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Financial Academy, Kazakhstan, Almaty city*E-mail: yanovskaya_o@mail.ru²**Development Trends in Tax System and its Influence on
Economic Growth of Kazakhstan**

This paper reviews Kazakhstan's tax system. Transition to market economy taxation is one of the most important and a complex problem as it is related to the formation of the financial resources of the country. The steady increase in the role of taxes in the socio-economic development of society leads to success of market reforms implemented in the country. In Kazakhstan, taxation is governed by the Tax Code, which came into force on the 1st of January 2009. Kazakhstan is also a party to more than 35 double tax treaties with various countries. The double tax treaties prevail over the Tax Code, but their application must comply with established procedures. The tax system in Kazakhstan can be broken down into company tax, income tax, payroll tax. Such taxes as corporate income tax, value added tax, personal income tax, and excise taxes account for the largest portion of budget revenues. After a general introduction which gives an overall view on the Kazakhstan economy, the second section describes the current tax policy and influence of tax system on economic growth of country. The final section concludes ideas.

Key word: tax system in Kazakhstan, influence of tax system, economic growth, tax policy, tax receipts.

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Салық жүйесінің даму үрдісі және оның Қазақстан Республикасының экономикалық дамуына әсері

Мақалада Қазақстан Республикасының салық жүйесі қарастырылған. Нарықтық қатынастардың дамуы кезінде салық салу ең маңызды және күрделі мәселелердің бірі болып табылады, өйткені ол мемлекеттің қаржылық ресурстарының қалыптасуына қатысты. Салық рөлінің қоғамның әлеуметтік-экономикалық дамуында ұдайы өсуі мемлекетте нарықтық өзгерістердің жетістігіне алып келеді. Бүгінгі таңда Қазақстанда 2009 жылдың 1 қаңтарынан күшіне енген салық кодексі заңды түрде қабылданған. Қазақстанда түрлі елдермен 35-ке жуық қос салық салуды болдырмау туралы конвенция жұмыс істейді. Айтылмыш конвенциялар салық кодексінен басым, бірақ оның қолданысы белгілі ережелерге сәйкес келуі керек. Қазақстан Республикасындағы салық жүйесін келесі түрлерге бөлуге болады: заңды тұлғалар (компаниялар) төлейтін салық, табыс салығы және еңбекақы салығы. Мемлекет бюджетінің неғұрлым көп бөлігін мынадай салық түрлері құрайды: корпоративтік табыс салығы, қосымша құнға салынатын салық, табыс салығы және акциздер. Бірінші бөлімде Қазақстан экономикасы жайында жалпы мәліметтер берілген. Екінші бөлімде қазіргі кездегі салық политикасы және салық жүйесінің мемлекеттің экономикалық дамуына әсері жайында сөз қозғалады. Соңғы бөлімде қорытынды берілген.

Түйінді сөздер: Қазақстан Республикасының салық жүйесі, салық жүйесінің ықпалы, экономикалық өсу, салық политикасы, салық түсімдері.

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Тенденции развития налоговой системы и ее влияние на экономический рост Казахстана

В статье рассматривается налоговая система Республики Казахстан. В условиях развития рыночных отношений налогообложение является одной из наиболее важных и сложных проблем, так как связана с формированием финансовых ресурсов государства. Неуклонное повышение роли налогов в социально-экономическом развитии общества приводит к успеху рыночных преобразований, осуществляемых в государстве. В Казахстане, налогообложения регулируется Налоговым кодексом, который вступил в силу с 1 января 2009 года. В Казахстане также работают более 35 конвенций об избежании двойного налогообложения с различными странами. Данные конвенции превалируют над Налоговым кодексом, но их применение должно соответствовать установленным порядком. Налоговая система в Республики Казахстан может быть разбита на такие составляющие, как налог юридических лиц, подоходный налог, налог на заработную плату. Такие налоги, как корпоративный подоход-

ный налог, налога на добавленную стоимость, подоходный налог и акцизы составляют большую часть доходов бюджета. После общего введения, которая дает общее представление об экономике Казахстана, второй раздел описывает текущую налоговую политику и влияние налоговой системы на экономический рост страны. В последнем разделе дается заключение.

