes is weakly developed, the elements of social support for people with low incomes are also unimpressive. All this prevents the potential of the PIT, as the most important tool for generating the budget incomes and providing the social justice of taxation, from full unfolding. The insistent necessity to solve all those problems, through improving the mechanism of calculating and levying the PIT that is applied in the RF, determines the expediency of further research in this sphere.

2. RESEARCH METHODOLOGY

The basic problem of the methodology of calculation and levying the PIT, applied in the RF, is achieving an optimal balance between the economic efficiency and the social justice of the tax in question. In our opinion, this problem can be resolved only by means of introducing a progressive scale for the taxation of personal incomes. Setting a non-taxable minimum of income is the first step on the way to the progressive scale of taxation. A non-taxable minimum unburdens a minimal income of an individual from additional withdrawal, the minimum that is required to match up their vital needs. Unfortunately, in the practice of the Russian taxation, we do not find applying a non-taxable minimum, which should be bound to the size of an officially calculated minimum cost of living (the living wage) in Russia.

The standard deductions from taxes that were in effect in the RF prior to January 01, 2012 were aimed at exemption from taxation only a part of the living wage expenses. Their role cannot be compared to a non-taxable minimum, which can be illustrated by the comparative analysis of the size of the living wage and the standard tax deduction. According to the official data, in the second quarter of the year 2011 the living wage amounted 6505 rubles per month, in Russia in general, while the standard tax deduction was equal to 400 rubles that is only 6.15% of the living wage (Baltina and Tyurina, 2013). According to the final report of the fourth quarter of the year 2014 the size of the living wage was 8234 rubles per month. In the countries of the European Union the non-taxable minimum, in average, amounts to 4000 euros, which is equal to approximately 280,000 rubles. At the same time, the non-taxable minimum in these countries also reflects the minimal cost of living, but it is calculated with the inclusion of a wider range of basic products and services. Relying on the statistical data about the size of the cost of living in Russia, the non-taxable minimum should be equal to no <80,000 rubles per year, and it should be yearly re-indexed, depending on the rate of inflation.

At the second stage, in the Russian methodology of calculating and levying the PIT, it is necessary to provide a progressive scale for the rates of the tax. We need such rates of the PIT, which guarantee a maximally fair redistribution of incomes and the minimal harm to the interests of the tax-payers from taxation. The currently used flat scale of taxation exacerbates the social differentiation in the incomes of the citizens. The calculation and the justification of a progressive scale of taxing individual personal incomes obviously looks like rather a difficult task that deals with a multitude of solutions, which depend on the actual gradation of the levels of income, on the disproportion in the growth of the incomes of different social layers, on the objectives of the state

while reforming the taxation, and on the duration of the process of decreasing the social inequality.

Having studied the Russian law documents, the progressive experience of industrially developed countries, which set progressive scales of the PIT, as well as the specifics of the Russian taxation system, we suggest the following scale for the calculating and levying the PIT, as shown in Table 1.

In order to calculate the effectiveness of the suggested method for calculating the PIT, we have conducted a comparative calculation of the sums of the tax, due to be paid in compliance with the current flat and the suggested progressive scale of taxation, for a family of four people, including: The working members of the family – A husband and a wife, the non-working members of the family – two underage children. As a source, the author used the data of the Federal State Statistics Service on the average monthly level of wages in the first half of the year 2014, and the data on the minimal cost of living throughout the RF in the first quarter of 2014.

The results of the calculation give the evidence that the method of calculating and levying the PIT, applied in the RF, does not take into account the main principle for levying a PIT – that is, of being adequate to the incomes of the citizens. Namely, in the flat scale of taxation that is applied in the RF the sum of the PIT, due to be paid to the budget, for one member of a family, whose income is lower than 0.5 million rubles, as compared to a family with an income per family member from 0.5 million up to 4 million rubles, is by 8.1 times lower. As compared with the sum required from one member of a family with an income from 4 million up to 20 million – is lower by 40.2 times, as compared with the sum for one member of a family with the level of incomes more than 20 million rubles – is lower by 190.2 times. In case of introducing the method of taxation the aggregated income of a family by the method, suggested here, the ratio changes as the following: By 7.2 times, by 31.3 times, by 85 times, and by 130.4 times, accordingly.

