

# Strategic analysis of taxation factors on social justice

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## Abstract

Taxation systems across most countries often employ a progressive scale to levy taxes on individuals. However, over the past two decades of the 21st century, the level of tax progression has notably declined, marked by a reduction in the number of tax rates. This shift can be attributed to the propagation of liberal ideologies that emerged in the mid-20th century. The taxation of individuals' income can be structured under either a progressive or a flat scale of rates. However, there remains no consensus in economic theory regarding the preferable scale to adopt. In the context of a dynamic market environment with inflationary pressures, it may be prudent to link personal income tax rates not solely to absolute income levels but also to factors such as a household's subsistence level or its budget under comfortable circumstances. This proposed model of personal income tax, featuring a progressive scale, is particularly pertinent for urban centers with populations of up to 20 million people. Under this model, the tax burden for low-wage workers would increase by a modest US \$4.7 compared to the prevailing 13%. Similarly, the tax burden for medium-income earners would rise by US\$ 57.8, while for highly-paid individuals, it would increase by US\$ 372.9. Implementing this model holds the promise of substantially augmenting regional budget revenues while simultaneously narrowing the income disparity between high- and low-paid workers within the economy. This strategic approach to taxation underscores its potential to contribute to greater social justice and economic equilibrium.

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## 1 Introduction

The design and implementation of a socially responsible system of personal income tax play a pivotal role in shaping economic dynamics and fostering societal equity. By levying lower compulsory deductions to the government's social extra-budgetary funds, such a system not only ensures financial autonomy for households but also impacts the provision of essential social services by the government. This paradigm shift empowers taxpayers to manage their incomes more flexibly while incentivizing personal and professional growth among household heads, thereby fostering a more vibrant entrepreneurial landscape [24]. In many developed countries worldwide, the personal income tax serves as a cornerstone of municipal budgets, concurrently functioning as a potent social regulator. As noted by McKean [14], personal income tax contributions can constitute up to 10% of the overall structure of a nation's federal budget, exemplifying its critical role in fiscal governance [6]. However, despite its significance, the taxation of individuals'

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incomes presents notable theoretical and technical challenges that warrant careful consideration. One such challenge arises from the introduction of a proportional income tax during periods of significant income differentiation, which may undermine the tax's efficacy as a mechanism for redistributing wealth. This departure from progressive taxation principles erodes the tax's inherent function of reflecting individuals' varying income levels [11].

Furthermore, the imposition of limits on income thresholds for standard deductions poses another issue, as it fails to account for the diverse socioeconomic circumstances of taxpayers. Such standardized deductions, intended to ensure equity among taxpayers, may inadvertently exacerbate income inequality by neglecting to consider factors such as family size, dependency status, and overall financial well-being [22]. Moreover, the current system's emphasis on higher rates of social tax deductions, without regard to taxpayers' social status or financial capabilities, presents a fundamental flaw. For instance, in Russia, where social tax deductions encompass expenses for education and medical services, the absence of income-based eligibility criteria has transformed these deductions into vehicles for disproportionate tax exemptions favouring the affluent. Addressing the debate surrounding the adequacy of income tax rates necessitates a nuanced consideration of vertical equality in taxation. While proponents of various tax structures advocate for proportional or progressive taxation models, the crux of the matter lies in delineating societal thresholds for income inequality and determining equitable levels of wealth redistribution.

In essence, the pursuit of social justice through income taxation hinges on reconciling divergent perspectives on income distribution and fostering a taxation framework that aligns with societal values of fairness and equity. As such, the formulation of an effective and socially responsible personal income tax system demands a comprehensive understanding of its multifaceted implications on economic stability, social welfare, and individual empowerment [21]. Taxation plays a pivotal role in shaping social equality by redistributing wealth and resources within a society. Progressive tax systems, which impose higher tax rates on individuals with higher incomes, are often lauded for their potential to reduce income inequality. By levying a greater share of taxes on the affluent segments of society, progressive taxation endeavours to narrow the wealth gap and promote greater economic parity [5]. However, the efficacy of taxation in fostering social equality depends on various factors, including the design of tax policies and their implementation. For instance, loopholes, exemptions, and preferential treatment for certain income sources can undermine the progressive nature of taxation, perpetuating disparities in wealth accumulation. Moreover, regressive taxation mechanisms, such as consumption taxes, may disproportionately burden low-income individuals, exacerbating socio-economic inequalities [22].

