

CONSIDERATIONS REGARDING THE KAZAKHSTAN'S TAX SYSTEM

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Abstract — This paper presents the main points of the tax system and the characteristic of the main taxes in Kazakhstan, and gives some considerations and suggestions concerning its improvement. As taxation is related to the formation of the financial resources of the country it is very crucial issue to consider, especially in emerging countries like Kazakhstan. By transforming into a market economy, Kazakhstan has achieved many of its goals. However, there are still many challenges and problems to solve for our country. The tax and budget policies play an important role in stabilizing the economy. Taxes and the state budget are important levers of state control on the economy. Financial stability in Kazakhstan and further development of the country depends on how effectively the basic tax rates were set in the market and how transparent the fiscal policy is. After a general introduction which gives an overall view on the Kazakhstan tax system and tax rates, the second part of the paper describes the current tax policy, the structure of the tax receipts in the country and main development trends in tax system in Kazakhstan. The final section concludes ideas.

Index Terms—Effectiveness Of Tax System, Influence Of Tax System, Tax Rates In Kazakhstan, Tax System In Kazakhstan.

I. INTRODUCTION

Kazakhstan is the ninth largest country in the world and is one of the most developed countries in the region. It has significant foreign investment and steadily increasing GDP per capita. Since its sovereignty in 1991 Kazakhstan continue to move toward a free market economy. There are many investment opportunities as a result of its plentiful natural resources, growing consumer demand for goods and services, and its skilled workforces. Today, the business and tax landscapes have changed dramatically, and the pace and complexity of change continues to increase. Government is tempering the need for revenue with increased competition for labor and capital. Tax authorities are adapting their enforcement strategies, focus and policies in response to the changing dynamics of business. Companies are balancing competing priorities, and ensuring compliance while adding value.

Transition of the Republic of Kazakhstan from the centralized administrative-command system to the market levers brought about the necessity for the better use of Fiscal policy: especially tax policy for the national well-being. While considering Kazakhstan's tax policy we also should think of the fiscal policy, in general, which attempts to stabilize the economy by controlling interest rates and the money supply with such instruments like government expenditure and taxation. Taxes are very important financing sources of government activities and the economic tool of realization of the state priorities. The fact that Kazakhstan can set its own fiscal policy shows that it is an independent country which can choose its own development direction. The issue is to choose a right direction and use economic tools properly.

Nowadays, the tax reform literature broadly supports the need to reform the tax structure in developing nations. Personal and corporate income taxes are

biased against savings and capital formation. It is important to avoid heavy reliance on direct taxation in an increasingly global world economy, where capital and skilled labor are internationally mobile. To this end, many proponents have argued for a change in the tax mix, away from the taxation of income towards the taxation of consumption.

As a sore point of the reformed economy and a major component of economic development of Kazakhstan, taxes should be part of an integrated, systemic reforms aimed to address the major challenges facing society. Shaping the basis of tax policy, the Government of Kazakhstan faced with the necessity of solving extremely complex problems. Its essence is that it is needed to take into account many circumstances and factors: tax policy should be guaranteed to ensure a profitable part of the state and local budgets, the contribution rate should be minimal in order to stimulate economic development, taxation mechanism should be as simple, it is necessary to pay taxes was psychologically preferable.

II. AN OVERVIEW OF KAZAKHSTAN TAX SYSTEM

Today, there are significant number changes and additions of tax legislation of Kazakhstan, which is mainly associated with the dynamic development of the economy and the emergence of new economic - economic relations. Taxes are computed and paid in the national currency "Tenge" to the budget in accordance with Tax Code of Republic of Kazakhstan. Government tried to create such tax system which is focused on stabilizing inflation, stimulating the growth of production and the economy, ensuring reduction of the deficit of the state budget. Among the qualitative changes in the structure of the state budget, it should be noted the increased role of tax revenue, which was mainly due to the reform of the tax system [1].

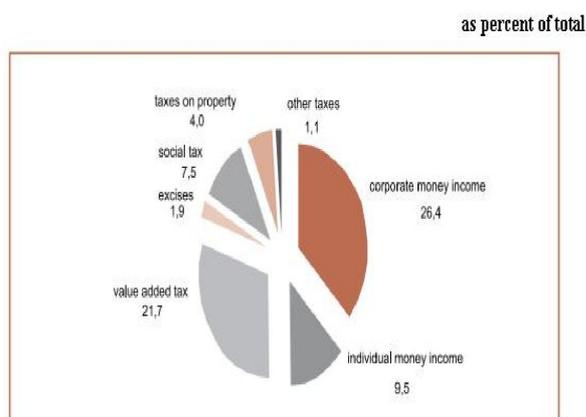
Since the release of the Decree of the President of the Republic of Kazakhstan "The Law on Taxes and other obligatory Payments to the Budget" from April 24, 1995 № 2235 there have been made large number additions to the law. Any changes or additions related to the revision of the structure of taxes and other payments to the budget and rates are limited to once a year [2].