3. RESULTS

The results, obtained from the calculations, prove that the method of calculating the PIT, suggested in this work, that uses the progressive rates for the tax, is better fit to comply with the principle of fair distribution of a tax load on the tax-payers, and will help to reduce the degree of inequality in the incomes of the citizens. If a progressive scale of taxation is introduced, the tax basis for the PIT can be linked not to the absolute amounts

of income, but to the size of the minimal budget, which would guarantee the stability of the taxation base and its derivation from the rate of inflation.

Doing the research, we have revealed the extremely low dynamics of the receipts from the PIT during the period of 2008-2011, which might be the evidence of an increasing tendency of an outflow of the wages into the “shadow,” in connection with the raised payments of the social insurance contributions. Besides, the low rate of revenues growth is a sign of a very low realization of the fiscal potential of the tax. During the period of 2012-2014, the rate of growth of the revenues from the PIT, as seen throughout the groups of income levels, began to grow, which might be, mainly, due to the enlargement of the tax basis, because the non-taxable minimum was canceled, as well as due to a decrease in the level of unemployment in the RF at that time.

As we have noted above, the main problem of the current mechanism of calculating and levying the PIT in the contemporary Russia, is to achieve an optimal balance between the economic efficiency and the social justice of the tax we are examining. This problem can only be resolved by means of introducing a progressive scale of taxation. While doing that, we need such rates of the PIT, which would provide a maximally fair redistribution of incomes with minimal harm to the interests of the tax-payers from the taxation.

The flat scale of the income tax was appropriate at the stage of the tax system formation, in the situation of a transit economy. At present time, there is an obvious need to return to the progressive scale of taxation. Of course, it is not the mechanical return to the progression that would solve the issues of social justice in taxation. In the first place, we need to take into account the current realities, the changes that have taken place in the economy and in the social sphere of the RF. Secondly, we must acknowledge that the progression, used for the income tax in the period of 1991-2000, mostly bore a formal character, with a weak economic and social effect. For instance, in 1999, the share of the incomes which were taxed by the income tax by the basic rate of 12% that was actual then amounted to 95%. Meanwhile, the share of incomes, taxed by the PIT by the progressive scale (the rate of over than 12%) amounted <5%. In some regions of the RF the situation was even more painful. For example, in Dagestan, according to the data from the Department of the Federal Taxation Service for the Republic of Dagestan, the share of incomes of the citizens that was taxed by means of a progressive scale of rates (over than 12%) was only 3%. As we have mentioned above, the currently employed flat scale of taxation exacerbates the social stratification of the incomes of the citizens.

Table 1: The calculation of the sums of the PIT, applying a progressive scale of the tax’s rates (in rubles)*

The rate of the tax, %	Incomes, declared by single tax-payers	The jointly declared income of spouses	Incomes, declared by spouses separately
From 1 to 10	0-250,000	0-500,000	0-250,000
10-15	250,001-2,000,000	500,001-4,000,000	250,001-2,000,000
15-25	2,000,001-10,000,000	4,000,001-20,000,000	2,000,001-10,000,000
25-35	10,000,001-30,000,000	20,000,001-60,000,000	10,000,001-30,000,000
35-50	30,000,001+	60,000,001+	30,000,001+

*Source: The table has been compiled by the authors. PIT: Personal income tax

At the current stage, the financial resources of Russia's economy are obviously debilitated. The revenues from the oil and gas industries, which form the staple of the RF's budget system, have ceased to meet the growing needs of the state. The financial and economic sanctions, concerning the RF, that have been introduced on the side of the USA and a number of European countries, exacerbate the situation. As a consequence, the budget expenditures of the federal budget have been, for the first time since the adoption and putting into effect the Tax Code, sequestered for the years of 2014-2016. The worsening prognosis about the social and economic development became the reason for the reduction of the budget revenues from 35.7% down to 30% of the gross domestic product (the revenues of the federal budget were reduced from 19% to 14%). In such circumstances some decisive steps are to be taken, to reform the financial policy, including the tax policy, in order to reveal additional sources of growth. One of such sources can be found in the tax reserves of the revenues growth that will come from the PIT due to the introduction of a progressive scale for it and improving its compliance management.

