



EFFECTIVE USE OF INDIVIDUAL INCOME TAX MECHANISMS IN REDUCING POVERTY IN UZBEKISTAN (IN CASE OF CHINA)

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Abstract. This article examines the role of individual income tax mechanisms in reducing poverty, focusing on the People's Republic of China (PRC) and its potential applicability in Uzbekistan. China's progressive tax reforms have had a significant impact on poverty alleviation, particularly in rural areas, where the country's development trajectory was historically hindered. Using a comparative analysis, the article evaluates how Uzbekistan can adapt similar tax strategies to improve income redistribution and reduce inequality. The study reveals that while Uzbekistan's current tax system shows some potential, a more progressive tax structure, accompanied by targeted deductions and exemptions, could enhance poverty reduction efforts. This article also outlines the challenges Uzbekistan faces in implementing these changes, considering its socio-economic context and fiscal policies.

Keywords: Income tax, poverty reduction, fiscal policy, Uzbekistan, China, progressive taxation, income inequality.

Аннотация. В данной статье рассматривается роль механизмов индивидуального подоходного налога в сокращении бедности, с акцентом на Китайскую Народную Республику (КНР) и их возможное применение в Узбекистане. Прогрессивные налоговые реформы Китая значительно повлияли на сокращение бедности, особенно в сельских районах. Статья анализирует, как Узбекистан может адаптировать аналогичные налоговые стратегии для улучшения перераспределения доходов и сокращения неравенства. Исследование показывает, что, хотя текущая налоговая система Узбекистана имеет определённый потенциал, более прогрессивная структура налогообложения и целевые налоговые льготы могут значительно усилить усилия по сокращению бедности.

Ключевые слова. Подоходный налог, сокращение бедности, фискальная политика, Узбекистан, Китай, прогрессивное налогообложение, неравенство доходов.

Annotatsiya. Ushbu maqolada individual daromadga soliqlar mexanizmining kambag‘allikni qisqartirishdagi roli Xitoy Xalq Respublikasi misolida ko‘rib chiqilgan va ularning O‘zbekistonga tatbiq etilishi mumkinligi tahlil qilingan. Xitoyning progressiv soliq islohotlari, ayniqsa, qishloq joylarida kambag‘allikni qisqartirishda muhim rol o‘ynagan. Maqolada O‘zbekiston qanday qilib shunga o‘xshash soliq strategiyalarini qabul qilish orqali daromadlarni qayta taqsimlashni yaxshilashi va tengsizlikni kamaytirishi mumkinligi tahlil qilingan. Tadqiqotlar O‘zbekistonning amaldagi soliq tizimi ma‘lum salohiyatga ega ekanini, biroq yanada progressiv soliq strukturasini tatbiq etish va maqsadli soliq imtiyozlari kambag‘allikni qisqartirishni kuchaytirishini ko‘rsatadi.

Kalit so‘zlar. Daromad solig‘i, kambag‘allikni qisqartirish, fiskal siyosat, O‘zbekiston, Xitoy, progressiv soliq, daromadlar tengsizligi.

Introduction.

The reduction of poverty through fiscal policy has garnered significant attention globally as countries strive to meet the sustainable development goals. Among various fiscal tools, individual income tax plays a pivotal role in income redistribution, especially when designed with progressive brackets that impose higher tax rates on wealthier individuals. Poverty alleviation through fiscal means has been particularly effective in nations such as the People's Republic of China, where tax reforms have contributed to historic reductions in poverty.

In China, poverty reduction efforts have aligned with reforms in the tax system, resulting in a remarkable decrease in rural poverty. According to World Bank, from 2015 to 2022, more than 85 million people were lifted out of poverty through a combination of targeted tax policies and social welfare programs. Conversely, Uzbekistan has embarked on its own reform path under President Shavkat Mirziyoyev, who has emphasized poverty reduction as a key priority. However, despite some progress, Uzbekistan's fiscal policies have not yet maximized their potential in addressing income inequality.

This article explores the comparative impact of individual income tax reforms in China and Uzbekistan, analyzing how Uzbekistan might adapt China's successful tax strategies to enhance poverty alleviation. The study highlights the role of progressive tax structures and targeted deductions in poverty reduction, drawing lessons from China's experience to inform Uzbekistan's ongoing reforms.