The tax system of the Republic of Kazakhstan is a statutory list of all currently existing taxes, their rates, taxpayers and objects of taxation, conditions and terms of payment, methodology for calculating and accounting, as well as relevant administrative regulations. The Constitution of the Republic of Kazakhstan from 30.08.1995 announced responsibility to pay legally established taxes, fees and other mandatory payments to the budget by every citizen of the country [2].

The main types of taxes and other obligatory payments to the budget of the Republic of Kazakhstan include (as for 01.01.2015) [3]:

- Corporate income tax
- Personal income tax
- Value Added Tax
- Excise
- Social tax
- Land tax
- Taxes on vehicles
- Property tax
- Taxes and special payments of subsurface users

As we can see from the pie chart below, the main tax receipts of Kazakhstan's state budget are Corporate Income Tax (26,4%), Value Added Tax (21,7%), Individual Income Tax (9,5%) and Social Tax (7,5%). The Tax Committee of the Ministry of Finance of the Republic of Kazakhstan ensures that taxes and other mandatory payments to the budget are received in full and in a timely manner.



Source: [4]

Figure 1. Structure of the Tax receipts of State budget of Kazakhstan in 2015

So, corporate income tax, value added tax, personal income tax, and subsurface users taxes account for the major part of the budget revenues. The table below represents a summary of tax rates for the main taxes.

Table 1. Tax rates for the main taxes in Republic of Kazakhstan.

Tax	Tax Rate (as of Jan. 1, 2015)
Corporate Income Tax	20%
Personal Income Tax	10%
Value Added Tax	12%
Social Tax	11%
Social insurance fund contribution	5%
Pension Fund Contribution	10%

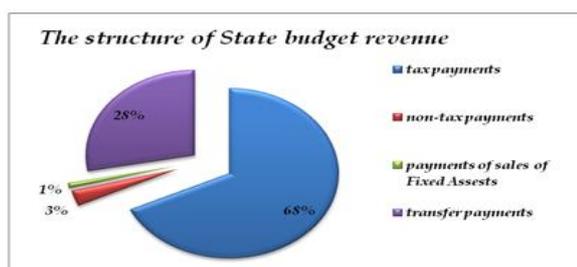
Source: [3]

A modern tax system of the Republic of Kazakhstan is characterized by the following features [5]:

- is based on the law, not on the regulations;
- built on the same principles, the same mechanism of calculation and payment collection. For all tax payments there is unified control of the Ministry of Finance and its departments;
- imposes the same requirements to taxpayers and creates equal starting conditions for the execution of tax deductions on income by identifying the list of taxes, unification of rates, exemptions and organize their delivery mechanisms;
- ensures a more equitable distribution of the tax burden between different categories of taxpayers, strengthen legal protection of their interests;
- provides a clear sequence of taxes according to the tax calendar.

Tax revenues account for a significant share of the state budget of the Republic of Kazakhstan. The first general indicator of its role in the economy of a country is the share of total tax revenues GDP. The share of tax revenues in GDP of Kazakhstan is about 20% [4]. Not last role in it plays the taxes from the nonresidents. According to the legislation on Kazakhstan foreign citizens that are residents in Kazakhstan are subject to individual income taxation on their worldwide income. Foreign citizens - nonresidents are subject to taxation only on income received from Kazakhstan sources.

In Fig. 3 we can see that 68% of budget revenues are tax revenues. Transfer payments are income transfer to the National Fund of Kazakhstan in the state budget. They constitute 28% of the revenue. The sources of the National Fund of Kazakhstan is oil and gas revenues, revenues from the sale of strategic enterprises of Kazakhstan, and the industry generating enterprises [6].



Source: [4]

Figure 2. The structures of State budget revenue of Kazakhstan, 2014

Non-tax revenues are mandatory, non-return payments to the budget set by the "Budget Code" and other legislative acts of the Republic of Kazakhstan and constitute 3% of a country's budget. Thus, tax revenues constitute a significant proportion of the state budget of Republic of Kazakhstan.