In the RF the revenues from the PIT provide not more than 10% of the revenues of the consolidated budget, while in the USA – It is 50%. It has to do not only with the high wages. Due to the economic crisis, the maximal rate of the income tax in the USA has grown from 35% up to 39%, and in Denmark – from 55% up to 65%. In China there are 9 rates of the income tax, the minimal one is 5%, the maximal one is 45% (New China Property Taxes to Cool Overheated Housing Market, 2013). It is known that in France the super-profits are taxed with the rate of 75%. The experience of the foreign countries shows that the progressive scale allows to expropriate super-profits and return them to the economy, in order to create new jobs.

The famous Nobel Prize winner R. Shiller is sure that "... neither a tax that would regulate expenses, nor a progressive tax on consumption can be accepted as a solution to the problem of wasting money..., which ignites resentment in the society... one of the effective ways of restoring the sense of justice in the society is the real estate tax. If its payment had been properly watched over, the economic inequality could have been sufficiently reduced" (Shiller, 2012).

Indeed, with the help of the real estate tax the level of the property inequality can be regulated. However, because of the specifics of the RF, the potential of the estate tax as an instrument of managing the social inequality is minor. For instance, in the Republic of Dagestan, the amounts of revenues from the estate tax on the property of individuals along with land value tax, in the year of 2014, were by 52 times lower than the revenues from the PIT, and, in Moscow and the Moscow region, they were lower by nearly 100 times (according to the Federal Tax Service of the RF, 2014). Even though the estate tax has been introduced, since the beginning of the year 2015 in a number of regions of the RF, the social inequality has not been reduced.

In the USA, over than 80% of the revenues from the income tax are provided by the 20% of the richest citizens. Until the mid-1980s, 1% of the richest American families earned <10% of the national

income in the USA. After the 1970s the gap in the salary of the top managers of companies and of the employees has grown by several times (Stiglitz, 2011). By the beginning of the mortgage crisis in the USA (2007), 1% of the families had accumulated already 18% of the country's national income. As examples from history demonstrate, such situation can be estimated as a signal of an arising economic crisis.

In the RF, half of the monetary incomes are concentrated with the individuals with the highest incomes (the ratio of the average salary of the employed with the highest wages to the average salary of the 10% of the employed with the lowest wages is 20%). The over polarization of the incomes of the rich and the poor presents a challenge to the sense of social justice and is fraught with conflicts.

In the Republic of Dagestan, the Gini coefficient (the index of incomes concentration), which characterizes the degree of deflection of the curve of the factual total volume of the incomes of the population, from the curve of their even distribution, within the period of 2009-2013, has grown by 1.5 times (Table 2).

The incomes of the population are majorly formed not only through the salary, but also from other, non-salary incomes (Table 3). As a rule, they are concentrated with the wealthy citizens.

In many regions of the RF, the non-salary incomes, in most cases, escape from the taxation. It is seen from both the structure of the

Table 2: The distribution of the total volume of the monetary incomes of the population of the Republic of Dagestan within the years of 2009-2013*

Indicators	2009	2010	2011	2012	2013
The monetary incomes (in total)	100	100	100	100	100
The first group (with the lowest incomes)	5.9	5.7	5.7	5.5	5.4
The second group	10.8	10.5	10.4	10.3	10.4
The third group	15.6	15.4	15.4	15.3	15.4
The fourth group	22.9	22.8	22.7	22.7	22.6
The fifth group (with the highest incomes)	44.8	45.6	45.8	46.2	46.3
The Gini coefficient (the index of incomes concentration)	0.385	0.395	0.395	0.403	0.404

*The calculations have been made on the data from the official site of the Federal Service for State Statistics for the Republic of Dagestan <http://dagstat.gks.ru/>

Table 3: The comparative characterization of the structure of the monetary incomes of the population of the Republic of Dagestan over the period of 2009-2013 (%)*