Beyond its direct impact on income distribution, taxation also influences social mobility and access to opportunities. High marginal tax rates on earned income, for instance, may discourage labour force participation and entrepreneurship among low-income individuals, hindering their ability to climb the socio-economic ladder. Conversely, well-designed tax credits and incentives can incentivize investment in education, skills development, and innovation, thereby facilitating upward mobility and levelling the playing field. Furthermore, taxation policies can shape the provision of public goods and services, which are essential determinants of social well-being and equality. Investments in education, healthcare, infrastructure, and social welfare programs funded through tax revenues can mitigate socioeconomic disparities by enhancing access to essential services and fostering social inclusion. Conversely, austerity measures and cuts to public spending, often driven by tax aversion or fiscal conservatism, can exacerbate inequalities by limiting access to critical services for marginalized populations. Ultimately, the impact of taxation on social equality is contingent upon the broader socio-political context and the alignment of tax policies with societal values of fairness and solidarity. By adopting a comprehensive approach that integrates taxation with complementary measures such as social safety nets, education reform, and progressive economic policies, societies can harness the redistributive potential of taxation to promote greater social justice and cohesion.

## 2 Literature review

The theoretical foundations of research in personal income taxation underscore the fundamental principles that govern tax policy formulation and implementation. Russia's current flat personal income tax scale has drawn attention due to its purported failure to significantly boost budget income or induce capital repatriation to the Russian Federation. Amidst this context, several key principles of personal income taxation emerge, each with implications for tax equity and economic efficiency [4]. Firstly, the principle of generality and equality in taxation, as articulated by Smith [25], underscores the importance of ensuring fairness in tax imposition. According to this principle, taxes and duties should be imposed impartially, taking into account the taxpayer's real ability to pay. Discriminatory taxation practices are deemed unacceptable, emphasizing the need for equitable treatment of all taxpayers. Furthermore, taxation policies must adhere to the principle of non-discrimination and uphold a unified economic environment that facilitates the free movement of goods, services, and capital within a jurisdiction. Clarity and comprehensibility are imperative,

ensuring that taxpayers can easily understand their tax obligations and rights. Any ambiguities or uncertainties in tax legislation are to be interpreted in favour of the taxpayer, safeguarding their interests [10].

Moreover, international treaties play a significant role in shaping taxation policies, providing additional rules and norms that may diverge from domestic tax codes. The incorporation of international standards into taxation frameworks underscores the interconnectedness of global economies and the importance of harmonizing tax practices across jurisdictions. The principle of fairness in taxation, with its vertical and horizontal dimensions, is underpinned by the economic theory of supply pioneered by A. Laffer. Vertical fairness necessitates a tax system wherein rates correspond to individuals' financial standings, with higher incomes subject to higher tax rates. Conversely, horizontal fairness entails uniform taxation rates for individuals with similar incomes. Given these theoretical underpinnings, the choice between equal, proportionate, progressive, and regressive tax rates hinges on optimizing tax policy to achieve desired economic and social outcomes. Equal rates, reminiscent of poll taxation, ensure uniform tax deductions across taxpayer categories but may be perceived as unjust. Proportionate rates, akin to proportional taxation, levy flat percentage rates regardless of the taxation base, maintaining consistency in the tax burden relative to income. Progressive rates entail tax rates that escalate with income growth, promoting vertical equity but potentially stifling economic incentives. In contrast, regressive rates entail diminishing tax burdens as income increases, raising concerns about exacerbating income inequality.

These theoretical constructs provide a framework for analyzing the multifaceted implications of personal income taxation on economic efficiency, equity, and social welfare. By integrating theoretical insights with empirical evidence, policymakers can design tax policies that strike a balance between revenue generation, distributional equity, and economic growth. The theoretical underpinnings of personal income taxation extend to considerations of tax efficiency and social welfare. A key aspect of tax policy design is the trade-off between equity and efficiency. While progressive taxation may enhance income redistribution and promote social justice, it could also potentially deter economic productivity and investment by disincentivizing wealth accumulation. On the other hand, regressive taxation, while potentially exacerbating income inequality, may incentivize economic activity and spur growth by lowering tax burdens on high-income earners. Furthermore, the principles of tax neutrality and economic efficiency suggest that taxation should aim to minimize distortions in resource allocation and market behaviour. Tax policies that impose excessive burdens on specific sectors or activities may hinder economic growth and innovation. As such, policymakers must carefully consider the impact of tax incentives, deductions, and exemptions on investment decisions, labour supply, and entrepreneurial activities.

