

EFFECTS OF PERSONAL INCOME TAX: THEORETICAL ASPECT

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Annotation. The purpose of this article is to study the issue of determining the effects of tax on the income of individuals.

During the study of the study, the author's approach to determining the tax effect was proposed, direct relationships between tax functions and tax effects were established, and the author's vision was given regarding the definition and forms of manifestation of the fiscal and regulatory effects of the personal income tax.

The research is based on a dialectical and systemic approach to the knowledge of economic phenomena and processes, which involves studying them in their relationship and interdependence. In the process of writing the work, the following scientific methods were applied: generalization, synthesis, analysis.

Key words: tax effect, personal income tax.

Current conditions of socio-economic transformations, domestic economists face new challenges regarding the research of current problems in the field of taxation, in particular, challenges regarding the shift of research targets towards strengthening the efficiency of the tax system of Ukraine.

Given that the personal income tax is an important element of the tax system of Ukraine, a budget-forming source of the revenue part of the budget and an instrument of the state's fiscal policy in terms of ensuring the social equality of the population, we choose the research of the effects of the operation of this tax as the research vector.

Before proceeding to the analysis of the effects of the personal income tax, it is advisable to directly consider the interpretation of this term.

When studying the socio-economic role of both the tax system in general and its individual components, the concepts of «effect» and «efficiency» are widely used. Mostly, we are talking about the level of compliance of the obtained result with the purpose of taxation, but this definition needs to be clarified, in particular, the distinction between the concepts of «effect» and «efficiency». An overview of approaches to determining the essence of the economic category «effect» and «efficiency» in the economic literature is given in Tables 1, 2.

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Table 1

**Approaches to defining the essence of the economic category «effect»
in economic literature**

The authors	Definition of the concept	A common feature
O.G. Zagorodnii [1]	The achieved result in a certain form – material, monetary, social, economic, etc.	Result
A. V. Kutsenko [2]	An absolute indicator of the result of any action or activity.	
T. A. Sinitsyna [3]	The result, consequence of any causes, actions, economic measures.	
T.F. Kosyanchuk [18]	The result, the consequence of a change in the state of a certain object, is determined by the action of an external or internal factor.	
A.V. Cherep [5]	A result expressed in a certain form, a consequence of certain causes, actions.	
V.M. Yachmenyova, O.Y. Sulima [7]	The useful result is expressed in the value estimate.	Useful result
I.V. Petrov [8]	The result in absolute terms, which reflects only the success of certain actions.	
L.Sh. Lozovsky [9]	A result that is measured in material, monetary or social terms as the difference between the results and the costs associated with obtaining this result.	The difference between the result obtained and the costs incurred
P.I. Baghrii [10]	The difference between the results of the economic entity's activity and the costs incurred to obtain them for changes in the conditions of activity.	
V.Ya. Karachun, T.V. Kremen [11], A.M. Turenko, I.A. Dmitriev, O.S. Ivanilov, I.Yu. Shevchenko [12]	The difference between the results of economic activity (for example, a product in value terms) and the costs incurred to obtain and use them.	

Source: compiled by the author.

When analyzing approaches to determining the essence of the economic category «effect», we conclude that the vast majority of scientists single out «result» as the leading characteristic of this category.

Table 2

**Approaches to defining the essence of the economic category «efficiency»
in economic literature**

The authors	Definition of the concept
Peter F. Drucker [4]	Efficiency – achieving the goal in the most economical way.
Heine P., Boettke P., Prychitko D. [6]	Efficiency is a positive factor of activity.
T.A. Sinitsyna [3], A.M. Turenko, I.A. Dmitriev, O.S. Ivanilov, I.Yu. Shevchenko [12], B.O. Zhniakin, V.V. Krasnova [13], A.V. Pislytsia [16]	Efficiency is the ratio of the effect and the costs of its implementation.
V.M. Yachmenyova, O.Y. Sulima [7]	Effectiveness is not just a property of an operation (the process of functioning of a system), which is reflected in its ability to produce a certain effect, but the effectiveness of such an ability, that is, effectiveness, is correlated with resource costs.
A.S. Avdyushchenko [14]	Efficiency is an assessment of the result of activity taking into account the costs that ensured its receipt.
V.G. Andriychuk [15]	Efficiency is an economic category that reflects the relationship between the results obtained and the resources spent to achieve them.
I.A. Blank [16], O.H. Zagorodnii [1]	Effectiveness is the ratio of effect indicators and the amount of resources used to achieve it.
I.A. Markina [19]	Efficiency is not only the connection of the result with the intended goals, but also the effect from the point of view of the optimal use of resources – material, financial, and labor.

