

PROGRESSIVE TAX SCALE AS A FACTOR OF ECONOMIC STABILITY OF THE BUDGET SYSTEM OF THE REPUBLIC OF KAZAKHSTAN

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Abstract. *The purpose of the study is to cover the main theoretical aspects related to the concept of a progressive tax scale; to analyse the history of the development of a progressive tax scale; to substantiate expediency of application of a progressive scale of the taxation as the factor of economic stability of the budgetary system of the Republic of Kazakhstan. The study is based on the methodology of scientific knowledge, systematic analysis of the theory of progressive taxation. In addition, the study also used the following leading methods – the method of scientific abstraction, generalisation, comparison, analysis and synthesis, grouping, formalisation, historical and logical analysis of theoretical and practical material. For example, with the help of the method of scientific knowledge, the tendency of development*

and functioning of a progressive tax scale was studied. Methods of abstraction and generalisation allowed identifying the main aspects that need to be taken into account when introducing a progressive tax scale in the tax system of the Republic of Kazakhstan. The method of comparison helped to compare the practice of other countries in the field of functioning of the progressive tax scale. Using the historical method, the evolution of the formation of a progressive tax scale was revealed. The article presents a detailed analysis of the evolution of the progressive tax scale. Researchers are trying to reveal the meaning of basic concepts and categories, to characterise the progressive tax scale, as well as to justify the necessity of its application for the purpose of economic stability of the budget system of the Republic of Kazakhstan.

Keywords: *taxes, tax system, progressive tax, income tax, economic development.*

Introduction

At this stage of development, the Republic of Kazakhstan pays more and more attention to improving the tax system and determining the direction of the country's tax policy. In particular, in order to attract additional foreign investment, international capital and business to the economy, the Republic of Kazakhstan is looking for opportunities to increase the competitiveness of the tax system. Moreover, in order to create an effective and stable budget system of the Republic of Kazakhstan, it is necessary to reconsider the views in the field of taxation. Today, it is expedient for Kazakhstan to reform the tax system in the direction of introducing a progressive tax scale, a scale in which tax liabilities increase with increasing income. It is important to note that on May 11, 2020, the President of the Republic of Kazakhstan Kasym-Zhomart Tokayev at the Final Meeting of the State Emergency Commission stated the need to introduce a progressive scale of individual income tax on wages and other types income (Speech by the Head of State... 2020).

At the moment, the Republic of Kazakhstan has a fixed tax regime. It is usually criticised for failing to reduce income inequality. In contrast, progressive taxation is considered the most popular measure to reduce income inequality. Over the centuries, a number of scholars, such as A. Smith (1976), J. Londono (2014), T. Piketty (2014) and others, have studied the introduction of a progressive scale for the taxation of personal income. It should be noted that today, scientists are discussing the feasibility of introducing a progressive tax scale. On the one hand, a number of scholars argue that a progressive taxation system leads to a more efficient distribution of consumption, wealth and well-being. For example, D. Lapov (2014) believes that the introduction of progressive taxation in addition to the measure of public fiscal policy is also a matter of equality. On the other hand, as noted by C. Cozmei and E.A. Serban (2014), in the case of tax evasion, the progressive tax scale inefficiently performs the functions assigned to it. In addition, O. Tylay and A. Yamelinets (2019) highlight the shortcomings of a progressive system such as, first, it does not stimulate productive work and increase personal income; second, there is a complex system of administration; third, it encourages tax evasion by high-income taxpayers.

At the same time, it is necessary to highlight the problems that have not been addressed in previous studies and which will be disclosed in this article. In particular, such problems include the development of a progressive tax scale from a historical point of view, as well as the justification of the necessity of its application for the purpose of economic stability of the budget system of the Republic of Kazakhstan. Moreover, given the current trends of reforming the taxation system in the Republic of Kazakhstan towards the introduction of a progressive tax scale, the work has not only theoretical but also practical significance. Taxes affect the behaviour of economic agents and reduce the well-being of those who are burdened with a greater tax. Therefore, the optimal taxation system should minimise the negative consequences for the welfare and productivity of taxpayers, maximise the positive effects of redistribution and correct market failures. It should be noted that the arguments in favour of progressive income taxation are often based on the classic results of U. Jakobsson (1976) and J. Fellman (1976), according to which progressive and only progressive income taxes, which provide for increases in average income taxes, can reduce inequality.