Moreover, the concept of tax elasticity, as elucidated by economic theory, highlights the responsiveness of taxpayers to changes in tax rates. Elastic tax bases, characterized by highly responsive taxpayer behaviour, may lead to significant revenue fluctuations in response to changes in tax policy. In contrast, inelastic tax bases, where taxpayer behaviour is less sensitive to tax changes, may provide more stable revenue streams but could also limit the effectiveness of tax policy interventions in achieving redistributive goals. Additionally, the principle of tax subsidiarity underscores the importance of decentralized decision-making in tax policy formulation. Recognizing the diverse needs and preferences of local communities, decentralized tax systems allow for tailored approaches to taxation that reflect regional priorities and socio-economic realities. By empowering local authorities to levy taxes and allocate resources, tax subsidiarity promotes fiscal autonomy and accountability while fostering grassroots participation in governance. Lastly, the evolving landscape of globalization and digitalization presents new challenges and opportunities for tax policy. Cross-border transactions, digital commerce, and multinational corporations pose challenges to traditional tax regimes, necessitating international cooperation and coordination to combat tax evasion and ensure tax fairness. At the same time, digitalization offers new tools and methodologies for tax administration, such as data analytics and electronic filing systems, which can enhance tax compliance and enforcement efforts.

In summary, the theoretical foundations of personal income taxation provide invaluable insights into the complexities of tax policy design and implementation. By integrating economic theory with empirical evidence and practical considerations, policymakers can develop tax policies that promote economic efficiency, social equity, and fiscal sustainability in an increasingly interconnected and dynamic global landscape. The theoretical underpinnings of research in personal income taxation are further elucidated by insights from scholars such as Mirrlees [15] and Mott and Slattery [18]. Mirrlees [15] highlights the distinction between the lump sum method and other taxation methods in terms of their impact on tax volume and the taxation base. The lump sum method maintains a flat volume of tax irrespective of changes in the taxation base, whereas other methods entail varying tax volumes as the taxation base fluctuates. However, it is the distribution of tax shares that differs across methods, with marginal rates playing a crucial role in determining tax burdens. Moreover, the role of normative acts in setting marginal rates, as emphasized by Mott and Slattery [18], underscores the importance of legal frameworks in shaping tax policy. Marginal rates, which represent the additional tax paid on each additional unit of income, are directly determined by normative acts related to

taxation. These acts serve as the legal foundation for establishing tax rates, providing guidelines for policymakers to ensure consistency and fairness in tax imposition.

Furthermore, the distinction between lump-sum taxation and other methods sheds light on the trade-offs inherent in tax policy design. While lump-sum taxation offers simplicity and predictability by levying a fixed tax amount irrespective of income levels, other methods introduce complexity by adjusting tax burdens based on income. This complexity arises from the need to determine appropriate marginal rates that strike a balance between revenue generation and equity considerations. Additionally, the role of normative acts in setting marginal rates underscores the normative nature of tax policy decisions. Policymakers must navigate normative considerations, such as principles of fairness and economic efficiency, in determining appropriate tax rates. The legal framework provided by normative acts serves as a guide for policymakers to translate these normative principles into concrete tax policies that align with societal values and objectives. Overall, the insights offered by Mirrlees [15] and Mott and Slattery [18] contribute to a deeper understanding of the theoretical foundations of personal income taxation. By examining the implications of different taxation methods and the role of normative acts in setting marginal rates, researchers and policymakers can develop more informed and effective tax policies that promote economic growth, social equity, and fiscal sustainability.

Annual income of up to 12,000,000 KRW. Besides this type of PIT, there is also a local income tax, which is levied at a rate of 10% of the PIT rates. PIT is paid to the National Tax Service (NTS). A local income tax is paid to the city or the province, which is the domicile of the taxpayer.

