Tax, as a Form of Resolving Social Contradictions

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Abstract: Currently, taxes are a principal tool of the state, needed for equalization of the polarization in household incomes, having a direct and indirect impact on the income distribution process (regulation of mandatory payments, primarily through taxation; government social transfers, control over the rate of inflation and etc.). At that, the existing tax policy should play a major role.

Keywords: Government · Taxes · Taxpayers · Fiscal · Fiscal policy · Contradictions · Household incomes

INTRODUCTION

The issue concerning the extent, to which taxes can be a state’s tool in resolving social contradictions, as well as the effectiveness of its use, has attracted and still attracts the attention of scientists and researchers of different eras, countries, schools and theoretical concepts.

However, despite the longstanding theoretical generalization of the various taxation aspects, a unified holistic concept, expressly describing the role and importance of tax both in terms of a pattern to resolve social contradictions and as a tool of public authorities to even out the household income differences among the various social groups with disparity in wealth, yet has not been developed.

In any society, public authorities, on behalf of the state, shall control fiscal policy, though the extent of its constructiveness, consistency and objective pursued depends on the development degree of the society, as well as the goals set by this society.

In a broad sense, fiscal policy is a management of relationships arising between public authorities, legal entities and individuals in the course of their economic activities, focused on the mobilization of mandatory payments to the budgets of different levels and extrabudgetary funds [1].

In a narrow sense, a fiscal policy means the organization of taxation system (tax policy), control over the distribution and redistribution of funds, accumulated in the budgets of different levels, whose income sources are taxes.

The main characteristics of effective strength of the implemented tax policy should be the consistency and sustainability of the actions, taken by the public authorities while providing functionality of the taxation system.

This is indicated by P. Diamond. According to him, adjusting taxes along with spending is seen as important for the politics of spending and taxing, as well as part of a sensible response to changes in a country’s economic, political and spending-needs environments. Yet considerable continuity is considered good policy.

P. Diamond makes reference to the study of Meade (Meade, 1978), where he calls for taxes that reflect a concern for both flexibility and stability:

A good tax structure must be flexible ... In a healthy democratic society there must be broad political consensus - or at least willingness to compromise - over certain basic matters ....

But at the same time there is a clear need for certain stability in taxation in order that persons may be in a position to make reasonably far-sighted plans [2].

This fully harmonizes with the fact that the stability of the tax system depends on the taxpayers’ contributive capacity, i.e. on business entities of various forms of ownership and households, which collectively form a decentralized economy sector.

The relevance of the research on the problems related to employment of taxes, as a state policy instrument, is caused by the need to study the impact of taxation on evening out the socio-economic differences in the household incomes of the population of the Russian Federation.

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In the course of transition of the Russian Federation to the market economy and economic reforms, the processes of income differentiation and property stratification of various groups, in terms of their financial situation, deteriorated sharply. This led to deformation of the social structure of the society, which was formed and existed for decades.

The stratification of the Russian society is an objective and characteristic feature of market relations. Though the polarization of household incomes in Russia took place amid the signs of a crisis in the national economy and a sharp increase in living standards of some groups of citizens at the expense of the others.

In turn, the term "polarization", when used in economics, can be interpreted in different ways: both in the sense of deviation of the indicators from the central (middle) fixed value and in the sense of cleavage of the society into clusters according to the certain specified characteristics [3].

Similar processes, associated with the presence of economic inequality among different population groups, are peculiar not only to Russia, but also to other countries. These processes are reflected in the relevant theoretical studies and research that take into account national and other specificity.

Discussions about the social function of taxes, as an instrument of public authorities for evening out the wealth disparity of various groups in today’s society, have both supporters and opponents.

Addressless impersonal government support of low-income groups does more harm than good, because it develops welfare mentality that aims at not motivating these groups to work and formation of active life position, but waiting for help from the state. This results in increase in the number of people receiving various types of allowances, financial and other assistance from the state. Ultimately, this leads to an additional burden on other taxpayers, who have to pay out of their own income various types of state social support to poor people.

However, this does not apply to the programs implemented by the charitable organizations [4].

The economic nature of the ongoing differentiation is unprejudiced, though it is necessary to take into account the role and importance of social factors when conducting reforms in all life spheres of society, especially at the beginning of reforming, as rejection of these factors by the bulk of the country’s population slows down the formation of a market mentality.

The increase in polarization between high- and low-income social groups is the cause of social disparity, since the ingrained idea of the state’s paternalism, as well as the growth in prosperity of certain groups of citizens, is one of the reasons for the disproportionate development of the regions in Russia.