In turn, W. Blum (1952) believed that progressive taxation is considered one of the central ideas of modern democratic capitalism. Thus, progressive taxation has a direct impact on reducing income inequality. However, there is also a possibility that a problem will arise if higher income tax rates cause an increase in tax evasion. High levels of income inequality can have negative consequences for long-term economic growth, employment and class conflicts. Progressive taxation is often offered as a way to alleviate the social problems associated with higher income inequality. At the same time, the argument in favour of progressive taxation may be its positive impact on the historical dynamics of the economic system. For example, economist T. Piketty (2014) believed that the decline in the progressiveness of US tax policy in the post-World War II era increased income inequality, opening up for richer people access to capital. He concludes that the capitalist system has a constant tendency to concentrate capital in the hands of the richest and, consequently, to increase inequality. In the long run, these trends, in his opinion, could lead to detrimental consequences for society if not to try to stop them. One of the tools to overcome these trends and their negative consequences, according to T. Piketty (2014), should be progressive taxation, which will reduce capital concentration and inequality, and thus help to avoid catastrophic consequences (Piketty 2014). Professor of tax law T. Griffith (2004), summarising the study of human happiness, argued that because inequality in society significantly reduces the level of happiness, a progressive tax system that redistributes income will increase welfare and happiness in society (Griffith 2004). In addition, the Austrian economist M. Rothbard (1998) was also a supporter of a progressive tax compared to a fixed tax. He pointed to a decrease in the marginal utility of consumption, along with an increase in income and concomitant higher progress, greater freedom for new entrepreneurs to enter the market (Rothbard 1988). It should also be noted that research by the International Monetary Fund suggests that some developed economies could increase the progress of taxation to address inequality without hampering growth if progressivity is not excessive.

Materials and Methods

For the complex analysis of problems of scientific research, a set of various general scientific receptions and methods was applied in work. At the same time, the theoretical and methodological basis of the study were fundamental economic research, dialectical method of cognition, a systematic approach to the analysis of the economic situation of the Republic of Kazakhstan, works of scientists on taxes, domestic and foreign theory and practice in progressive taxation. It should be noted that the methodological significance of the dialectical method in the study of progressive taxation in the Republic of Kazakhstan is that it serves as a means of finding new results, a method of moving from the already known to the unknown, new. This means that the study not only transforms the previously created theoretical knowledge about progressive taxation in the Republic of Kazakhstan, but also the formation of their new modification by systematically adding new theoretical provisions (Kucheryavenko and Smychok 2019; Sheverdin 2018).

In addition, the general methods that were used in the study were the method of induction, as well as the method of deduction. In particular, on the basis of knowledge about progressive taxation in general, an assumption was made about the expediency of its application and introduction into the tax system of the Republic of Kazakhstan. With the help of deductive inferences, conclusions were drawn from other statements, the truth of which has already been established by other domestic and foreign scientists in the field of taxation and economists. The study was also based on the methodology of scientific knowledge, systematic analysis of the theory of progressive taxation. In addition, the study also used the following leading methods – the method of scientific abstraction, generalisation, comparison, analysis and synthesis, grouping, formalisation, historical and logical analysis of theoretical and practical material. For example, with the help of the method of scientific knowledge the tendency of development and functioning of a progressive tax scale was studied. Methods of abstraction and generalisation allowed identifying the main aspects that need to be taken into account when introducing a progressive tax scale in the tax system of the Republic of Kazakhstan. The problem situation was formulated using the method of system analysis; the purposes of research, and also criteria of achievement of the purposes were defined. In addition, the method of systematic analysis helped to find a solution to the problem, and in particular, to prove the feasibility of introducing progressive taxation in the Republic of Kazakhstan. The method of comparison helped to compare the practice of other countries in the field of functioning of the progressive tax scale. Using the historical method, the evolution of the formation of a progressive tax scale was revealed.

Results and Discussion

According to Article 320 of the Code of the Republic of Kazakhstan “On Taxes and Other Mandatory Payments to the Budget” as amended and supplemented as of 2020, the fixed rate of individual income tax is 10% (IMF Report on the Republic of Kazakhstan 2020), one of the lowest rates in the world. At the same time, income tax is not levied