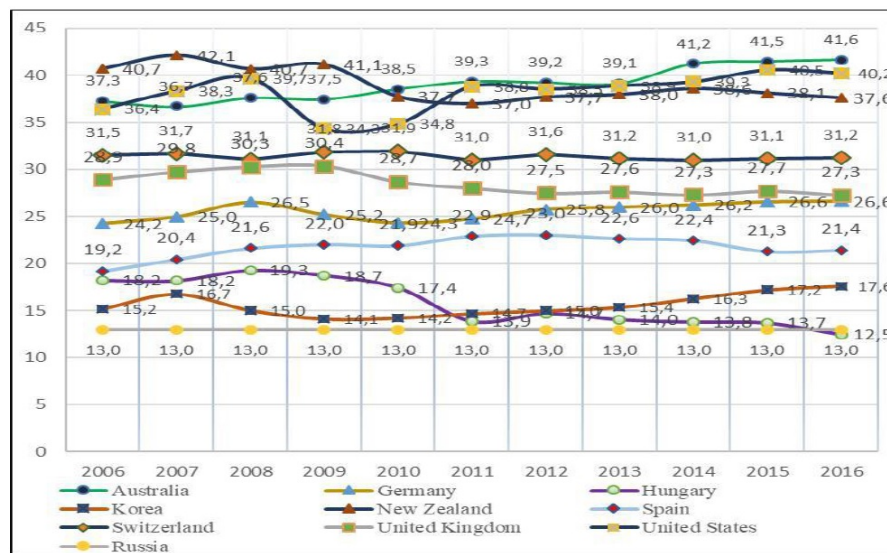


Figure 1: The change of key personal income tax rates in some countries of the world in the period of 2006-2016

Switzerland is conspicuous for taxing individuals' worldwide income and wealth. Non-tax-resident individuals only have their Swiss sources of income and wealth taxed. Income taxes are levied at three different levels; at the federal level (which is the same all over Switzerland), at the cantonal level (which is the same within a canton and is based on the canton's own tax law and tax rates), and at the municipal level (municipalities follow the cantonal tax law, but are entitled to set their own communal tax rate within certain parameters). The income tax rates are progressive at the federal level and in most of the cantons. Some cantons have recently introduced flat-rate taxation [1]. A direct federal personal income tax amounting to 0.77% is levied on income of 14,500 CHF, then from 31,600 CHF of 0.88%, from 55,200 CHF of 2.64%, etc. and over 755,200 CHF of 11.5% respectively. The differentiation of rates depends on the following factors married taxpayers and single taxpayers with minor children single taxpayers [7].

If a progressive taxation system is responsible for a household's income differentiation, which is acceptable for most of the population (it does not trigger social tensions, conflicts, or mass impoverishment, ensures the creation of normal conditions for citizens' life), a transfer from progressive to proportional rates during a tax reform can be quite justified. In turn, if the level of income differentiation in a society is unacceptable for most people and requires an adjustment, a transfer to a proportional tax during a tax reform cannot be considered grounded and reasonable. In this case, the special feature of a proportional tax is that it cannot influence the existing level of social stratification by withdrawing an equal part from incomes of different sizes. Consequently, such correlation after taxation remains the same as before taxation.

Exclusion is a situation, where under the influence of different factors (primarily a large scale of tax evasion)

progressive taxation cannot ensure a fair distribution of income. In this case, society may temporarily resort to proportionate taxation in the hope of impacting the scale of tax evasion and avoidance and raising the fairness of taxation. Such a situation can be seen in most CIS countries, where, following the transformation of part of the wage into an interest income, unofficial payments and the use of other ways of earned income concealment, “wealthy” social groups have a chance to slash their tax burdens significantly, which makes people with a low or medium income the key taxpayers, according to Mott [16], Haerler [12]. Therefore, progressive taxation has failed to have an adjusting influence on social stratification becoming the reason for its cancellation and introduction of a proportionate tax rate.

Another factor of similar changes in income taxation, especially important in the post-socialist countries, which aim to join the EE is international tax competition and the need to search for instruments to spur up economic growth, according to Mair and Damania [13]. Russia’s taxation legislation, which was valid from 2006-2016, encompasses the use of a flat income rate in the amount of 13% for the Russian Federation [2] residents regardless of the size of earned income (Figure 2).