Indicators	2009	2010	2011	2012	2013
The monetary incomes of the population, in total, including	100	100	100	100	100
The incomes from the entrepreneurial activity	22.7	23.9	22.0	22.2	22.6
The salary	12.4	11.1	10.3	9.9	9.5
The social contributions	9.8	10.2	11.7	11.8	11.9
Other incomes	55.1	54.8	56.0	55.9	56.0

*The calculations have been made on the data from the official site of the Federal Service for State Statistics for the Republic of Dagestan <http://dagstat.gks.ru/>

accrued tax basis for the PIT and from the composition of the real tax-payers of the PIT. Thus, for instance, in 2014, in average, throughout all the subjects of the RF, according to the reported data of the Russian Federal Tax Service (form No. 5 PIT), we can tell that the biggest part (95.9%) of the tax basis is created by the incomes that are taxed with the rate of 13%, while the effect of other kinds of income on the size of the tax basis is minor. The least part belongs to the taxes with the rate of 15% (these are the incomes of non-residents, received in the form of the dividends from their shares in Russian organizations). Slightly bigger is the share of other incomes of individuals, who are non-residents, and also of the incomes from the sums of winnings, prizes, the percentage incomes from bank deposits, and the amounts of interest savings, when receiving credits, but their part is also insignificant (Table 4).

All in all, in the RF, the lion's share (over than 90%), in the total amount of tax revenues into the consolidated budget, belongs to the PIT, accrued by the tax agents, over 15% – to the PIT from individual entrepreneurs, and <2% come from the PIT, charged by the tax agents. At the same time, there is a tendency of a decrease of tax revenues from the PIT, accrued by the tax agencies on personal incomes, in spite of the background growth of the amount of the accommodation that is rented. The identical situation is observed in one the key subjects of the North Caucasian Federal District (NCFD) – in the Republic of Dagestan. Based on the said above, it can be stated that the sideways kinds of income practically always escape from taxation, which also signifies the under-usage of the PIT's potential as a fiscal instrument, in order to later use its social potential, too. The very low revenues from the PIT on the non-salary incomes can be the consequence of both financial illiteracy of the population and intentional avoidance of paying the PIT. In connection with that, the measures of stricter tax compliance management and imposing stricter responsibility on the tax-payers for the criminal avoidance of paying the tax should be implemented along with the measures, aimed at raising the degree of trust to the state as an institute, at providing the transparency and efficiency of the budget expenditures and as well, at improving the financial awareness, as a basis for instilling the tax compliance culture into the population. The tax compliance culture should be generally regarded as an inseparable part of the economical and law culture of the population.

As has been previously noted, the essential reserves of the growth of revenues from the PIT are the incomes from rental accommodation. It is now the largest group of individuals, who do not declare their incomes and do not pay the PIT – the landlords, the owners of housing accommodation who rent it. Apart from

them, the key components of the reserves for enlarging the tax basis regarding the PIT are the following:

- Decreasing the level of unemployment and other negative factors that influence the size of the tax basis for the PIT
- The legalization of all kinds of the incomes of the tax-payers in their actual amount
- Revealing the organizations, who do not sign any labor or civil contracts with their employees, as well as the organizations, where the wages are below the average level in the industry.

It should be mentioned, that in the RF, the speculative operations to do with buying and selling individual apartments and houses are taxed, in compliance with the current legislation, with the basic rate of the PIT of 13%, however, in practice, they in most cases escape from taxation. In many foreign countries, the incomes from selling the second and subsequent objects of residential property are taxed with higher, progressive rates, as a rule – by special taxes. For instance, in China, the incomes from selling the second and subsequent objects of rental property are taxed with the rate of 20% (New China Property Taxes to Cool overheated Housing Market, 2013). In Dubai, there applied a special duty for registering real estate, and its rates tend to grow (Dubai Will Double up the Tax on Purchasing Real Estate, 2013).

The tax on buying real estate is growing in correlation with the growth of prices, at the regional level in Germany (The Tax on Buying Property will have Grown in Germany from the Beginning of the Year 2014, 2013), and at the municipal level in Great Britain (The Rich London House Owners Make an Essential Contribution to the British Economy, 2014). Analyzing the scientific papers of the foreign authors, one can see that the mechanism of tax deductions on the percentage payments on mortgage is not only economically inefficient, but also socially unfair (Agell et al., 1995).