Ключевые слова: налоговая система в Казахстане, влияние налоговой системы, экономическое развитие, налоговая политика, налоговые поступления.

Since its sovereignty in 1991 Kazakhstan continue to move toward a free market economy, but it faces some difficulties. However, there are offered 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.

In 1995 the President of Republic of Kazakhstan issued a Decree "On Taxes and Other Obligatory Payments to the Budget" (the "Decree"), which regulated the tax system in Kazakhstan and was in effect until 2002. The Decree only provided general information on taxes and referred to several instructions which provided specific information on each of the taxes. Today, taxation is governed by the Tax Code, which is constantly revised each year. Kazakhstan is also a party to more than 35 double tax treaties with various countries. The double tax treaties prevail over the Tax Code, but their application must comply with established procedures [1].

In market conditions, especially in the period of transition, the tax system is one of the most important economic regulators, the main financial and credit mechanism of state regulation of the economy. So, the effective functioning of the national economy depends on properly constructed taxation system.

An empirical study conducted by Marsden (1990), based on a cross-sectional analysis of 20 countries, has thrown some light on the effect of tax on the growth rate of the economy. The countries were split into pairs, with each pair having similar per capita income, but different levels of taxation. The selected countries were compared on the basis of lower and higher levels of taxation and their influence on growth rates over the period 1970-1979

[2]. In all cases, the countries that imposed a lower effective average tax burden on their populations achieved substantially higher rates of GDP growth than did their more highly taxed counterparts. Moreover, fiscal incentives provided by low-tax countries shifted resources from less productive to more productive sectors, thus raising the overall efficiency of resource utilization.

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.

This paper has surveyed a range of studies into the relationship between taxation and economic growth. While there has not been unanimity on the issue, most of the empirical studies reveal an inverse relationship between the level of direct taxation and the rate of savings and capital formation. The tax reform literature also 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. Several studies have proposed that a personal direct expenditure tax base replace the personal income tax base. Other tax reformers have argued that less reliance be placed on direct taxation of income and more on indirect taxation via broad-based consumption taxes. Another way in which income can be taxed less and consumption expenditure more is to afford personal income tax relief or exemption to that part of income (interest, dividends, etc.) earned through savings.

Today, national income and the state budget are

replenished mainly by taxes, and taxes, at the same time, generate the financial base for the state to fulfill its functions and tasks.

As it was mentioned before, taxes are an essential part of government revenue and closely collaborate with government spending. Taxation, itself, is not able to have a positive or negative impact on economic growth. It affects the public welfare, on the one hand, worsening the structure of preferences; on the other hand, it reduces inequalities in society and positively effects welfare. Changes in tax policy affect businesses and are likely to also impact the rate of economic growth. Increasing the tax burden on firms reduces their ability and incentive to invest in capital. Increasing the capital gains tax on financial investors reduces the flow of savings firms use to make real investments in physical capital. Businesses faced with too high tax burden may choose to produce elsewhere. It is important to understand that capital is free to flow. Placing taxes on business, although politically popular, is a recipe for reduced growth.

Taxes on personal income affect work incentives and can thus also influence the rate of growth. For instance, in the United States the more productive you are, the more income you earn [3]. The more income you earn, the higher your marginal tax rate. This is what economists call a progressive tax system. The same system is going to take place in Kazakhstan. If tax rates are increased on upper incomes, they increase the tax burden of the most productive members of society. Reducing business taxes in the name of economic development without a corresponding decrease in the level and quality of public services offered simply shifts the tax burden to households. If the goal of economic development policy is to enhance the standard of living for local residents, shifting tax burdens away from businesses to local residents is counterproductive.