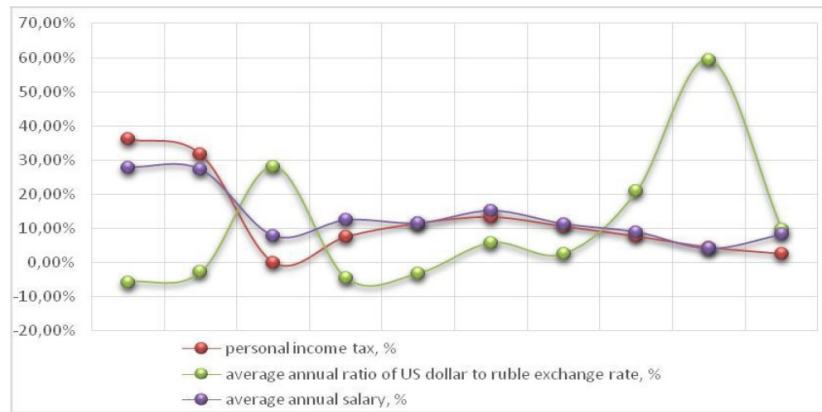


Figure 2: Comparative characteristics of growth of wages, individuals’ income tax and dynamics of the national currency rate to the U.S. dollar in Russia (2006-2015)

A comparative analysis of the growth of an average wage and an income tax paid to the budget done from 2006 to 2016 demonstrated a similar trend regardless of the dynamics of the national currency’s rate to the U.S. dollar. At that the signs of crisis in the Russian economy in the peak periods of 2008 and 2015 had a significant influence on the general trend of a fall in the average wage - a slowdown of growth in the average wage for the researched period from 2006 to 2016 amounted to 2% annually, which in its turn had a significant impact on the decrease of tax incomes from the personal income tax to the budget - a slowdown in the growth of the tax income amounted to 2.6% annually.

In this regard, we may state that the use of a flat personal income tax in the amount of 13% regardless of the volume of earned income is not adequate to the task of ensuring the fairness principle on the one hand, and the state’s fiscal interests on the other. At the same time, the inflow of funds to the budgets of all levels should take place not only thanks to the norms and rules of existing taxation legislation but also through stronger control over capital.

### 3 Materials and methods

An average (effective) tax rate is a relation of paid tax  $T$  to the tax base  $X$ , which can be shown in the following ratio:

$$\tau_{cp} = \frac{T}{X} \quad (3.1)$$

At that, an average (real) tax rate is a quantity equaling to a relation between the paid sums of tax  $N$  to the taxation base  $B$ :

$$\rho_r = \frac{N}{B} \quad (3.2)$$

A mathematical notion of a marginal tax rate as a derivative of function  $N = N(B)$  where  $B$  variable can be considered economically important. In accordance with differential analysis, it defines growth of paid sum of the tax  $\Delta N$  when taxation base  $B$  changes by 1% or the sum of the tax payment on each additional ruble:

$$\rho_{lim} = \lim_{\Delta B \rightarrow 1} \frac{\Delta N}{\Delta B} = \frac{dN}{dB} \quad (3.3)$$



But in fact, we should be guided by an effective tax rate defined as a relation of paid tax  $N$  to earned income  $D$ :

$$\rho_{ef} = \frac{N}{D} \quad (3.4)$$

Within the framework of proportional taxation, the marginal and average rates correspond to each other; they are constant regardless of the size of the taxation base (if we disregard the non-taxable minimal sum). For instance, the first 100 conditional units of income are exempt from the tax, while the remaining income is taxed at a proportionate rate of 13%. This rate is marginal. In this case, an income of up to 100 units is taxed with zero both marginal and average rates. With an income of above 100 units, the marginal rate will always be the same - it will always amount to 0.13. The average rate will not be constant, it will rise.

In the dynamic market environment of Russia's current economy, which is burdened with inflationary phenomena, it would be reasonable to tie the personal income tax rates not to the absolute income figures, but to such categories as a subsistence rate of a family, a reasonable consumer budget of a household, a budget of a household in comfortable circumstances, which should be calculated on an annual basis and approved alongside the law on budget of the country for the next financial year.

Let's consider the practical use of this approach through a transfer to a progressive scale of a personal income tax on an entity - a city with a population of up to 20 million people. We can recommend the following model of a personal income tax, under which it will be used automatically as an instrument of cutting the gap between the income of the richest and the poorest with minimal participation of the government according to the following relation:

$$N_f = (D_f - C_{\min})\tau\sqrt{\frac{D_f}{T_{\min}}} \quad (3.5)$$

where,  $N_f$  is a personal income tax (1 - the poor, 2 - the medium, 3 - the rich);  $D_f$  income (wage) of an individual (1 - the poor, 2 - the medium, 3 - the rich); tax exempt social minimum (1,000 rubles) basic rate of the personal income tax (10%), deductible to the municipal budgets of the city, while the remaining part is deductible to the budget of the city (a  $C_{\min}$  progressive tax);  $T_{\min}$ -minimal wage, which equals the subsistence level.

$$N_f = (D_f - C_{\min} * (G + 1))\tau\sqrt{\frac{D_f}{T_{\min}}} \quad (3.6)$$

where  $G$  is the number of children.