Source: compiled by the author.

Therefore, based on the results of the conducted research on the definition of the essence of economic categories, we suggest that the category “effect” be interpreted as a result, and “efficiency” – as the ratio of the effect to the costs that ensured such a result.

In the context of determining the effectiveness of the tax, we agree with I.I. Khlebnikova. regarding the expediency of calculating the absolute values of the obtained effect, and not the relative efficiency indicator, given the fact that accounting for administration costs is not carried out separately for each tax [20]. In addition, N. G. Lukova emphasizes that it is possible to objectively assess the effectiveness of tax instruments for regulating the economy only by taking into account their impact on other spheres of social life [21].

Based on the interpretation and arguments of scientists, we choose the category «effect» for further research on the socio-economic significance of the personal income tax.

In this context, it is appropriate to cite the author’s definition of «tax effect». The tax effect is a set of economic and social changes that occur as a result of the tax performing its functions.

The issue of tax functions is quite debatable, because economists distinguish a number of functions, namely: fiscal, regulatory, social, distributive, stimulating, disincentive, control [22].

Based on the well-founded beliefs of the vast majority of scientists and personal assets of previous studies, we consider it expedient to distinguish two fundamental functions of the personal income tax - fiscal and regulatory with their characteristic forms of manifestation. The functional implementation of the personal income tax in the fiscal department is unambiguous, but the regulatory function is multifaceted and manifests itself in a stimulating, restraining and compensatory form.

The structural and logical diagram of the interaction of the functions and effects of the personal income tax is presented in Fig. 1.

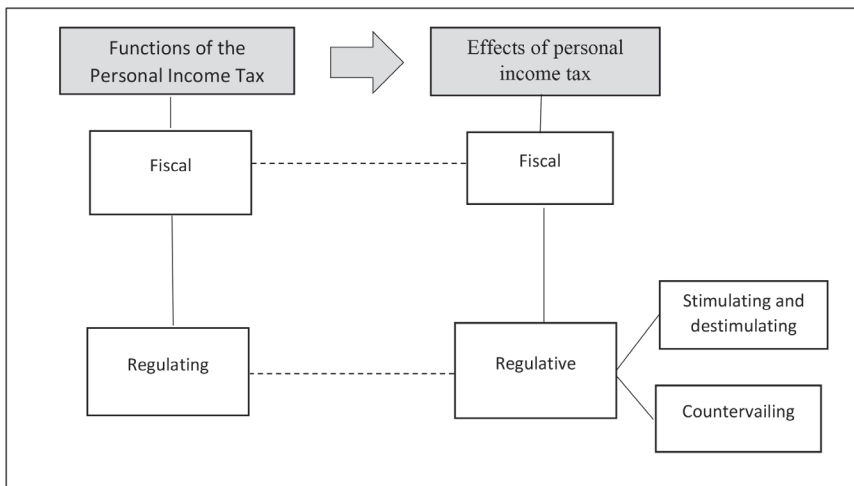


Fig. 1. Structural and logical scheme of interaction of functions and effects of personal income tax.

Source: compiled by the author.

Thus, having established direct relationships between tax functions and tax effects, it is logical that the result of the fiscal function of the personal income tax

is fiscal effects, and the regulatory function is regulatory effects in the stimulating, disincentive and compensatory form of manifestation.

Therefore, as a result of the operation of any tax in general, and the tax on the income of individuals in particular, a certain tax effect is achieved – a complex of socio-economic changes.

The structural and logical scheme of the classification of the effects of the personal income tax is presented in Fig. 2.

We suggest that the economic aspect of tax effects be considered as fundamental, within which fiscal and regulatory effects are realized. Fiscal effects of personal income tax should be considered as the level of receipts of this tax to the revenue part of the Consolidated Budget of Ukraine depending on the influence of factors that are directly embedded in the mechanism of taxation of the income of natural persons, and regulatory effects – as effects of the influence of tax instruments on the level of net income of a natural person-payer tax.

