

Comparative Analysis of the Main Features of the Professional Income Tax: Russian and Foreign Experience

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Abstract. The article highlights the issue on taxation of income gained by self-employment activity. This issue is frequently considered as a problem for many countries. Thus, study of successful practices of different developed countries may be useful for working out the national effective taxation system concerning self-employment incomes. The comparative study was by such main features, as tax registration, and limits on the amount of income. The analysis of the ways to solving the aforementioned problem, based upon practices of such countries as France, the USA, Great Britain, Germany, shows differences and similarities. At the same time, it points at the original approach to taxation of self-employment incomes in Russia. The authors pay special attention to the fact, that the development of information and communication technologies is a factor of increasing shadow economy, which exacerbates the problem of budget revenue generation. The main ways to improve the situation were worked out by authors taking into account practices of foreign countries.

1. Introduction

The post-World War II economic situation led to the emergence of unstable forms of employment. From the beginning of 1950-s and until 1970-s, in most American and European countries the full stable employment was still a dominant model. However, this model underwent changes under the influence of the geopolitical and macroeconomic situation [13]. Similar transition, observed in the Soviet Union, was characterized by nearly full employment, which was attributed to the various factors, including legal, ideological, and economic. Full, or universal, employment was introduced as an objective for the country's social and economic development and reflected in legal regulations. In the 1950-s, the USSR launched a program against social parasitism, and in 1936 the idea was reflected in the constitutional principle: "He who does not work, neither shall he eat". This principle has been embodied in the Article 12 of the 1936 Soviet Constitution, also known as the Stalin Constitution. Among many factors providing high level of employment [24] the most worth noting is the development of labor law aimed at providing guarantees for employees and the labor safety [2], the development of trade unions [15], employment service, healthcare system for employees, and

compulsory measures taken by the state to achieve this objective, including penalties [1] for “social parasitism” [7, 8, 9]. The Soviet employment model underwent substantial changes in the end of 1980’s due to the recognition of the right of a Soviet citizen to independently achieve livelihood by means other than the salary provided by the employment contract. At the same time, there has been recognition of the citizens’ rights to get additional income during their free time [6].

Let us consider the conceptual framework. Standard labor relations are based on direct subordination of the employee to the employer [25].

Unlike the traditional labor relations, the non-standard forms may be the following:

- temporary employment: fixed-term contracts, including one-time contracts based on projects or specific tasks, including seasonal work;
- part-time employment and “on-call” work;
- multilateral labor relations (temporary agent’s jobs, subcontracting);
- undeclared employment (when parties involved in paid activities deliberately conceal the information concerning their relations from the state bodies in order to evade taxes or to avoid social security duties and/or requirements of labor legislation);
- self-employment.

Before the beginning of the new millennium, there was a stable stereotype that informal workers were low-paid employees who worked in conditions of labor exploitation because of lack of other options [27, 11].

The emergence of a significant number of street vendors, microentrepreneurs, and small traders has led to a change of approach and recognition of informal workers as self-employed [18, 16, 29].

The fact that self-employment is reflected in the legal doctrine is important because of the necessity to identify these individuals as subjects of taxation law. Despite the availability of separate studies concerning various non-standard forms of employment, [22, 12, 26] there are currently no studies devoted to the comparative analysis of approaches to the taxation of self-employed individuals.

2. Theoretical and legislative basics

United Nations Organization developed [21, 17] common criteria to distinguish self-employed individuals from other categories of workers:

- small-scale activities (economic indicators);
- absence of dependence between wages and labor (informal employment);
- independence of action, with/without the right to hire workers;
- certain degree of economic and organizational independence from the labor market.

The European Commission proposes [3] to define self-employment without linking it to the results of the economic activities.

The personal commitment is of particular importance when implementing the income-generating activities at individual’s own expense. Such activities always involve a significant degree of independence.

In the beginning of the XXth century, the Russian studies attempted to form the criteria characterizing the self-employed part of population. [14]. During the Soviet period, the universal employment in the framework of standard (formalized) labor relations was an objective of social and economic development. For this reason, the self-employment was discussed neither in the doctrine, nor in the theoretical studies.

At the current stage of socio-economic development in Russia, the self-employed individuals are those who earn their money performing the work personally, and are not subject to the restrictions established by tax legislation. Specifically, this term is used to define individuals subject to special tax regime [4]. These are individuals who receive revenues from utilization of property, skills, abilities, and professional knowledge (economic or professional beneficiaries). In accordance with the Russian tax legislation, [5] the professional revenue is income received from the activities carried out by an

individual having no employer and no employees hired under labor contracts. It is also understood as income from utilization of property.

Let us consider basic features characterizing tax status of a self-employed person in various countries.

Tax liability of a self-employed person is associated with **tax registration**. In most of European countries, there are no specific liabilities related to the tax registration for people who carry out professional activities. Regardless of whether a person is self-employed, a business owner or an individual entrepreneur, they are subject to general obligation to be registered as a taxpayer and assigned with a tax number. In Russia, the individuals, including individual entrepreneurs, are required to register with the tax authority as taxpayers. A specific feature is that self-employed citizens fall within the scope of special tax regime which is technically implemented by the means of special mobile application.