The quantity of all the indicators measured in rials is taken in monthly terms, or the fiscal period (depending on specifics of a business). The factual data for the use of the model of a personal income tax with a progressive scale are taken as follows:

1. Number of workers employed in the economy 6,243,000 people.
2. Nominal wage (average monthly wage) U.S.\$654.3
3. Subsistence level U.S.\$188.4
4. Accounting payroll fund (annual) U.S.\$ 49020.4 mln
5. Minimal wage (32% of subsistence level) U.S.60.3

Given an expert assessment based on the statistics data calculated by Rosstat for the period of 2006-2016:

Low-paid employees (4 minimal wages) USD241.2 received by 10% of employees (624,300 people);

1. Medium-paid employees USD486.3 receive 80% of workers (4,994,400 people);
2. Highly-paid employees USD2,411.8 receive 10% of workers (624,300 people).

The factual overall payroll fund amounted to USD44020.4 bln, including low-paid workers, who accounted for USD1,806.8 bln, medium-paid workers for USD2,4145.6 bln and highly-paid workers for USD18,068 bln respectively. In this case, the size of the personal income tax deductible from one low-paid employee will amount to USD36.2, from medium-paid workers to USD121 and from highly-paid employees to USD686.4 respectively. If the share of the wage deductible as tax is not limited, the net wage after tax will amount to USD205.1 with low-paid workers, to USD365.3 with medium-paid workers and USD1,725.4 with highly-paid workers respectively.

## 4 Discussion

The model of the personal income tax with the use of a progressive scale we have suggested and discussed using a city with a population of up to 20 million people as an example shows that the tax for low-paid workers under the model we have suggested rises by a mere USD4.7 compared with the current 13% rate, and by USD 57.8 for medium-paid employees. At the same time, the indicator rose by USD372.9 for highly paid employees. At that, the gap between incomes represented by the wage between low-, medium- and highly-paid workers narrow (Table 1).

Table 1: Correlation of a gap in incomes between low-, medium- and highly-paid employees in case of use of a personal income tax with a progressive scale

Workers	Average monthly wage before tax, U.S. dollars	Average monthly wage after tax, U.S. dollars		Gaps in income represented by wage, times		
		At a rate of 13%	Under the model	Before tax	At a rate of 13%	Under the model
Low-paid	241.2	209.8	205.1	1	1	1
Medium-paid	486.3	423.1	365.3	2.02	2.02	1.78
Highly-paid	2411.8	2098.3	1725.4	10.0	10.0	8.4

The data from Table 1 show that a flat rate on income of all workers does not change the gap between low-, medium- and highly-paid employees, while the use of the recommended model demonstrates that it works as an instrument to close the gap in incomes of all the employees.

Thus, the use of the recommended model of the personal income tax and primarily on wages of employees engaged in the economy increases the income part of the budget of a region significantly and plays the role of an instrument bridging the gap between wages of highly-paid and low-paid workers employed in the economy.

We believe that the results of the experiment can be adjusted while using this model because the differentiation of workers employed in the economy into low-paid and highly-paid employees and their average monthly wages was estimated judgmentally. This case requires an additional mid-term forecast with the use of the extrapolation method considering data on the overall number of people employed in the economy, the dynamics of the payroll fund and an average monthly nominal wage.

One should take into consideration that an order, under which each company must only have a current account in the treasury system, which is under the jurisdiction of the country's law-making entities, should be confirmed by law to avoid a cumbersome and complicated system of control over collection of the tax from workers employed in the economy of the basic value (10%), according to the place of residence, and its progressive part at the location of the employing organization. This current account should handle all economic and monetary transactions [17]. It should also hold all the funds used to pay all wages to all the employees engaged in the economy.

While using a softer transfer to the use of the recommended model of a tax on wages of workers employed in the economy, the formula may use another power function with a lower indicator. At that, while transferring to a progressive system of personal income taxation it is necessary to consider the general order of setting a taxation system considering that the level of people's incomes is not stable [20].