on income below 63,125 tenge per month. For comparison, the same income tax rate is applied in the following countries: Bulgaria, Bosnia and Herzegovina, Kosovo, Libya, Macedonia, Mongolia, Romania, Serbia. It is smaller only in Montenegro, where the income tax rate is 9%, and in Guatemala, 7% (List of Countries... 2020). The International Monetary Fund 2020 report on the Republic of Kazakhstan describes the taxation system as follows: “The current labour taxation system is characterised by a low uniform general rate, limited progressive nature, except for the lower limit of household income distribution due to the deduction of the minimum wage, and relatively high tax burden borne mainly by the organised sector” (IMF Report on the Republic of Kazakhstan 2020). In addition, the Report on Reforms of the Republic of Kazakhstan, developed by the Organisation for Economic Cooperation and Development, also indicates the insufficient progress of the fiscal system of the Republic of Kazakhstan (Reforms in Kazakhstan... 2019). Thus, among other things, the IMF and OECD draw attention to limited progressive nature of taxation in the country. However, as noted by A. Bayan (2016) in the tax system of the Republic of Kazakhstan there are a number of problems. In particular: “the current tax system in Kazakhstan provokes a lot of complaints from entrepreneurs, economists, deputies, government officials, journalists and ordinary taxpayers. The subjects of criticism are the excessively fiscal nature of the tax system; lack of proper incentives for domestic producers; low property taxation; high taxation of individuals with low wages compared to Western countries; low taxation of natural resources” (Bayan 2016).

At the present stage of its development, the Republic of Kazakhstan is reconsidering its views on the direction of its tax policy towards the introduction of a progressive tax scale. “A progressive tax is a tax in which the average tax rate or the total amount of tax paid increases as the taxpayer’s income increases” (Varela 2016). As noted by V. Zakharov (2015), who studied the dependence of the well-being of countries on the progressive scale of personal income tax: “the progressiveness of the income tax scale (for the year X) is calculated as the ratio of the upper limit to the average between the upper and the lowest limits of the scale (provided that the limits of the scale have not changed this year). It is more of a basic social indicator, in its own way reflecting such an important psychological concept for the population of the country as justice. The average progressiveness indicator of the income tax scale (for X – Y years) is calculated as the average value of the progressiveness indicator for all years, starting from year X and ending with year Y” (Zakharov 2015). The indicator of the progressiveness of the income tax scale in the period from 2009 to 2019 in the Republic of Kazakhstan is equal to 1, being the lowest indicator. Thus, at the moment the following proposal on introduction of a progressive scale of rates of the individual income tax in the Republic of Kazakhstan is considered: 1) monthly income up to 60000 tenge – 0%; 2) monthly income from 60,000 to 200,000 tenge – 15%; 3) from 200,000 to 300,000 tenge – 17%; 4) over 300,000 tenge – 20% (Turkaev 2020; Piskova and Tsurkan 2020; Panura 2019).

The introduction of a progressive tax scale “would make it possible to obtain certain economic and social benefits, expressed in increasing tax revenues to the budget and relieving social tension in the state” (Khadzhirokova 2014). The authors believe that the introduction of progressive taxation in the Republic of Kazakhstan will ensure the

principle of social justice in the payment of personal income tax in accordance with the paying capacity of taxpayers. It should be noted that various scholars, economists and politicians have been studying the progressive tax scale since ancient times. A. Smith (1976) in his work "An Inquiry into the Nature and Causes of the Wealth of Nations" in 1776 adhered to the ideas of a progressive tax scale. He argued that taxation should be introduced in proportion to the benefits that the taxpayer receives from the state, and should be predictable, convenient and efficient. At the same time, he considered it quite reasonable that the rich pay taxes more than their proportional share of income: "There is nothing unreasonable that the rich should contribute to public spending not only in proportion to their income, but also more than in this proportions".

In 1862, a progressive taxation system was introduced in the United States of America by the Income Act, according to which the income tax was 3% for individuals whose annual income exceeded \$ 800 a year (David 2013). The introduction of a progressive tax on real estate, the introduction of a progressive income tax on the general declared tax of individuals, and an increase in the share of social spending made the idea of a low taxation of high incomes less popular. The result of the achievements of financial science was tax reforms carried out after the First World War, in which for the first time the scientific principles of taxation were most fully taken into account and with the help of which the construction of a modern tax system was created, where direct taxes, and above all a progressive individual income tax, took the leading place (Rainova 2005; Ivanishina and Hirna 2018). The views of J. Londono (2014) are interesting. She argues that: "The progressive tax of income in the 20th century is the result of war. Wars of mass mobilisation, that is, wars in which more than 2% of the population served in the military, cause a significant increase in tax progressivity. These effects are persistent and do not disappear after the end of the war". On the other hand, T. Piketty (2014) believed that: "progressive tax played an important role in the development of the welfare state and the transformation of the structure of inequality during this period". In his work "Capital in the Twenty-First Century", he described how progressive taxes on income, inheritance and wealth were created in the midst of the chaos of the First and Second World Wars (Piketty 2014). Therefore, considering progressive taxation in a historical aspect, it can be concluded that they were not only a financial instrument, but also expressed certain class interests. Thus, the possessing classes have always advocated minimising the tax pressure on their income and were against the progressive system, which withdrew a significant part of the income as the object of taxation grew. At the same time, a progressive tax rate would provide certain economic and social benefits, expressed in the growth of tax revenues to the budget and the removal of social tension in a country (Mysak 2019).