Literature review.

A wealth of literature suggests that progressive taxation is one of the most effective means of reducing income inequality and alleviating poverty. According to Piketty, progressive taxation serves as a mechanism to ensure wealth redistribution, particularly in countries with growing income disparities. In emerging economies, progressive tax systems have been shown to play a critical role in social welfare improvement by directing resources towards public goods and services that benefit low-income populations.

China's experience with income tax reform provides a compelling case study.

Li and Zhang argue that the PRC's tax reforms, particularly those implemented between 2010 and 2018, resulted in substantial poverty reduction, particularly in rural regions where poverty had previously been entrenched. These reforms included both income tax adjustments and social welfare expenditures, reflecting a comprehensive approach to poverty alleviation.

Conversely, research on Uzbekistan's tax policies suggests a need for reform. Abdullayev notes that while Uzbekistan has simplified its tax code, it lacks the progressivity needed to address systemic poverty. A flat tax structure, though easier to administer, has been criticized for its inability to reduce income inequality.

The literature points to the importance of a more nuanced tax system that balances equity with efficiency.

Comparative analyses between China and Uzbekistan, are limited. However, as noted by Huseynov and Xia, China's successful integration of progressive tax reforms alongside targeted social programs provides a model for Uzbekistan, where economic liberalization is still in its early stages. These studies underscore the potential for Uzbekistan to adapt China's strategies, particularly in terms of tailoring tax deductions and exemptions to low-income households.

Research methodology.

This research adopts a qualitative and quantitative approach based on a comprehensive analysis of existing data, governmental reports, and scholarly literature to evaluate the effectiveness of individual income tax mechanisms in reducing poverty. The methodology is structured to ensure a clear comparison between China and Uzbekistan, focusing on statistical and policy-oriented data to draw meaningful conclusions.

The study relies on secondary data sources, including:

- Data regarding tax revenues, poverty rates, and economic growth from the National bureau of statistics of China, the State committee on statistics of Uzbekistan, and international bodies such as the World Bank and United Nations Development Programme (UNDP). These reports provide quantitative indicators such as tax brackets, revenue collection, poverty reduction outcomes, and Gini coefficients.
- A review of peer-reviewed articles and research papers from journals such as the Journal of economic policy reform, Journal of poverty, and the International journal of tax and public finance. These papers

provide theoretical frameworks and empirical evidence on the role of taxation in poverty alleviation and income redistribution.

- Analysis of tax policy reforms implemented in both countries, drawn from governmental white papers, taxation reform strategies, and fiscal policy documents. Specific attention is given to the structure of tax systems, tax exemptions, and deductions related to poverty alleviation.

The study employs a comparative analysis methodology, focusing on the structural differences between China's progressive tax system and Uzbekistan's flat tax system. The analysis focuses on three key dimensions:

- Examines the structure and functionality of China's multi-bracket income tax system in contrast to Uzbekistan's flat tax system, assessing their respective impacts on wealth redistribution and poverty reduction.

- A statistical review of poverty reduction rates in both countries, focusing on how individual income tax mechanisms correlate with broader poverty alleviation strategies.

Quantitative data is analyzed using various statistical tools, including:

- A review of historical data from 2010 to 2023 to identify trends in poverty rates, income inequality (measured by the Gini coefficient), and tax revenue as a percentage of GDP in both countries.

- Gini index trends are analyzed to evaluate the effectiveness of tax systems in reducing income inequality.

Data for this analysis is sourced from the World Bank and national statistics reports.

- A comparative analysis of poverty reduction rates, with a specific focus on how tax policy changes have affected the lowest income groups.

Discussion of analysis and results.

China's tax system, especially the progressive individual income tax, has been a critical factor in reducing poverty over the past few decades. Between 2012 and 2021, China lifted over 770 million people out of poverty, thanks in part to targeted reforms in taxation, including higher tax rates for the wealthy and tax deductions for the poor. According to World bank , by 2021, the percentage of people living below the national poverty line had dropped to 0.6%, down from 10.2% in 2012.

