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## **TAX REFORMS AND THEIR IMPACT ON SOCIAL INEQUALITY IN KAZAKHSTAN**

*This article examines changes in tax legislation with the aim of assessing their impact on social inequality in the Republic of Kazakhstan. The authors provide an overview of innovations in value added tax and personal income tax introduced as part of the current tax policy. An assessment is made of the impact of the increase in the value added tax rate on the level of income and consumption of the population.*

*The analytical data presented on the structure of consumer spending for 2024 showed existing differences not only in the size of household incomes (the fund ratio was 6.2), but also in the areas where they are spent. 95.9% of all income is spent by the least affluent 10% of the population on food, which, with an increase in the VAT rate and the absence of differentiation by type of goods, will lead to an increase in expenses and, consequently, to a reduction in consumption and an increase in inequality. The calculations presented in the article assessing the impact of a progressive individual income tax scale on the income level of the population showed that for most taxpayers, the tax burden will decrease insignificantly and only due to the introduction of a basic tax deduction. A progressive tax rate of 15% will increase the tax burden for only 1.2% of workers. The results of the study allowed the authors to assess the ongoing tax reform and make recommendations on how to improve the calculation of value added tax and personal income tax in order to reduce social inequality.*

**Keywords:** tax instruments, tax burden, social inequality, progressive taxation, value added tax, tax policy, income tax

**Кіттің сөздер:** салық құралдары, салық жүктемесі, әлеуметтік теңсіздік, прогрессивті салық салу, қосылған құн салығы, салық саясаты, табыс салығы

**Ключевые слова:** налоговые инструменты, налоговая нагрузка, социальное неравенство, прогрессивное налогообложение, налог на добавленную стоимость, налоговая политика, налог на доходы.

### **JEL classifications: H 21**

**Introduction.** In the context of Kazakhstan's current financial policy, which is aimed at ensuring growth in state budget revenues, tax revenues play a special and extremely important role. At the same time, in the current conditions, against the backdrop of annual growth in the budget deficit and an increase in public debt, as well as growth in state budget expenditures on social policy and infrastructure programs, the role of taxes is increasing. In this regard, in order to meet all financial needs and increase the tax base, the state has an objective need to change its approach to the taxation of income, property, and consumption. On the one hand, utilizing the opportunities and potential of tax policy can have a significant impact on government budget revenues. On the other hand, a high tax burden directly affects the well-being of citizens, either increasing their income or, conversely, having a negative impact and exacerbating poverty.

Changes to the tax legislation of the Republic of Kazakhstan, which will come into effect in 2026, are aimed at improving tax collection through an increase in tax rates and the redistribution of resources. The introduction of a progressive tax scale for personal income tax, an increase in the value-added tax rate, and changes to special tax regimes will undoubtedly have an impact on the welfare of citizens, either increasing or decreasing it.

In this regard, the purpose of this article is to assess the impact of tax reforms on social inequality in the context of changes in tax legislation.

The research process employed a dialectical method, which involves conducting a systematic analysis of the influence of factors from various perspectives; a situational analysis method, which allows for the

consideration of various future scenarios; and a cause-and-effect method, which involves identifying the causes that led to the occurrence of certain events.

Literature review. The topic of assessing the impact of tax instruments on inequality is quite relevant among researchers around the world, as evidenced by annual reports, reviews, and reports from international organizations such as the World Bank [1] and the Organization for Economic Cooperation and Development [2], which study this issue both at the global level and in the context of individual countries or regions. This is due to the global significance of the problem, which is defined in the Sustainable Development Goals (SDGs) as SDG 1 “Poverty” and SDG 10 “Reduced Inequalities”.

Foreign scholars Macías N. and Gaitón A. in their study of the impact of tax reforms on social inequality found that inequality is multifactorial in nature and arises from a country's inability to distribute income based on social investment, and that tax reforms have a clear impact on wage inequality, which is directed at less favorable segments of the population [3]. An empirical assessment of the relationship between income inequality and personal income taxation was conducted by Eydam U. and Qualo H., who confirmed that higher income tax rates or progressive taxation are associated with a reduction in income inequality [4].