Since the deductions, when buying accommodation by means of mortgage, are paid from the earned income, it means that the bigger is the income of an individual, the sooner he/she can return the part of their money spent on buying residential accommodation, which makes the taxation more regressive. In this case, in the reality of the RF, it would be fairer to apply increased rates on the second and subsequent objects of real estate. Such approach would encourage a more rational use of the objects of real estate, and also, would level the incomes, obtained from investing money into real estate, with the incomes, received from investing it in other assets.

The factors, revealed in the course of our analysis, which actively influence the amounts of the revenue from the PIT in Russia, can be conventionally divided into: Those of compliance management, economical, and social. As for the factors of compliance, here belong the consequences of the character of an existing legislation base, such as: The avoidance of paying the PIT and the level of tax administering. The economic factors include the share of the economically active population, the share of the retired, as relative to the latter, and labor migration. The social factors embrace the size and the main indicators of the labor market, which further would allow to devise a forecast of the revenues from the PIT.

Table 4: The structure of the tax basis for the PIT on the whole, throughout the subjects of the RF, in the year 2014

The tax rate, %	The size of the tax basis, millions of rubles	The share, %
13	16,482,485.6	95.86
30	46,989.4	0.27
9	646,534.6	3.76
35	9123.0	0.06
15	4595.0	0.05

*The table is compiled on the report data of the FTS of Russia (form No. 5 PIT) over the year 2014. PIT: Personal income tax, RF: Russian Federation, FTS: Federal Tax Service

In order to control the accrual of the PIT to the budget in time, the tax agents should be obliged to present to the tax agency an account of the total sums of the calculated and actually paid tax quarterly. The unburdening of the tax agents of this duty deprived the tax agencies of the RF of the possibility to control the PIT being properly paid, by the results of a quarter.

The recommendations and suggestions that we have made have to be implemented along with the measures, directed at stimulating the industrial growth and increasing the share of the employed among the population.

4. DISCUSSION

The income tax, by its nature, includes both economical components and psychological categories. The psychological category of the PIT, as well as most of the legislative documents, concerning the population, determines such consequences as the people's future attitudes towards it, and the way how the behaviors of the people will change when one or another mechanism of calculating and charging the tax are employed. How the citizens perceive the psychological constituents of a tax, shapes its fiscal role and has an impact on it, and it is instantaneously revealed in its management power.

There are significantly varying approaches to estimating the place and the role of the PIT in generating the profits of the RF budget. The officers of the fiscal bodies suppose that this tax quite successfully forms the profits of the budget system. Many specialists criticize it for over fiscal orientation (Beskorovaynaya, 2012). In the author's opinion, it would be more correct to talk about the under-usage of the PIT's potential, altogether as a source of generating the budget profits and as an instrument of the state's social policy, as well.

The famous principles (of justice – that is, its equal relevance to all people, and its even distribution, of clarity, convenience and of economic efficiency) are justly considered to be the foundation of the taxation theory; they were justified long ago by Adam Smith himself (Smith, 1935) in his work “An Inquiry into the Nature and Causes of the Wealth of Nations.” In the Tax Code of the RF (article 3), the classical principles of taxation are given in the following interpretation:

- The equal relevance (every person should pay the legally adopted taxes and duties)
- Justice (taking into account the actual ability of the tax-payer to pay the tax)
- The taxes and duties cannot be of discriminating character and be applied selectively, out of political, ideological, ethnical or other differences between the tax-payers
- Taxes and duties should be economically justified
- Constitutionality (it is forbidden to set taxes and duties that violate the united economical space of the RF)
- Clarity (the legislative documents should be formulated in such a way that everybody would know exactly what taxes [duties], when and in what amount he/she is to pay)
- All the unresolvable doubts, controversies and unclarity of the legislative acts on taxes and duties are to be interpreted in favor of the tax-payers.

Unfortunately, the principles of taxation that are articulated in the Tax Code of the RF, are not implemented in practice and bear, mostly, a formal character. In Russia, there observed a stable tendency of a growing gap in the levels of income between different groups of population. The non-taxable minimum, in the reality of the RF, has been canceled since the year of 2013, because of which the PIT is charged even from the individuals whose incomes are below the living wage, this already signifies the injustice of taxation. Charging the PIT from the incomes below the living wage violates the principle of the ability of the tax-payer to pay the tax.