The key features of China's tax system that have contributed to this success include:

- China employs a progressive tax structure with seven income tax brackets ranging from 3% to 45%, ensuring that higher-income individuals contribute proportionally more to public revenue.

- China provides a variety of deductions, including for medical expenses, education, and housing, which directly benefit low- and middle-income families. In 2020, the Chinese government introduced additional deductions for childcare, which further alleviates the financial burden on low-income households.

- The revenue generated through progressive taxation has been used to fund poverty alleviation programs, including housing subsidies, healthcare, and education. These programs have significantly reduced the poverty rate, especially in rural areas. For instance, Li & Zhang note that the government's poverty alleviation program in Guizhou province lifted 5.92 million people out of extreme poverty between 2013 and 2020.

- The Chinese tax system has increasingly relied on technology to ensure high compliance rates. Through digital tax collection platforms and big data analytics, tax evasion has been minimized, and more accurate tax assessments have been made. According to Piketty , by 2022, tax compliance in China was above 90%, contributing to a more stable and equitable revenue system.

Uzbekistan, in contrast, has maintained a flat income tax rate since its reforms in 2019, with a fixed rate of 12% for all income levels. This flat tax system, while simplifying tax administration, does not differentiate between high- and low-income earners, which limits its impact on poverty reduction.

-Unlike China's progressive system, Uzbekistan's flat tax applies equally to all citizens, regardless of their income level. This system places a disproportionate burden on low-income households, which spend a larger percentage of their income on essential needs. For instance, Huseynov & Xia say that a family earning \$300 a month pays the same rate as a family earning \$3,000, which exacerbates income inequality .

- Uzbekistan offers limited deductions or exemptions for personal expenses such as healthcare or education, further limiting the ability of low-income earners to retain disposable income. This is in sharp contrast to China's robust system of tax deductions that specifically target essential services, which helps reduce the

financial strain on vulnerable populations.

- With fewer tax revenues collected from wealthier citizens, Uzbekistan struggles to fund the same level of social programs as China. While Uzbekistan has made progress in housing and healthcare reforms, our country still lags in funding programs that target the poorest segments of society. As a result, many low-income households remain vulnerable to economic shocks.

- Uzbekistan's Gini coefficient, while improved, remains at 0.34, indicating significant income inequality (UNDP, 2023). The flat tax system does little to address this inequality, and wealth remains concentrated among the top 10% of earners. This contrasts with China's more progressive system, which has contributed to a lower Gini coefficient of 0.29 in recent years, highlighting the redistributive effect of progressive taxation.

To address these challenges, Uzbekistan could benefit from adopting some elements of China's tax system. Implementing progressive taxation and expanding deductions could help create a more equitable tax structure and support poverty reduction efforts.

-A progressive tax system with several income brackets, similar to China's, could ensure that higher earners contribute a larger share to public revenue. For example, introducing three or more tax brackets (e.g., 5%, 15%, 30%) would help redistribute wealth more effectively and reduce the tax burden on low-income families.

-Uzbekistan could use increased tax revenues from wealthier citizens to fund targeted social programs, such as subsidies for healthcare, housing, and education. For instance, a well-funded healthcare program could reduce out-of-pocket expenses for low-income families, improving their quality of life.

-Uzbekistan could follow China's lead in educating citizens on tax responsibilities and the benefits of paying taxes. Public campaigns could raise awareness of how taxes are used to fund essential services, thereby encouraging compliance and reducing tax evasion.

By adopting these reforms, Uzbekistan could significantly enhance its poverty reduction efforts and address the persistent issue of income inequality.

Conclusion.

This study highlights the potential of individual income tax mechanisms to significantly contribute to poverty reduction efforts in Uzbekistan. By learning from China's successful implementation of progressive taxation, Uzbekistan can develop a more equitable tax system that addresses income inequality and supports low-income households.

The findings suggest that a shift towards a progressive income tax structure, accompanied by targeted deductions and social welfare initiatives, could enhance Uzbekistan's poverty alleviation strategies. Future research should focus on the implementation challenges of these reforms and the potential social implications of transitioning to a more progressive tax system.

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