Kazakhstani scientists Nurlanova N.K., Dnishev F.M., Alzhanova F.G., and Saparbek N.K. [5], whose scientific works were prepared as part of a scientific project, which confirms, first, the recognition of the existing problem at the state level, and second, the search for effective tools to solve it. An important role in researching the relationship between taxation and inequality was played by the works of Russian scientist Pugachev A., who conducted a comprehensive study of the problem in order to find ways to reduce inequality using various tax instruments [6].

Thus, the topic of social inequality is quite relevant not only in Kazakhstan but also throughout the world. Scientific research into solutions to this global problem continues, sparking debate about the tools and effectiveness of the tax policies pursued by different countries.

**Main part.** The need for tax reforms in Kazakhstan at present is due to existing economic and social problems, the solution of which directly depends on the tax and budgetary policy being formed. According to a World Bank study, fiscal policy aimed at redistributing resources can play a decisive role in providing social protection for poor and vulnerable households, especially during periods of slow economic growth. Poor and vulnerable segments of the population are more likely to experience disproportionately severe consequences of economic downturns, which affect various areas of their lives [1].

Significant tax changes affecting household income and consumption include an increase in the value-added tax rate and the introduction of a progressive tax scale for personal income tax.

It is worth noting that value added tax (VAT) is an indirect tax that affects price levels in the country and consumption levels. In Kazakhstan, the tax rate has varied from 12% to 20% over the past decade (Figure 1).

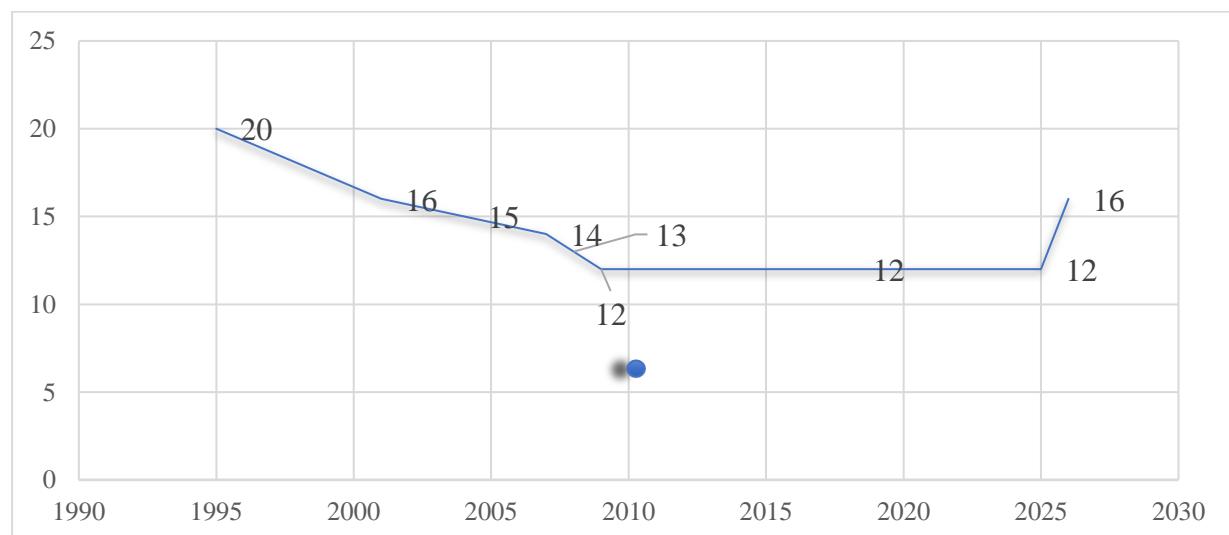


Figure – 1. Value added tax rate for the period from 1995 to 2025.

\* compiled by the authors based on source [8]

As can be seen from the data presented, there is a downward trend in the VAT rate from 1995 to 2025, with the rate rising to 16% from 2026 onwards.