Currently, one of the most crucial issues for Kazakhstan government is improvement of its tax system. And one of the main elements of this system in addition to control of tax payment is regulation of tax rates. The experience of economically developed countries shows that fixation of tax rates for a long period of time leads to decrease in effective functioning of the economy. So, the tax system should be flexible enough and up-to-date.

III. CONSIDERATIONS AND SUGGESTIONS REGARDING THE KAZAKHSTAN'S TAX SYSTEM

Kazakhstan's tax policy can be characterized in the following way: the policy of the «maximum taxes» which works by a principle «to take everything that is possible» in a combination with the tax policy providing high enough level of taxation, but at considerable social protection. One of the disadvantages is that government can face the "tax trap" when increase of taxes is not accompanied by a gain of state revenue. This may cause some problems within the economy in general (for instance, high level of concealment of incomes). Nevertheless, the «maximum tax» policy is widely used by most of rich countries in Europe and even in USA, but these countries adhere a high level of transparency.

Nowadays, the tax policy in Kazakhstan is directed on increasing the profitability of an investment to the economy by simplification of tax burden. It is essential for Kazakhstan that its tax policy provides a profitable part of the state budgets. Tax rates should be minimized to stimulate economy development, the mechanism of taxation should be simple as much as possible and it is necessary to make the payment of taxes psychologically more preferable. In addition, the perfection of tax administration system is needed. For instance, reducing the tax reporting by exception of additional forms to declarations and calculations. Also entering the uniform term of providing the tax reporting, not later than 15th day of the second month after the termination of tax period. In addition, division of tax checks into types - planned and off-schedule, in order to systemize the tax checks is preferred.

Disadvantages of the tax system before adoption of the new tax law lie on the surface. That's too many taxes, and excessive rates, and therefore, certainly a high proportion of tax payments from the total income businesses, which because of this have to seek a way out from under the tax pressure. The most attractive is the sphere of commerce, which has much wider possibilities to quickly wrap funds. But here in the volatile financial and credit conditions, taxes increase

the probability of bankruptcy so that pushed entrepreneurs into the shadow realm. Thus, the tax system is the basis for an intensive build-up of shady operations. As a result, the so-called "shortfalls" projected revenue in the budget is not only a criminal basis, but are the result of natural self-defense businesses from the tax pressure. The leaders of any enterprise and entrepreneurs face a choice: either they pay all taxes and doom themselves to bankruptcy, or hide everything they can, and continue to live. Clearly, they prefer the latter.

The principal disadvantages of the tax system was the inclusion of a number of deductions and mandatory payments to the funds of the transformation of the economy, employment, development of transport, social security, cost and prices of finished products. It creates the basis for a continuous spiral of growth in prices due to the continuous increase in the cost of goods. The massive nature of the mutual debts (arrears), amplifying the fall in output, an acute shortage of working capital are not the result of poor management of the business leaders, and the inevitable consequence of adverse macroeconomic conditions, including deficiencies of tax policy [7]. So, do a lot more to tax policy has helped to solve the pressing problems of reforming the economy.

Tax systems of many countries around the world has evolved gradually, over many years. Kazakhstan also needs to go through a long-term evolution of a tax system. It should not be prompt if we want to form and develop strong national economy. So, it is not recommended for our country to move to a fully modern tax system at once. Progress towards this goal should be phased so that to give time to taxpayers as well as to tax organizations to understand the changes as they are introduced.

Kazakhstan, as a young sovereign country, is taking its first steps in fiscal policy. The tax system depends on the success of the tax laws of the State. This system is not so simple and requires serious considerations as it is very essential for stable development of our country's economy from the social point of view. According to authorities, the tax system must meet the following requirements [8]:

1. The stability of the tax system;
2. The ordering mechanism for collecting taxes (which will facilitate monitoring of the timeliness and completeness of taxes);
3. Subordination of local and state taxes. (The division of spheres of state and local taxes exceptional arbitrariness in the formation of resources at all levels of administrative hierarchy, is the guarantor of their autonomous self-development);
4. Equality before the law, all taxpayers, the uniformity of tax policy (achieve greater uniformity will facilitate the satisfaction of other criteria of good tax policy, it helps to simplify taxes, and this is a contribution to their neutrality);
5. Legislative information on the right of a taxpayer (tax system should show the people how are different

activities of the State, which are made in different scales, so that the decision of politicians, how and what to spend money, augmented by the willingness of taxpayers to pay for such action);

6. The simplicity of the tax system;

7. The neutrality of the tax system (completely neutral tax system leaves unchanged all cost or price ratio available on an effective private market is not impacted by the state).