The social orientation of the PIT is manifested not only in its direct, but also in its indirect relevance to the people's wealth, since this tax generates the incomes of the regions and municipalities. Compliance with the principles of social justice in the process of taxation is especially significant for the Russian community, where the stratification on the scale “poverty – wealth” is high (Mayburov and Ivanov, 2014). The continuation of the social polarization is not only slowing down an arrival of a healthy modern economy, but can also provoke serious social conflicts, it disrupts the national security.

Since the PIT has been introduced, the discussion has been going on in the RF concerning the necessity of introducing a progressive scale, or whether the flat scale should be preserved. The supporters of banning the flat scale (and these are, mainly, the officials from the system of government management) claim that the introduction of the progressive scale will cause deterioration in administering the PIT. Hence, as Panskov justly comments (Panskov, 2012), the state acknowledges the fact that “...administering the PIT is a complicated matter, and the tax agencies are unable to cope with it, the state puts its signature under the statement that it cannot bring order into this sphere.”

It is supposed in the Russian community that the introduction in the year 2001 of the rate of the PIT of 13% stimulated the growth of the revenues from this tax. But the detailed analysis of the causes allows to state that the real cause was different. In particular, more than 800 thousand of the employees in the spheres of law enforcement and military service had not been previously paying it. The growth of the revenues from the PIT at the initial stage of replacing the income tax was influenced by the simultaneous introduction of a regressive scale for the unified social tax (the insurance contributions into the non-budgetary social funds). A significant influence also came from a decrease of the basic rate of the tax on the profit of organizations, initially, from 35% down to 24% in 2002, and, later, down to 20% in 2009. In the following years, because all these factors ceased to have effect, the revenues from the PIT began to decrease. For example, if in 2008 the PIT provided for the 11% of all the revenues of the Russian budget, in 2012 the figure was only 9.6% (Table 5).

In the RF, introducing the flat scale of the PIT was incapable to legalize the “shadow” incomes of the potential tax-payers of the PIT. According to the Rosstat's data, the hidden wages increased up to 11% in 2001, up to 14.5% in 2013 (here is given the percentage of the gross national product). The retaining and the growth of the

Table 5: The change in the amount of revenues and the relative share of the PIT in the profit of the consolidated budget of the RF (billions of rubles, %)

Years	The revenues of the consolidated budget of the RF, in total	The tax profits of the consolidated budget of the RF, billions of rubles	The amounts of the revenues from the PIT into the consolidated budget of the RF, billions of rubles	The relative share of the PIT in the structure of the tax revenues of the consolidated budget of the RF, %	The relative share of the PIT in the total amount of the revenues of the consolidated budget of the RR, %
2010	16,031.93	7662.9	1789.6	23.4	11.2
2011	20,855.37	9720.4	1995.0	20.5	9.5
2012	23,435.10	10,958.2	2260.3	20.6	9.6
2013	24,082.39	11,327.2	2497.8	22.1	10.2

Source: <http://www.nalog.ru>. PIT: Personal income tax, RF: Russian Federation

wages “in the envelope” is the key reason why the introduction of a progressive scale is necessary. The state should use more effective measures to defeat the wages “in the envelope,” instead of the flat scale.

Since the 1st of January of 2014, a number of changes have been added to the chapter 23 of the Tax Code of The RF, “The tax on the incomes of individuals.” In particular: There has been set the maximum deduction in the size of expenses, directed at paying out the interest rates on targeted loans, which were spent on purchasing the real estate in the sum of 3 million rubles; a residential property tax deduction is guaranteed within the sum of 2 million rubles, for an unlimited number of times throughout the lifetime of the tax-payer (for several objects of real estate); there is a possibility to have a residential property tax deduction by means of applying to one of the tax agents; the list of the incomes that are not to be taxed by the PIT has been enlarged by the incomes that come to volunteers in the form of clothes and uniforms (Chmeryova and Kuzmicheva, 2014).