It should be noted that in the modern world, most tax systems are progressive in nature. This is due to the fact that the progressive tax scale is fairer in the tax collection process. Striking examples of countries where a progressive tax scale is used can be such countries as: USA, France, Spain, United Kingdom, China, Denmark, Netherlands, Belgium, Sweden, Ireland and others. For example, Mexico has a progressive income tax system. Those who earn less than 6,942.36 pay only 1.92% in income tax. The highest income tax rate in the country is 35%, but this rate only applies to income exceeding 3,498,600.12.

There are four income tax rates in the United Kingdom, ranging from 0% to 45%. Individuals are not required to pay income tax of £ 12,500 or less. The highest tax rate of 45% applies to income in excess of £ 150,000. Individuals in Germany pay income tax under four progressive income tax groups ranging from 0% to 45%. Those who earn € 9,408 or less do not pay income tax. And those who earn more than 270,500 euros pay 45% of the highest income.

In some countries, progressive taxation is enshrined even at the level of the Constitution. For example, according to article 31 (1) of the Spanish Constitution (1978), "Everyone shall contribute to sustain public expenditure according to their economic capacity, through a fair tax system based on the principles of equality and progressive taxation, which in no case shall be of a confiscatory scope". Likewise, the Italian Constitution establishes a progressive form of taxation that requires every citizen to contribute to public spending according to his ability (Constitution of the Italian Republic 1947). It should be noted that until 2007 Kazakhstan had a progressive taxation scale. Then this system was replaced by the introduction of a flat-sum tax of 10%, to simplify the management of tax collection and bring the economy out of the shadows. The authors must agree with the views of M. Popescu (2019), who believed that: "Progressive taxation and social insurance benefits are aimed at improving the position of the poorest people in society. Moreover, the fairness of the tax system (fair and equal treatment of both the poor and the rich is a criterion of horizontal fairness) should also be considered, in addition to the redistribution effect between the rich and the poor". In turn, fairness in progressive taxation can be viewed as follows: "on the one hand, progressive taxation provides that the average tax rate must increase if income increases, and on the other hand, that in the relationship between two persons, one of which has a greater income than the other, the better off of the two must pay most of their income in tax. Thus, progressive taxation affects an individual, not least as income rises, and influences his economic decisions" (Lambert 1991).

Behind the data of K. Hagopian (2011) there is an argument in favour of progressive taxation for reasons of equity, has three main directions:

- 1) the principle of advantages. Taxes are payments made in exchange for government services and protection. People with higher incomes may lose disproportionately more; consequently, they must pay disproportionately more for the protection provided by the government;
- 2) the theory of sacrifice and the marginal utility of money. Taxes are a burden on society that must be distributed fairly. "Burden" is defined as the sacrifice a person makes when he or she pays taxes. Since the marginal utility of the dollar declines as income rises, people with higher incomes must pay enough more taxes to equalise their sacrifices relative to those of their lower-income peers;
- 3) the ability to pay. A fair tax system is one in which those with the greatest ability to pay should pay the most.

On the other hand, in addition to a number of positive aspects of the introduction of progressive taxation in the Republic of Kazakhstan, there are also some possible negative aspects. For example, as S. Yachevskaya (2013) notes, "the introduction of a progressive scale will lead to at least two expected effects: 1) an increase in the costs of tax

administration for the state and for some categories of taxpayers; 2) increasing incentives for some taxpayers to receive a shadow salary or even become a tax resident in some other country”.

To overcome the above effects, several conditions must be met. It should be agreed that the success of the introduction of progressive taxation implies the fulfilment of several important conditions: the presence of a high and stable share of the middle class; system of compulsory universal declaration; effective tax administration; high tax culture of the population; development of a “fair” scale of taxation; positive perception of this type of taxation by the majority of the population (Alpysbaeva et al. 2020). Also, in the authors’ opinion, an important aspect when applying a progressive taxation scale is the strengthening of control over taxpayers. In this regard, E. Balatsky (2018) argues that: “the introduction of a progressive scale of income tax is associated with huge costs for tax administration. Today, there are no even the roughest estimates of the possible additional costs. It is possible that the withdrawal of a significant share of the income from the richest part of the population will require such costs that will not pay off”.