It was supposed to reduce the amount of taxes by 40-45%, while personal income tax by 40%, to clarify the rates of all taxes: land, property, private individuals, rental payments, and so on, in order to increase the incentives of business. The main thing is that the practice of inefficient tax should be stopped. The Government of the Republic, Finance Ministry and other government structures developed several alternative projects. According to authorities, the principles of "government project" are: justice, simplicity, and economic neutrality, comparability of tax rates with partners in other countries. These issues will be beneficial for developers, practitioners and scholars [7].

Considering the issues of income inequality and redistribution mechanisms, many Western economists suggest that the redistribution of wealth through progressive taxation of property is more effective than the progressive taxation of income from employment (Bartels, 2008, Keister, 2000, Smith, 2001 and Wolff 1995).

The economic argument that a very high level of wealth and capital inequality can cause a reduction of volume of production is less popular. In accordance with this last argument, in the case of wealth distribution there is no conflict between fairness and efficiency.

Currently the necessity of progressive taxation is being led by Kazakhstan and Russia. There are numerous reasons for this, but the main argument in favor of progressive individual income tax lies in the principle of social justice. In other words, those who get more income may, to some extent, carry more tax load and be of more use to their society than the one with low income.

Taxation, in its various forms, affects the ability and willingness of an individual to work, save and invest. These effects vary, depending on the base of the tax, the rate structure of the tax and the level of the tax burden. Several studies have shown that the structure of taxation can have a major influence on the real sector and that taxation policy can therefore be an important tool for promoting saving, capital formation and economic growth. This applies to both developed and developing economies, although there are significant differences in the tax mix and tax structure between countries at different levels of economic development.

Economic transformations in modern Kazakhstan and reforming the ownership relations significantly affected the implementation of the state's economic

functions and naturally led to the reform of the tax system. In transition to a market economy taxes are the most effective tool for regulation of new economic relations. In particular, they are designed to limit the spontaneous market processes, influence the formation of the industrial and social infrastructure and to downsize inflation.

However, according to the experience of successful countries, the success of the national reform primarily depends on the reliability of the state guarantees of freedom, soundness and stability of relationships. Absence or ineffectiveness of such guarantees, as a rule, threatens the economic security of the country. Feature of economic reform in Kazakhstan is such that taxes and the tax system cannot function effectively without proper legal support. This involves not only the protection of the interests of the budget, but also on ensuring the constitutional rights and legitimate interests of the taxpayers.

CONCLUSION

Today, in the world with a highly developed capital markets, it is hard for Kazakhstan to develop and survive separate from the international market. The capital market of Kazakhstan was initially created by means of foreign investments. It is crucial for Kazakhstan to think of investment conditions that correspond to the international standards. The positive side of the tax policy of Kazakhstan is that it is directed on optimal formation of international financial reporting standards, in order to be understandable for foreigners.

The taxes, as well as all tax system, are the powerful tool of management of economy in terms of the market. The application of the taxes is one of economic methods of management and maintenance of interrelation of nation-wide interests with commercial interests of the businessmen and enterprises, independent from departmental subordination, patterns of ownership and legal form of the enterprise.

With the help of the taxes determined the mutual relation of the businessmen, enterprises of all forms is the properties with the state and local budgets, with banks, and also with higher-level organizations. Through the taxes the foreign trade activities are adjusted, include the attraction of the foreign investments.

To sum up, from the tax reform studies it seems that there are no universal laws that can be discovered concerning the influence of the tax mix and tax policies on a country's economic growth and development. Appropriate tax mix and policies differ from one economy to another, depending upon the economic, social and political circumstances of the country. Economic theory indicates that the incentive effects of a proportional reduction in marginal tax rates will be greatest in the upper income brackets. Therefore, even an across-the-board rate cut will result in larger income increases among those with the highest incomes. Thus,

reductions in high marginal tax rates will tend to increase observed income inequality. Our findings are supportive of this view. The income share of the highest group of earners tended to increase following major reductions in the highest marginal tax rates.

In conclusion, Kazakhstan needs increasing the role of the budget and taxes in economic life which certainly demands toughening of the control, especially financial control. From the tax reform studies it seems that there are no universal laws that can be discovered concerning the influence of the tax mix and tax policies on a country's economic growth and development. Appropriate tax mix and policies differ from one economy to another, depending upon the economic, social and political circumstances of the country. It is important to protect financial and tax departments from permanent reforming, uncertainties and reorganizations that often take place in Kazakhstan. However, despite certain achievements, the tax system for a long time will have to improve, making more new

changes. We have just started a bumpy path of creating an improved tax system.

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