We propose to consider the social aspect of the manifestation of tax effects as compulative, and social effects as a derivative of regulatory effects. This approach is justified in particular by the fact that the social effect in general is determined by the scale of government intervention in the economy, in particular as a result of tax policy measures to regulate the standard of living of the population, which is directly correlated with the level of net income of individuals and is reflected in the trends of social development.

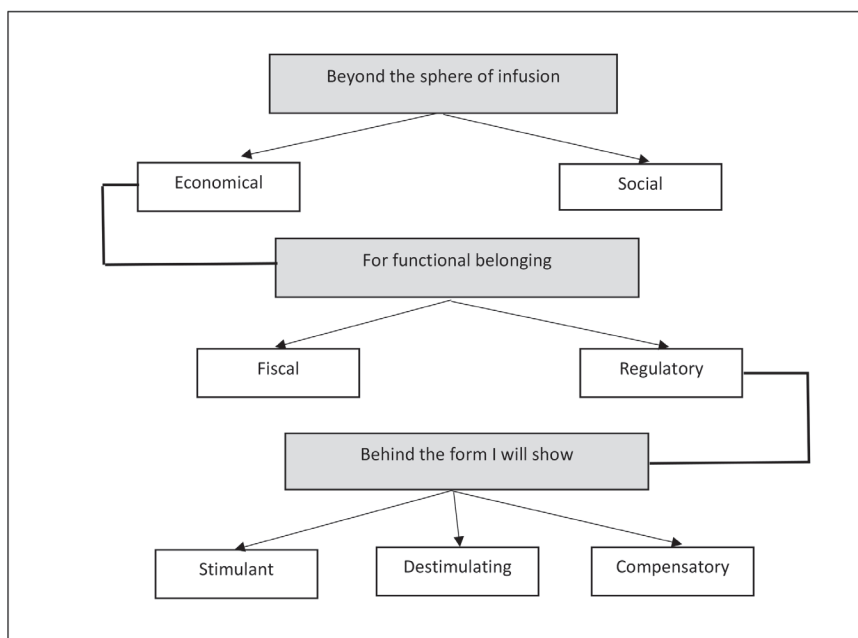


Fig. 2. Structural and logical classification scheme of personal income tax effects.

Source: compiled by the author.

The fiscal effects of the tax on the income of natural persons should be considered as basic, in accordance with the quintessence of the tax, which involves the withdrawal of a part of the income of a natural person-payer of the tax in order to form a material basis for the state to implement its functions. By their very nature, regulatory effects are a superstructure of the fiscal base and are an integral component of socio-economic changes.

The paradigm of regulatory effects in the context of tax incentives and disincentives is revealed through the influence of tax instruments on the adoption of economic decisions by an individual tax payer regarding the profitability of his activity and the formation of his real interest in complying with the conditions of tax legislation that regulate the use of a specific instrument of tax regulation, and already the fulfillment of such conditions serves as a trigger for the implementation of priority programs for the socio-economic development of the state.

A vivid example of the stimulating and disincentive form of the manifestation of the regulatory effects of the personal income tax within the framework of the current legislation is the differentiation of the conditions of taxation of dividends according to the resident status of the issuer and according to the criterion of the tax agent's belonging to corporate income tax payers.

Thus, for income in the form of dividends on shares and corporate rights, accrued by residents – corporate income tax payers, the personal income tax rate of 5% is applied, and for dividends accrued by a tax agent who is a non-resident or a resident acting as a sub- subject to the simplified taxation system or exempted from paying corporate income tax, the personal income tax rate of 9% is applied.

It should be noted that paragraphs 165.1.18 of the Tax Code of Ukraine provides for the case when reinvestments are not subject to taxation. Namely: «dividends accrued in favor of the taxpayer in the form of shares issued by a legal entity – a resident accruing such dividends are not included in the calculation of the total taxable income, provided that such accrual does not in any way change the proportions of participation of all shareholders in the statutory the issuer's fund, and as a result of which the issuer's statutory fund increases by the total nominal value of accrued dividends» [23].