It should be noted that the end consumer is the payer of value added tax, and the tax is levied on the cost of goods, works, and services, i.e., it is included in their cost and is paid when they are consumed. In this regard, an increase in the tax rate will, first, affect price growth and, as a result, the distribution of income received by the population, increasing the tax burden on low-income households and exacerbating inequality. In addition, the new tax policy provides for the introduction of a differentiated tax scale only for medicines and medical services – 5% from 2026 and 10% from 2027. A single tax rate applies to essential goods. At the same time, an increase in the rate from the current 12% to 16% could have a significant impact on the growth of expenses, primarily on food products, which accounted for about 96.0% of the expenses of the least affluent 10% of the population in 2024, which is 8.7 percentage points higher than that of the most affluent 10% of the population. At the same time, it is worth highlighting the income inequality between the two population groups: the income of the wealthiest 10% of the population is 6.2 times higher than that of the poorest 10% (Table 1).

Table – 1

#### Household cash expenditures, their structure by decile groups for 2024

Type of cash expenditure	10% of the least well-off population		The wealthiest 10% of the population	
	tenge	specific weight, %	tenge	specific weight, %
Income used for consumption (tenge, per 100 household members)	3 965 736	100,0	24 651 367	100,0
Cash expenditure on consumption (tenge, per 100 household members)	3 906 639	98,5	24 432 034	99,1
Consumer spending, including	3 802 690	97,3	21 368 925	87,5
Food products made from them	2 366 338	62,2	10 470 272	49,0
Food and non-alcoholic beverages	2 269 458	95,9	9 124 922	87,2
Non-food products	733 565	19,2	6 260 717	29,3
Clothing, fabrics, footwear	290 411	39,6	1 369 555	21,9
Paid services	702 787	95,8	4 637 936	74,1
Others	103 949	2,7	3 063 109	12,5

\* compiled by the authors based on source [9]

High consumption levels combined with an increase in the value-added tax rate may have the following consequences. First, an increase in the VAT rate will change consumer behavior, reducing their purchasing power. A decline in domestic consumption will reduce the number of goods purchased and lower manufacturers' revenues, thereby reducing tax revenues to the budget. From another perspective, imbalances in consumption caused by indirect taxation will lead to inequality in consumption. The wealthy population with sufficient income will continue to meet their consumer needs, while the less wealthy population will be forced to reduce their spending, limiting themselves in the consumption of food and non-food goods.

As part of the implementation of the principle of fairness, changes to the calculation of individual income tax (IIT) are also planned from 2026: the introduction of a progressive tax rate of 15% on income above 8,500 monthly calculation indices (MCI). It should be noted that until 2007, Kazakhstan applied a 4-step progressive PIT scale, with tax rates ranging from 5% to 20% (5%, 10%, 15% and 20% when exceeding the threshold values). A flat rate of 15% applied to dividends and remuneration. Since 2007, there has been a transition from a progressive scale to a flat PIT rate of 10%.

Since 2019, in accordance with the Head of State's directive, low-income workers (whose monthly income does not exceed 25 MCI or 92,300 tenge in 2024), a 90% reduction in taxable income has been applied, which effectively means applying a 1% rate to the income of such employees.

The changes introduced in accordance with the new legislation provide for the abolition of tax deductions for education, medical expenses, and mortgage payments when calculating individual income tax. At the same time, individuals are entitled to the following personal

1. tax deduction for social payments (mandatory pension contributions, mandatory health insurance contributions, social contributions);
2. basic tax deduction in the amount of 30 monthly calculation indicators;
3. social tax deductions.

Practical calculations for calculating individual income tax in accordance with the changes introduced showed that with an income of 200,000 tenge, an individual's income will increase by 6291 tenge [10].

It should be noted that, in accordance with the new income tax regulations, the 90% adjustment to the income of employees with salaries below 25 MCI will be abolished. Thus, all income exceeding approximately 130,000 tenge will be subject to taxation.

An analysis of income concentration in Kazakhstan by 10% population groups showed that in 2024, the top 10% of the population with the highest income accounted for 24.98%, i.e., about a quarter of total income (Table 2).