In countries where self-employed individuals are subject to lower tax rate, determination of **limits on the amount of income** subject to taxation seems logical. This limitation is applied to prevent tax evasion. For example, in France the maximum income of a self-employed individual for tax purposes must not exceed EUR 70,000 [28]. Otherwise, the income is liable to taxation. In Russia, a ceiling on the revenue is RUB 2.4 mln, which is approximately two times lower than the limit established in France.

Foreign legislation provides tax deduction when calculating the tax base or tax-free allowances for total or net income [20]. In Germany, for example, the tax-free allowance for a self-employed person in 2019 is EUR 9,169. This takes into account the total family income of EUR 18,388 [19]. In the USA, a self-employed person is liable to pay tax if their net income is USD 400. In Great Britain, the tax-free allowance for a self-employed person has not been specified. It is a unified sum for all categories of personal income taxpayers regardless of the base or the source of the income [25, 28]. In Russia, self-employed individuals are entitled to tax deductions limited to RUB 10,000. It should be noted that tax deduction rate is differentiated depending on whether the self-employed person provides services to individuals or legal entities.

Many countries use a progressive tax scale which can differ from the scale applied in relation to personal income received on other bases within standard labor relations or by individual entrepreneurs acting as taxpayers. In France and the USA, the revenues from self-employed individuals are subject to fixed rates unlike other personal incomes [10]. In Russia, progression is not applied to any personal incomes. Another specific fact is that the applied rate is significantly lower than in relation to revenues received on other bases. At the standard rate of 13%, the income received by taxpayers from the sale of goods, services, property rights to individuals, and from the provision of professional services is taxed at the rate of 4%. If the income is received from individual entrepreneurs and legal entities, the rate is 6%.

3. Results of the analysis

A general feature is the **need to register as a taxpayer**, which is an attempt to bring out of the shadow those revenues that citizens receive on a systematic, i.e. not one-time basis as a result of their independent activities.

As a rule, self-employed citizens are subject to preferential tax regime. This type of regime is less heavy in terms of fiscal burden and is technically easier to use.

One of the most common ways to prevent misuse of special tax regime is to **limit the maximum income** subject to a special tax regime. If the amount of the income limit is exceeded, the taxpayers must fulfill their tax obligations on a common basis without exemptions, reduced rates, and facilitated tax regime if provided by tax legislation.

A common feature of tax legislations in many countries, including Russia, is the availability of **tax benefits** in the structure of the income tax for self-employed persons, which comes in the form of tax-free allowances or tax deductions. Moreover, while in Great Britain the amount of the tax-free

allowance has not been set in relation to self-employment income, in Russia, the USA, and most EU countries it is differentiated depending on the type and source of income.

A comparative analysis of Russian and foreign experience in applying tax rates points at the unique character of Russia's approach to taxation of professional income. Taking into consideration that in Russia the personal income tax rate is initially lower than in other countries, the self-employment incomes are subject to even lower rates. In this situation, it is reasonable to assume that the implementation of special tax regime in relation to self-employed individuals is aimed at reaching the fiscal objective, but also serves as a tool to induce taxpayers to legitimize and declare their incomes.

The 4% rate is not burdensome in terms of tax burden. It is considered by taxpayers to be a reasonable payment for 'peace of mind' and strengthens tax discipline among Russian taxpayers.

The analysis of foreign practices allowed us to conclude that the creation of effective legal incentives promoting the new special tax regime is a challenge not only for tax legislation. It is required to raise tax and legal awareness of citizens. Strengthening of tax discipline is a matter of interest of a state itself, whose policy should be aimed at creating social responsibility and a positive vision for taxpayers.

4. Conclusion

The problem of the growth of informal employment in Russia is accompanied by the development of computer and network technologies and the unstable economic situation, posing a threat to the formation of budget revenues. The main factors contributing to the formation of informal employment is the intensive development of network and information technologies, as well as the deterioration of the economic situation in the country, associated with the series of economic crises and difficulties with official employment. These conditions require development of coordinated government tax policy aimed at regulation of issues related to remote employment and networking Internet platforms.

The intensive development of digital technologies, online exchanges, and the network economy provides ample opportunities for informal cooperation, including the remote cooperation. The current Russian legislation is ill-adapted to modern challenges. This is extremely relevant in the context of the rapid development of the digital economy, information technology and communications, which also constitutes a real danger of further development of the shadow sector of the economy.

The important factors contributing to the growth of shadow employment and tax evasion are high transaction costs associated with the fulfillment of taxpayer duties in good faith, namely the need for tax accounting and study of taxation laws, as well as the low level of financial and tax literacy of population in general [23].

The low level of social guarantees, which consists in the insufficiently high level of pensions, disablement benefits, etc. furthermore contributes to tax evasion.

Under current conditions, as there is a possibility of a progressive change in the structure of the labor market featuring the increasingly intensive development of network and remote cooperation technologies not associated with traditional forms of permanent employment, the following measures should be taken to adapt the government tax policy to modern conditions and reduce shadow employment:

1. Implementation of modern information technologies providing interaction between the tax services and taxpayers and application of modern technological and software solutions.

2. Development of interaction between tax services and networking platforms acting as mediators between individual entrepreneurs, private employees offering specific services, and the consumers. To date, there are successful foreign examples of establishing interaction between tax services and networking platforms enhancing remote cooperation with taxpayers and preventing collective tax evasion.

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