Therefore, we should support the position of economists, who suggest setting a mechanism of adjustment of the personal income tax levels every 5 - 7 years, because the level of people's incomes grows by 20-25% on average in the period [3]. Besides, the order of setting a step of progression or the size of the schedule is key. Therefore, we should mention the opinion of a prominent Russian thinker, philosopher, sociologist and economist G.V. Plekhanov voiced in 1918 in his book "My Political Will" following: "Personal income taxes should be progressive, but they should not strangle the businessman" [19]. Thus, the overall structure of a progressive personal income tax should be based on a combination of the three key principles:

1. different incomes - different approaches;
2. there are incomes and there are super incomes;
3. common difference (schedule) should be minimal.

To make the different incomes - different approaches principle work we should single out employment and nonemployment earnings (received not because of personal activities of an individual) when receiving an income, which is taxable under a progressive scale. At that dividends, interest on deposits, rental of property, revenue from the sale of a business and expensive goods, lottery prizes, inherited property, expenses not covered by income, etc are all nonemployment earnings.

Such differentiation does not mean that different incomes should be taxed at different rates [9, 18, 23, 26]. We are not talking about making the existing order of paying the personal income tax more complicated. To a certain extent (to the level of super incomes), some types of earned incomes should be taxed at a flat rate (excluding the sums of income received in the form of dividends, etc.).

Historically, the principle of differentiation of income taxation is known in the example of Italy of the XIXth century, where the principle of justification of income receipt by individuals was used for personal income taxation purposes. Passive income, i.e. incomes coming in regardless of a businessman's participation were taxed at the highest rate. In turn, the incomes of industrial and trade organizations received from the expenditure of labour and financial resources were taxed at a minimal rate. Other types of income received because of labour activity of the taxpayer, were taxed at the highest rate.

The principle there are incomes and there are super incomes is used when a progressive taxation scale is applied only to earned super incomes, i.e. incomes, whose size cannot be related or compared to the usual incomes of individuals [8]. At that, the size of the super incomes must be excessive, extraordinary, so large that they do not turn common workers, even highly-paid employees, into people with increased taxation.

The principal common difference (schedule) should be minimal. Higher personal income tax rates under the progressive system must be, first, higher than usual not by times as suggested by many proponents of progressive taxation, but by insignificant components. Secondly, higher personal income tax rates should be used for such nonemployment superincomes, in other words, such nonemployment superincomes should be taxed at the highest personal income tax rate. Thus, if a standard personal income tax amounts to 13%, a step-by-step rate may stand at 15, 17, 19, 20% with the maximum rate (for overly high incomes) of 25%.

Famous English economist John Stuart Mill, while rejecting the fairness and common sense of a progressive tax, nevertheless allowed for two exclusions. The first exclusion covered "...enhanced taxation of annuity as an income, which tends to increase all the time without a single effort or sacrifice on the part of the owner." The second exclusion covers the inheritance tax, which, according to the beliefs of the scientists, should be progressive. In other words, the approaches to the organization of progressive taxation suggested by the authors have a historical background. Consequently, we can achieve the key goals of social fairness of the tax if we create a progressive personal income taxation system based on the three principles.

## 5 Conclusion

To stimulate the fiscal importance of the tax and the fulfilment of social principle of taxation, several principal changes in the personal income taxation system should be introduced:

1. It would be reasonable to cancel all forms of direct taxation of incomes, which do not exceed the subsistence level of workers (income and social taxes, other deductions). It is obvious that workers with such incomes cannot and should not participate in the financing of state expenses and the accumulation of resources for their pension provision. Deducting money from such people is useless because it immediately goes into the social subsidy system of the state.
2. As the economy stabilizes and sustainable economic growth starts, it should be reasonable to restart the use of a progressive system of rates while collecting the personal income tax with a simultaneous decrease of an overall taxation burden on the payroll fund by cutting the overall deductions to social insurance funds.
3. Differentiation of the size of the social, property and professional tax deductions depending on the level of income, which the taxpayer receives, should be introduced.
4. In our view, the need to change the very tax unit is of principal importance in the creation of a system of socially focused personal income taxation. Income taxation should be used not for the income of an individual, but the income of a family, because this will allow the government to protect financial aid to the family, and stimulate its growth through taxation. (Such taxation practice exists in France, Germany, Great Britain and many other European countries, in the U.S., Canada).
5. To do this, it would be reasonable to tie the personal income tax rates not to the absolute income figures, but to such categories as the subsistence level of a family, a rational consumer budget of a family, a budget of a household in comfortable circumstances, which should be calculated on an annual basis and approved alongside the approval of a budget law for the next year in conditions of a dynamic market environment of Russia's modern economy.



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