Applying progressive taxation of personal income requires the creation of legal instruments to control the income of taxpayers and, especially, their expenses on transactions. An effective method of combating tax evasion is the use of a control system for the compliance of consumption expenditures of individuals with their income level, based on the use of indirect methods for assessing the income of a taxpayer based on their expenditures and generalized lifestyle indicators (Bechko 2018). It should also be borne in mind that the ceiling for the progressive income tax should not be excessively large. Thus, the problem of introducing a progressive tax system in the Republic of Kazakhstan is multidimensional. On the one hand, such a system makes it possible to increase the fair distribution of the tax burden of the population, which leads to social equality. On the other hand, in order to introduce such a system, it will be necessary to create an effective control mechanism for taxpayers, introduce a universal declaration of income among the population, and develop an optimal boundary size of the income tax rate. All these measures are necessary for the effective implementation of a progressive taxation scale in the Republic of Kazakhstan. Considering the insufficient progressiveness of the tax system of the Republic of Kazakhstan, which was repeatedly mentioned in their reports by such international organisations as the International Monetary Fund, the Organisation for Economic Cooperation and Development, and with the aim of economic stability of the country’s budget system, the authors consider it expedient to reform the budget system towards the introduction of a progressive tax scale.

Various scholars, economists and politicians have studied the progressive scale of taxation. In particular, A. Smith (1976) believed that the richer a person, the higher the tax he must pay. T. Piketty (2014) considered progressive taxes to be a factor in the welfare state. Undoubtedly, the progressive tax scale also affects the reduction of social inequality and even, as argued by T. Griffith (Griffith, 2004), it increases the welfare and happiness in society. That is why most countries in the world use a progressive taxation scale, and in some countries, such as Italy and Spain, progressive taxation is enshrined at the constitutional level. It should be noted that the foreign experience of personal

income taxation testifies to positive trends in the use of progressive taxation, with the help of which it is possible to redistribute benefits, direct resources to the implementation of a program of social support for the population, since due to increased tax rates of income, especially in terms of excess profits, social state program. In the authors' opinion, when introducing a progressive tax scale into the tax system of the Republic of Kazakhstan, it is necessary to pay attention to the following points. First, there is a risk of the development of the shadow economy. When the more affluent segments of the population will look for various ways to evade taxes, including the development of a system of payment of wages "in envelopes". Secondly, it is necessary to develop an effective system of control over taxpayers, which would include universal declaration of income of the population of the Republic of Kazakhstan. Thus, when reforming the tax system of the Republic of Kazakhstan towards the introduction of a progressive scale of taxation, it is necessary to take into account the above aspects. Taking into account the above points, the progressive tax scale can become a significant factor in the economic stability of the Republic of Kazakhstan.

Conclusions

1. One of the most effective sources for the formation of the revenue side of the budget is the tax on income of individuals, at the same time, it directly affects the level of income of the population and their distribution, thus performing the role of a social regulator. A controversial point in the taxation of personal income in the Republic of Kazakhstan is the application of a single tax rate to incomes of various sizes. This problem can be solved only with the introduction of a progressive tax scale, since this amount of deductions is not economically justified and does not have a significant incentive value for the taxpayer, and therefore does not provide adequate differentiation of consumption. A progressive income tax allows low- and middle-income taxpayers to pay fewer taxes. At the same time, progressive taxes limit the social stratification of people with lower and higher incomes. This leads to a decrease in social injustice and tension, as well as to an increase in the well-being of the general population.
2. The introduction of a progressive tax scale in the Republic of Kazakhstan will lead to an increase in the trend towards filling of the state budget more than fixed or regressive taxes, since the highest percentage of taxes will be levied on the highest amounts of money. Thus, the total tax revenue will be significantly higher. This means that the government of the Republic of Kazakhstan can invest more money in the development of the country and strengthening the social protection of citizens. On the other hand, the introduction of a progressive income tax requires greater accountability and transparency from the state. With the increase in the tax rate on income for the wealthy segments of the population, there is a threat that the shadow economy will develop, and real incomes will be hidden. In this regard, the state needs to instil and develop a tax culture, as well as develop effective mechanisms for controlling income. At the same time, an effective factor in the introduction of a progressive taxation scale will be the universal declaration of income of the population.

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