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Optimizing Income Tax Exemption: A Focus on the 'Subsistence Minimum' Threshold

Pembebasan dari Pajak Penghasilan pada Tingkat 'Kebutuhan Hidup Minimum'

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Abstract

This article delves into the establishment of a perspective on introducing non-taxable income for individuals, emphasizing the effective organization of tax relations. Employing a rigorous research methodology, the study aims to provide conclusive insights, scientific recommendations, and practical guidance. The goals encompass fostering a deeper understanding of non-taxable income implications, while the methods involve a comprehensive examination of tax reforms, benefits, and personal income taxation. The results offer valuable perspectives on optimizing taxation systems, particularly in relation to the subsistence minimum. The implications of this research extend to informing global tax policies, promoting efficiency, and ensuring equitable fiscal practices.

Highlights:

- The article explores the introduction of non-taxable income, addressing key issues in tax relations.
- It provides conclusive insights, scientific proposals, and practical recommendations for optimizing taxation systems.
- The research emphasizes the importance of fostering equitable fiscal practices and informing global tax policies.

Keywords: Tax Relations, Tax-Free Income of Individuals, Personal Income Tax, Property Tax, Fiscal Practices

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Introduction

With the formation of modern forms of statehood in human society, the social relations between the state and the population have risen to a new level in terms of quality. In particular, the state has formed methods of interest in the lifestyle and level of citizens based on accurate statistical data, observations, social surveys and socio-economic research. In this regard, "poverty threshold", "minimum of living", "minimum amount necessary for subsistence", "consumer basket", "market basket", "consumer price index", "minimum wage" and socio-economic categories such as "minimum non-taxable income" have appeared.

Today, in all developed countries and the majority of developing countries, the above-mentioned categories are important elements of the social and macroeconomic policy carried out in these countries. They are used in the development of the budget and tax policy, in particular, the formation of budget revenues, the establishment of the non-taxable minimum, the minimum amount of wages, as well as the amount of the state old-age pension, social allowances, scholarships and other social payments.

The "minimum of living" or "minimum amount necessary for subsistence" represents the poverty line. That is, if a person or a family has an income less than the subsistence minimum, such a person (family) is considered poor.[1] However, the poverty line is a relative concept and is defined differently in different countries. Such a limit depends on the minimum amount necessary for subsistence established in a particular country, if such an amount is established in this country. Because not all countries have a minimum living wage, including Uzbekistan.

In the theoretical literature and in the legal documents of some countries, you can find the definitions given to the living minimum or concepts that illuminate its essence. Although the definitions of this category are given differently in the literature, they essentially mean the same thing.

According to the definition of the Russian scientist Yu. Markov, the living wage is the minimum amount of income that is considered necessary to ensure a certain level of living in a certain country.[2] If we pay attention to this definition, it is more abstract and expresses a certain level of living. But it was not mentioned about the subsistence limit.

Methods

In our republic, methods based on accurate statistical data, observations, social surveys, and socio-economic research have been developed by the state to be interested in the lifestyle and level of citizens. In this regard, "poverty reduction", "minimum of living", "minimum amount necessary for subsistence", "consumption basket", "market basket", "consumer price index", "minimum wage amount" Socio-economic categories such as "minimum non-taxable income" and research methods such as comparison, induction and deduction were used.

Result and Discussion

In our opinion, the following definition covers the essence of the subsistence minimum more widely than the previous definition: "the subsistence minimum is food products sufficient to ensure the normal functioning of the human body and maintain its health, as well as the personal the value of the minimum volume of non-food goods and services necessary to satisfy basic social and cultural needs" [3]. It can be seen that in this definition, the minimum amount necessary to ensure the normal physiological condition of a person and to satisfy his primary social and cultural needs is recognized as the living minimum.

As we mentioned above, the concept of living minimum is defined in the legislation of most countries. In particular, in the legislation of the Russian Federation, the living wage is defined as "the expression of the consumer basket in value, as well as mandatory payments and fees"[4]. From this definition in Russian legislation, it is clear that the subsistence minimum consists of the monetary equivalent of the consumption basket and the sum of mandatory payments and fees that a person must pay during his life. Therefore, the living wage is not exactly the same thing as the consumption basket in terms of value, but also includes the taxes that a person must pay.

In the table below, we look at the 10 European countries with the highest minimum living standards. [5]

T/r	Country	Living minimum (for one month), EUR
1.	Luxembourg	2000
2.	Norway	1500
3.	Germany	1240
4.	Finland	1170

5.	Great Britain	1087
6.	The Netherlands	1080
7.	France	1030
8.	Belgium	1030
9.	Austria	1010
10.	Sweden	1000

Table 1. Comparative analysis of 10 European countries with the highest levels of living standards

As you can see, Luxembourg is the country with the highest standard of living in Europe. Because Luxembourg is a country with a small population, but highly developed industry and financial institutions [6].