The majority of Russian citizens still hold the opinion that during the transition of our country to a market economy, virtually congeneric structure of the socialist state was disintegrated into groups of population that differ from each other in their material well-being.

As a result, just a small number of Russian citizens were able to adapt to new economic conditions, take advantage of the opportunity to improve their material well-being and to find their place and role in the market relations.

At that, the living standards of considerable part of the population declined sharply. Many people have fallen into income poverty and could not accept and understand the values of the market economy.

Access to sources of well-being, their distribution and control is usually initiated and carried out by a certain group or group representatives, who believe that their personalized income will increase in the course of the reforms conducted.

Ultimately, this is the reason for the dominance of interests of one group of citizens over others, the distortion of the existing taxation principles, which cannot reduce the polarization of the incomings of high net worth social groups and low-lived segments of the population. This leads to a reduction in the pace of society development and serves the basis for socioeconomic conflicts.

According to A. Borokh, the following are the main tools managing the state’s tax policy: tax rates, allowances, sanctions and the formation of the tax base. Integrated use of these tools encourages taxpayers to actions, which are prioritized in terms of public interests and allows one to reduce the tax burden on the relevant subjects of taxation [5. p. 73].

Pumping up the budgets of public authorities at all levels, as well as extra-budgetary funds, is directly dependent on the level of material well-being of taxpayers (both individuals and legal entities).

For tax base accounting (tangible and intangible assets, labor and other resources, various types of income, etc.), tax payers are charged *direct taxes* depending on the level of income or the value of the property.

At direct taxation, economic relations arise directly between the state and taxpayers (individuals and legal entities) when paying the personal income tax (PIT), corporate income tax, as well as property tax for both individuals and legal entities, etc.
Employment of personal income tax in Russia or its equivalent in other countries as a management tool to even out the inequality of household income distribution is the subject of intense debates in the cycles of the academic community, public authorities, civic and other organizations, etc.

First of all, it is necessary to find one’s position in regard to the socio-economic importance and content of the personal income tax, its role and place in the overall structure of income sources of the current taxation system in the Russian Federation. Personal income tax refers to federal taxes, though at the same time it performs a regulatory role between the various budget levels and is a major source of budgeting of the Russian Federation subjects, as well as the local (municipal) budgets. PIT should be considered as a tool for evening out not only the income spread, but the processes of macro- and micro-economic regulation.

The importance and role of personal income tax in the current Russian taxation system is conditioned by the fact that the income assessed is determined based on the income received by an individual from both main job and other sources. However, the existing practice of collection and calculation of personal income tax has no significant effect on the processes of distribution and redistribution of new value produced in the material and non-material production of goods and services and does not affect the regulation of household income, as well as changes in the structure of the households’ expenditure budget.

The inefficient use of fiscal management of household incomes results in a growing polarization between high and low income groups of the population, trends and economic activities in the development of the subjects of the Russian Federation, in which economic inequality in household incomes, as well as the regional development, differ from each other by several times.

Karavayeva I. and Elizur M. note that the Western economic literature recognizes the payroll tax in the form of contributions to the social insurance funds, paid by employees and employers, as the main tax instrument to ensure social stability [6, p. 50].

The rate of income tax functional in the Russian Federation from 1991 to 2001 was ranged from 12 to 60% depending on the level of income, while from 2001 to date it was set at 13% in accordance with Art. 224 of the RF Tax Code (Part 2) as amended on 05.08.2000, #117- FZ.

However, since 2001 to the present, the effective rate of income tax equalizes incomes of all categories of working citizens. The escalation of inflation influenced the categories of population with different income levels in different ways, i.e. for high-income groups advance in prices was much lower than that for the low-income groups.

From payers’ perspective (those who pay personal income tax), this kind of tax is the reason for the reduction of their personal income and changes in their well-being. It directly affects the pattern of consumption (stimulating or reducing it), thereby forming a multiple valued civic position and mentality.

In turn, in developed countries, the income tax is the main source of public authorities revenues. The rate of income tax varies within the range from 0 to 50% depending on the individuals’ income level (Table 1).

The rates of income tax, shown in Table 1, are directly related to the level of the income received by the individual. The higher the income, the higher the tax rate and vice versa.

Analysis of the different taxation systems, carried out by World Bank and PwC in 183 countries in terms of various parameters (simplicity of paying tax, total tax rate, total tax payments, income tax payments, profit tax payments, labor tax payments, total tax time, etc.) makes it possible to determine the position of each country in this ranking depending on the compliance with the above parameters.

Based on the results obtained, each of the countries was assigned a ranking position, showing also the changes in the current taxation [12].