In most of the developed countries, there is a wide grid of social deductions, regarding the PIT, and they, indeed, do work. Among them is Canada, a country with a medium tax load, judging by the world’s standards. The bill on the income tax includes special elements, aimed at implementing the objectives of the social policy through specifically selected social privileges. These elements, in particular, include: The exemption of retirement savings from the taxable income, of the expenses on university education, and of the incomes from shareholding (Chkir and Saadi, 2011).

Quite a wide grid of social deductions within the taxation of personal incomes is found in Russia. In the author’s opinion, its main flaw is not in their size, but in the mechanism of their availability, which would not allow for the deductions to fully realize the social potential of the PIT. There are currently plenty of tax privileges throughout Russia and many of its regions (Musaeva, 2014). There is even a tendency of a growing number of social and estate deductions, regarding the PIT. However, increasing the number of the tax deductions on education in various institutions and on medical treatment in hospitals and other organizations, without taking into account the social status of the tax-payer (their level of income, the number of children and non-working members of the family, and so on) is unjust.

The contemporary system of social and estate deductions, regarding the PIT, in Russia is most of all favorable for the wealthy

citizens. In the author’s opinion, it is necessary to differentiate the sizes of the available deductions, depending on the individual’s level of income. The regional authorities have the right to change the sizes of the social deductions. It is advisable for the legislative authorities of the Republic of Dagestan to adopt a regional bill on differentiating the sizes of the social and estate deductions (within a fork of maximal sizes), which would allow to solve the problem of both achieving greater social justice and increasing the tax revenues to Dagestan’s budget, the same approach is advisable for the other regions of the RF.

5. CONCLUSION

At the current stage, it would be fair to solve at the federal level the issue of differentiation in the sizes of the tax deductions, regarding the PIT, for each region. For instance, the size of the living wage will significantly vary in the regions of Siberia and the Far East, as compared to the NCFD. Along with the introduction of the progressive scale of taxation, another priority in improving the current mechanism of calculating and levying the PIT is to be the change of the object of taxation. It is not the income of an individual that should be regarded as the object of taxation, but the shared income of a family. This practice has been successfully tested and continues to be applied in the world’s leading industrial countries (the USA, Canada, Spain, France, Germany, Great Britain and in other states). The employed in Russia system of taxation does not take into account the family circumstances, as a factor that determines the ability of the tax-payer to pay the taxes. The taxation system should be corrected within the trend in the state’s social policy towards the family values and by granting to the family a higher significance, indeed, in the set of the national priorities.

In order to achieve the objectives, declared by the government of the RF in the social and economic policy (social privileges for those with low incomes and supporting the economic interests of the family) in the area of personal incomes taxation, and for using the potential of the PIT as a fiscal and management instrument to the full, it is necessary:

- To move the center of gravity of the taxation onto the wealthiest layers of the population, first of all, by means of introducing a progressive scale of taxation for the PIT
- To exempt from taxation those incomes of the citizens, that are required for providing the needs of the tax-payers and the members of their families by the minimally appropriate social standards

- In connection with the vast differences in the levels of regional development, due to various reasons, the question should be solved at the federal level, of differentiating the sizes of the available deductions on the PIT, depending on the differences in the living wages. In case the current scheme of deductions is preserved, the regional legislative authorities should decide on the differentiation of the sizes of social and estate deductions on the PIT, depending on the levels of incomes of the citizens (within a fork of maximal sizes). Such right is already provided to the regions in the Tax Code of the RF, the regional legislative bodies only need to simply implement it in the practice of levying the PIT.

Consistent realization of the suggestions and recommendations that have been formulated in this work will allow to create the conditions, required for improving the efficiency and justice of taxing the incomes of individuals at the current stage of the RF's development. The changes that are taking place in the sphere of taxation policy must improve the current mechanism of calculating and levying the PIT, as well as its compliance management. As a result, the state will gain the financial resources, and its role in encouragement of human potential and providing justice will increase.

6. ACKNOWLEDGMENTS

The research has been conducted within the framework of realization of the governmental task of the Ministry of Education and Science of the RF No. 2014/33 in the sphere of scientific activity in "The complex research of combatting the ideology of extremism and terrorism in Dagestan."

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