Table – 2

#### Income distribution by 10% population groups for 2024

Deciles	Income brackets, tenge	Share of income in the interval in total income, in percent	Average monthly income per capita in the range, tenge
1	0-48760	4,03	39657
2	48761-57069	5,25	51822
3	57070-64340	5,99	58984
4	64341-72390	6,75	66559
5	72391-81269	7,60	74868
6	81270-94251	8,66	85287
7	94252-109608	10,03	98877
8	109609-132300	11,87	116964
9	132301-172857	14,84	146126
10	172858-5428190	24,98	246513

\* compiled by the authors based on source [9]

An analysis of income recipients showed that 4.3% of employees earn over 1 million tenge, while 95.7% earn up to 1 million tenge. In accordance with the new income taxation concept, an increased tax burden of 15% will apply to approximately 1.2% of income recipients. At the same time, it will only be levied on the difference in income exceeding the annual income of 33,422,000 tenge (average monthly income of 2,785,167 tenge) (Figure 2).

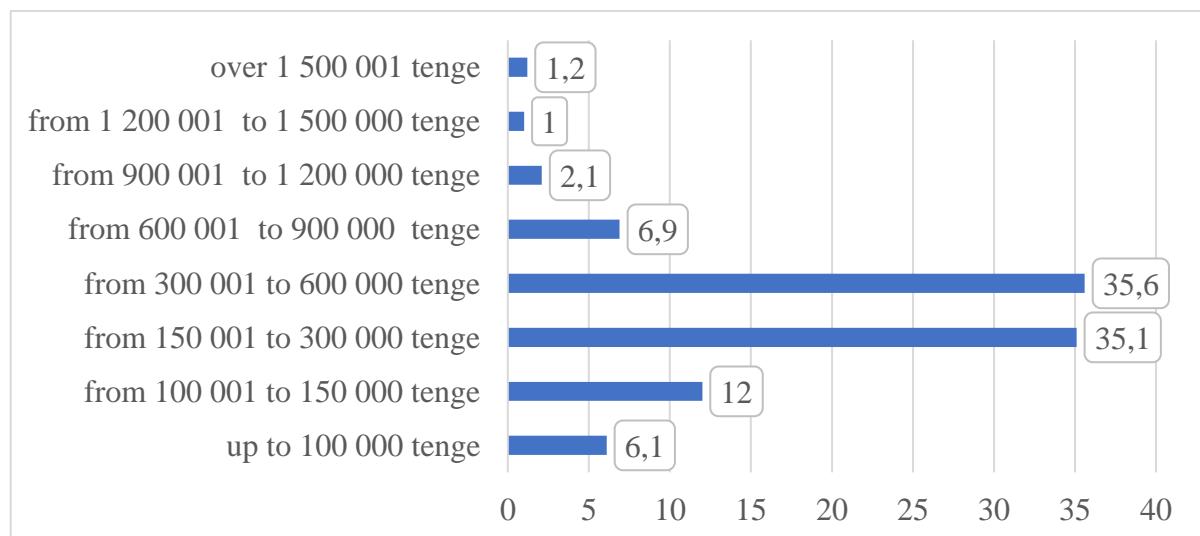


Figure – 2. Structure of recipients of average monthly income for 2024, %

\* compiled by the authors based on source [11]

Thus, the changes introduced to personal income tax through the redistribution of the tax burden will not be sufficient to adequately address the issue of social injustice. In other words, progressive taxation will apply to a certain part of the population. For the rest of the population, the tax burden will decrease insignificantly, and given the increase in the VAT rate and prices, the introduced basic tax deduction of 30 MCI will not be able to fully cover the level of consumption expenses, thereby exacerbating inequality.

Conclusion. Thus, the study showed that the existing tax potential for value added tax and personal income tax is insufficiently realized in terms of reducing social inequality. The tax reform carried out to amend tax legislation will have a negative impact on the income level of the population, reducing it and thus causing social tension.

In this regard, the following recommendations could be proposed: first, with regard to value added tax, the introduction of a differentiated tax scale depending on the type of goods. Positive experience with this practice has been gained in countries such as Finland, Sweden, France, Germany, and the United Kingdom. To reduce the tax burden on the least affluent segments of the population, these countries have established a reduced value-added tax rate on goods such as food and a range of other items necessary to meet basic human needs.

Secondly, expanding the personal income tax scale. The rates introduced still leave a large gap between household incomes. A guideline for establishing the rate scale could be to use the subsistence minimum indicator and introduce a reduced rate, an average rate, and a high rate depending on its value. In general, reducing inequality in society is a complex task, the solution to which lies not only in the realm of tax relations. However, it is precisely through changing approaches to personal income taxation that impetus can be given to the development of effective mechanisms for ensuring the fair distribution and redistribution of financial resources in society [12].