Let us compare taxation systems, shown in Table 1, as consisted with the analyzed parameters (Table 2).

Compared with other countries, the Russian Federation is inferior to them just by two parameters: time to comply and total tax time.

It was noted in this review that the Russian Federation has increased the insurance fees for employers since 1991.

Increase in the mandatory tax payments, put into effect since January 1, 2011 according to the Regulation of the Government of the Russian Federation No 812 of 12.10.2010 "On the minimum and maximum unemployment benefits in 2011", aimed at increasing the taxpayers’ contributive capacity to the budget of the Russian Federation, did not lead to positive results.

Due to the increase in mandatory tax payments, some economic entities have been forced to officially fold their operations and "move" to the shadow economy, terminating tax payments, cutting jobs and further increasing the burden on the budget through the payments of unemployment benefits to dismissed employees.
Table 1: Rates of income tax in developed countries in local currency

<table>
<thead>
<tr>
<th>Taxation base</th>
<th>USA (USD)</th>
<th>France (Euro)</th>
<th>Germany (Euro)</th>
<th>Italy (Euro)</th>
<th>United Kingdom (Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0%</td>
<td>0 - 5,875</td>
<td>0 - 8,130</td>
<td></td>
<td></td>
<td>0 - 34,370</td>
</tr>
<tr>
<td>5.5%</td>
<td>5,875 - 11,720</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td>0 - 8350</td>
<td></td>
<td>11,720 - 26,030</td>
<td>8,131-52,881</td>
<td></td>
</tr>
<tr>
<td>14%</td>
<td>8351 - 33950</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td>0 - 8,350</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>8,351 - 33,950</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23%</td>
<td>0 - 11,720</td>
<td>0 - 15,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td>11,721 - 23,450</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28%</td>
<td>23,451 - 46,900</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30%</td>
<td>46,901 - 93,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33%</td>
<td>93,801 - 187,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35%</td>
<td>187,601 - 375,200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38%</td>
<td>375,201 - 592,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40%</td>
<td>592,801 - 730,400</td>
<td></td>
<td>28,001-55,000</td>
<td>34,371-150,000</td>
<td></td>
</tr>
<tr>
<td>41%</td>
<td>730,401 - 894,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>42%</td>
<td>894,001 - 1,188,000</td>
<td></td>
<td>55,001-75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>43%</td>
<td>1,188,001 - 2,376,000</td>
<td></td>
<td>75,001 and more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>45%</td>
<td>2,376,001 - 5,282,000</td>
<td></td>
<td>150,001 and more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td>5,282,001 - 10,564,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: [7; 8; 9; 10; 11].

Table 2: Functionality of the taxation systems in various countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Overall tax payments</th>
<th>Time to comply</th>
<th>Total Tax Rate</th>
<th>Total tax payments</th>
<th>Profit tax payments</th>
<th>Labour tax payments</th>
<th>Other taxes payments</th>
<th>Total tax time</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>69</td>
<td>40</td>
<td>9</td>
<td>53</td>
<td>11</td>
<td>2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>France</td>
<td>55</td>
<td>11</td>
<td>38</td>
<td>164</td>
<td>7</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Germany</td>
<td>86</td>
<td>44</td>
<td>88</td>
<td>130</td>
<td>12</td>
<td>5</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Italy</td>
<td>133</td>
<td>54</td>
<td>127</td>
<td>170</td>
<td>15</td>
<td>2</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18</td>
<td>17</td>
<td>24</td>
<td>82</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>102</td>
<td>29</td>
<td>128</td>
<td>132</td>
<td>9</td>
<td>1</td>
<td>2</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: [12].

However, the redistribution policy of the tax burden among different social groups in the current context is undergoing significant changes. It has become more complicated and transformed into a sequential process of equalization of the household incomes in accordance with a certain economic status, characterized as socially sustainable in the concerned community.

The most actual fiscal tools to ensure social peace should include targeted methods of social support, implemented through a system of individuals' income taxation with due regard to the consistent development of tax social privilege mix [6. p.57].

Based on the above, it can be concluded that in general, over the two decades since the establishment of the Russian Federation as the state of the new formation, the government failed to resolve the issues, aimed at achieving Russian society, uniform in terms of its material assets, as well as to achieve efficient use of all available opportunities and tools of the tax system and policy.

Use of a flat tax system that equalizes high and low income groups, does not provide full tax revenues to the budget system; more than that, it enhances the polarization of the Russian society.

Therefore, within the current tax system, taxes neither accomplish their fiscal function to pump up the budgets of various levels with necessary financial resources, nor are able to even out the differentiation in household incomes.

REFERENCES