This differentiation of dividend taxation conditions has a stimulating effect on reinvestment, increasing the pace of economic activity of domestic enterprises, while forming a certain fiscal reserve, and a disincentive influence on the outflow of capital abroad, forming the basis for the implementation of the priority tasks of the socio-economic development of the state.

The given example demonstrates how, with the help of tax regulation tools, influence is exerted on economic decision-making by an individual when forming an investment portfolio.

Proceeding from the fact that income in the form of dividends is finally taxed at the time of their payment and at their expense, that is, in fact, an individual investor receives the difference between the accrued amount of dividends and the tax on the income of individuals, the investor assesses the profitability of capital investments taking into account the level of the tax burden at differentiation of taxation conditions. Thus, the use of effective tax regulation tools can have a stimulating effect on the decision-making by an individual regarding economic

activity due to a decrease in the tax burden, and accordingly a disincentive effect due to an increase.

Incidentally, as a deterrent effect of the regulatory effect of the personal income tax, consider the norm of the current legislation regarding the differentiation of tax rates when taxing income from the sale during the reporting tax year of more than one object of immovable property and a second object of movable property at the rate of 5%, and income from the third sale of movable property at the rate of 18%. This tool restrains speculative operations on the markets of movable and immovable property.

Similar tools are used in inheritance taxation depending on the level of kinship and resident status of heirs and testators (Article 174, Clause 2 of the Tax Code of Ukraine) [23].

Compensatory aspects of the regulatory effects of personal income tax are realized in the process of adjusting the degree of divergence of individuals by income level with the aim of economically ensuring a socially sufficient standard of living of the population and leveling the permanent conflictogenicity of society on an economic background.

Smoothing of the degree of economic inequality occurs under the influence of tax instruments on the level of net income of an individual.

Tax social benefits and tax discounts are important tools of tax regulation in the field of personal income tax.

Despite the fact that the use of tax social benefits leads to budget losses as a result of preferential taxation, that is, failure to receive certain potentially possible tax amounts, regulation of the income level of low-income groups of the population is of great importance.

The tax social benefit is the main tool aimed at reducing the tax burden of personal income tax by adjusting the net income of an individual by reducing the tax base.

Also, a progressive tool of tax regulation in terms of ensuring the compensatory effect of personal income tax is a tax discount, which is a reduction of the total annual taxable income in the form of wages by the amount of incurred expenses, in accordance with the terms of the current legislation.

Compensatory effects are manifested in various spheres of the socio-economic life of society, namely in such areas as: education, health care, environmental protection, charity, long-term life insurance, non-state pension provision, mortgage lending, support for internally displaced persons in rent under the housing rental agreement.

Thus, in the course of the conducted research, the author's definition of the tax effect is proposed as a set of economic and social changes that occur as a result of the tax performing its functions. Establishing direct relationships between tax functions and tax effects forms the basis of a systematic approach to the classification of tax effects on the income of individuals. In particular, economic and social effects are distinguished by the sphere of influence, and we propose to consider the economic aspect of tax effects as fundamental, and the social aspect as compilative.

Within the framework of economic effects, fiscal and regulatory effects are distinguished according to the classification feature of functional affiliation. Fiscal effects of personal income tax are recommended to be considered as the

level of income of this tax to the revenue part of the Consolidated Budget of Ukraine, depending on the influence of factors that are directly embedded in the mechanism of taxation of the income of natural persons, and regulatory effects – as effects of the influence of tax instruments on the level of net income of a natural person-payer tax. In turn, regulatory effects are classified according to the form of manifestation into stimulating, destimulating and compensatory.

The paradigm of regulatory effects in the context of tax incentives and disincentives is revealed through the influence of tax instruments on the adoption of economic decisions by an individual tax payer regarding the profitability of his activity and the formation of his real interest in complying with the conditions of tax legislation that regulate the use of a specific instrument of tax regulation, and already the fulfillment of such conditions serves as a trigger for the implementation of priority programs for the socio-economic development of the state.

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Therefore, the need to solve many problems that arise in the process of socio-economic transformations in Ukraine puts the issue of stabilization and growth of the domestic economy, in particular, the improvement of public welfare through tax effects, at the forefront. Given the powerful potential of the personal income tax, the orientation of further scientific research is aimed at finding reserves for the growth of the fiscal and regulatory effects of this tax.

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