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## САЛЫҚ РЕФОРМАЛАРЫ ЖӘНЕ ОЛАРДЫҢ ҚАЗАҚСТАНДАҒЫ ӘЛЕУМЕТТІК ТЕҢСІЗДІККЕ ӘСЕРІ

### Аннотация

Мақалада Қазақстан Республикасындағы әлеуметтік теңсіздікке әсерін бағалау мақсатында салық заңнамасының өзгерістеріне зерттеу жүргізілді. Авторлар іске асырылып жатқан салық саясаты шеңберінде енгізілетін қосылған құн салығы және жеке табыс салығы бойынша инновацияларға шолу ұсынады. Қосылған құн салығының мөлшерлемесін арттырудың халықтың табысы мен тұтыну деңгейіне әсерін бағалау жүргізілді. 2024 жылғы тұтыну шығыстарының құрылымы бойынша ұсынылған Талдамалық деректер халықтың табысы мөлшерінде ғана емес (корлардың коэффициенті 6,2 құрады), сондай-ақ оларды жұмсау бағыттарындағы айырмашылықтарды көрсетті. Барлық кірістердің 95,9% - ы аз қамтылған халықтың 10% - питания азық-түлікке жұмсайды, бұл ҚҚС мөлшерлемесінің жоғарылауымен және тауар түрлері бойынша

сараплаудың болмауымен шығындардың өсуіне, демек, тұтынудың қыскаруына және теңсіздіктің өсуіне әкеледі. Жеке табыс салығы бойынша прогрессивті салық салу шкаласының халықтың табыс деңгейіне әсерін бағалау бойынша мақалада келтірілген есептеулер салық төлеушілердің көпшілігі үшін салық жүктемесінің деңгейі шамалы және тек негізгі салық шегерімін енгізу арқылы төмендейтінін көрсетті. 15% прогрессивті салық ставкасы жұмысшылардың тек 1,2% салық жүктемесінің өсуіне әсер етеді. Жүргізілген зерттеу нәтижелері жүргізіліп жатқан салық реформасына авторлық баға беруге және әлеуметтік теңсіздікті теңестіру мақсатында қосылған құн салығы мен жеке табыс салығын есептеуді жетілдіру бағыттары бойынша ұсыныстарды белгілеуге мүмкіндік берді.

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## НАЛОГОВЫЕ РЕФОРМЫ И ИХ ВЛИЯНИЕ НА СОЦИАЛЬНОЕ НЕРАВЕНСТВО В КАЗАХСТАНЕ

### Аннотация

В статье проведено исследование изменений налогового законодательства с целью оценки их влияния на социальное неравенство в Республике Казахстан. Авторами представлен обзор нововведений по налогу на добавленную стоимость и индивидуальному подоходному налогу, вводимых в рамках реализуемой налоговой политики. Проведена оценка влияния повышения ставки налога на добавленную стоимость на уровень дохода и потребления населения. Представленные аналитические данные по структуре расходов на потребление за 2024 год показали существующие различия не только в размере доходов населения (коэффициент фондов составил 6,2,) но и разницу в направлениях их расходования. 95,9% всех доходов расходуется 10% менее обеспеченного населения на продукты питания, что при повышении ставки НДС и отсутствию дифференциации по видам товаров приведет к росту расходов и, следовательно, к сокращению потребления и росту неравенства. Представленные в статье расчеты по оценке влияния прогрессивной шкалы налогообложения по индивидуальному подоходному налогу на уровень дохода населения показали, что для большинства налогоплательщиков уровень налоговой нагрузки снизится незначительно и только за счет введения базового налогового вычета. Прогрессивная ставка налогообложения в размере 15% окажет влияние на увеличение налоговой нагрузки только 1,2% работников. Результаты проведенного исследования позволили дать авторскую оценку проводимой налоговой реформы и обозначить рекомендации по направлениям совершенствования исчисления налога на добавленную стоимость и индивидуального подоходного налога с целью нивелирования социального неравенства.