The second place in this rating was taken by Germany. In recent years, the country has a stable economy, despite the fact that its economy has imperceptibly weakened due to a slight decrease in export volumes.

At the end of 2017, the monthly minimum living wage in Finland was 1170 euros. This amount includes all fees, including taxes, clothing and food.

Great Britain is one of the European countries with a high standard of living. Particularly in England, very high wage levels are observed. People here can earn an average of £35,000 a year. This means approximately 39,300 euros per year. The average monthly salary in England is 3200 euros. In addition, this country is distinguished by its very strong social policy. In England, unemployed people are paid unemployment benefits in the amount of at least 125 euros per week.

Norway is also one of the countries with a high standard of living. This indicator is an average of 1500 euros per month for the country.

The minimum living wage in France is almost three times less than the average monthly wage of ordinary workers and is 1,030 euros. In 2018, workers in this country will earn an average of 3,200-3,600 euros per month.

The minimum living wage in Austria is 1,010 euros per month, which is two times lower than the average monthly salary for the country.

The minimum living wage in Sweden is 1,000 euros, and the minimum wage exceeds 2,000 euros. The unemployment rate in this country is very low, and the number of unemployed people is very low. However, if a person is unemployed, he will be paid unemployment benefit in the amount of 280 euros per month.

Although the minimum living wage in European countries such as Italy, Spain, Switzerland and Greece is less than 1000 euros per month, we can see that it is a significant amount compared to the rest of Europe. In particular, in Italy, this figure is 855 euros per month, and it ranks second among the top ten European countries in terms of minimum living costs [7].

Recently, the mass media of Uzbekistan have reported that the concepts of "consumption basket" and "necessary amount for living" will be adopted in our country. It became known that the introduction of these terms is provided for in the 2018 draft of the State Program, which was submitted for public discussion, and that these categories are planned to be implemented by July 1, 2018 [8]. However, the development of these categories was again removed from the agenda.

It is noted that the introduction of these concepts into consumption serves to ensure the proportionality of the real income of the population, monthly salary, pension, social benefits and other payments with the "consumption basket" and "necessary amount for living".

The minimum living wage and the consumption basket underlying it can be calculated differently in different countries [9]. It should be noted that until now there is no officially accepted methodology for calculating the consumption basket or minimum living wage in Uzbekistan. Almost no studies have been conducted in this regard.

Uzbek expert D. Ismailova's article published in "Biznes-daily" electronic publication shows the results of the research on determining the composition of the consumer basket.[8] 100 citizens living in the city of Tashkent were recruited as respondents for the research. Their consumption and needs were determined based on the survey. The obtained data were comparatively analyzed, and the composition of the consumer basket was developed based on the average of the current consumer prices in markets and supermarkets in Tashkent [10]. The consumer basket was compiled as of April 2017 and includes 100 types of consumer goods according to the CPI standard. This consumption basket was developed according to the following socio-demographic groups of the population:

1. Men aged 16 to 59 years.

2. Women aged 16 to 54 years.
3. People of retirement age.
4. Children under 6 years old.
5. Children from 7 to 15 years old.

Thus, the minimum living wage, including consumer goods, medicine, clothing, communal services and local taxes, according to socio-demographic groups of the population, was as follows:

1. Men - 1011612 soums.
2. Women - 1122378 soums.
3. People of retirement age - 1076273 soums.
4. Children under 6 years old - 1062753 soums.
5. Children from 7 to 15 years old - 1125849 soums.

The researchers concluded that the minimum amount of old-age pension is 1,005,500 soums, the minimum monthly salary of women with two children is 3,308,600 soums, the minimum monthly salary of men with three dependents is 4,267,600 soums, unemployment benefits are 1,100,000 soums, childcare up to 3 years old the allowance for those who have should be 1049800 soums.[11]

Conclusion

To conclude from the above, the minimum non-taxable income of citizens in Uzbekistan should be set at least 1,255,000 soums.

When taxing citizens' incomes based on declaration, it is necessary to establish the following social deductions based on advanced foreign experiences:

emergency losses of citizens (caused by natural disaster, fire, theft, fraud, etc.);

medical expenses;

cost of life and property insurance;

property and land tax amounts for personal residence;

the amount of financial assistance provided as mutual assistance from close relatives.

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