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Government of Kazakhstan, taking the new Tax code, has the following objectives:

1. Simplification, elimination of contradictions;
2. Turning Tax code into a coherent whole throughout the Republic of Kazakhstan.

It was supposed to reduce the amount of taxes to 40-45%, while personal income tax to 40%, in order not to weaken incentives to business, to clarify the rates of all taxes: land, property, private individuals, rental payments, and so on. The main thing should be stopped the practice of new inefficient tax. Under the government of the Republic of Kazakhstan, the Finance Ministry and other government structures have been developed several alternative projects. The principles of "government project" to the developers, practitioners and scholars are: justice, simplicity, and economic neutrality, comparability of tax rates in order for the same goods in the republic taxes and with partners in other countries.

The Tax revenue (% of GDP) in Kazakhstan was last reported at approximately 20 % in 2012, according to a World Bank report (Picture 1). In such developed countries like USA it is about 29,6 %, Canada 35,8 % and UK 37,4 %. The highest percentage is in European country Sweden, where the tax revenue is 54,2 % of GDP [4]. Tax revenue refers to compulsory transfers to the central government for public purposes. Certain compulsory transfers such as fines, penalties, and most social security contributions are excluded. Refunds and corrections of erroneously collected tax revenue are treated as negative revenue.

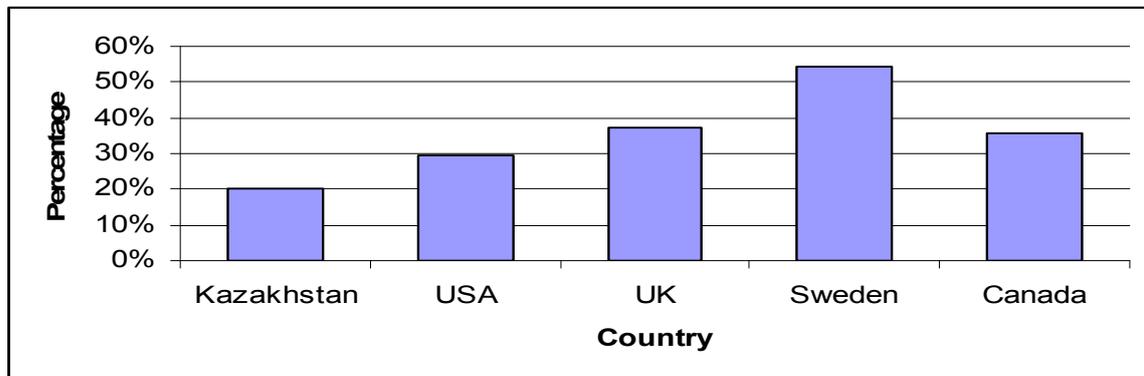
According to the Table 1, Kazakhstan is on 17th place in paying tax rank. Kazakhstan has a better ranking in comparison with such developed countries like Sweden (38th) and USA (69th) [5]. But the tax rates are higher in those developed countries compared to Kazakhstan. Recent data from the World Economic Forum show that in economies such as Sweden high tax rates fund high levels of public goods and services such as infrastructure, health, primary education, higher education and training. The size of the tax cost for businesses matters for investment and growth. Where taxes are high, businesses are more inclined to opt out of the formal sector. A recent study shows that higher tax rates are associated with fewer formal businesses and lower private investment.

Major changes are taking place in Kazakhstani fiscal system. The breakdown of past revenue sharing procedures, under the centrally planned budgetary system, require significant adjustments to the entire process. Transition of the Republic of Ka-

zakhstan from the centralized administrative – command system to the market economy brought about

the necessity for the better use of Fiscal policy: especially tax policy for the national well-being.

Picture 1 – The Tax revenue (% of GDP) by countries for 2012



Source: compiled by the author based on [9]

Table 1 – Paying taxes data by countries for 2012

Country	Paying taxes rank (among 188 countries)	Payments (number per year)	Time (hours per year)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (%)
Kazakhstan	17	7	188	15,9	11,2	1,6	28,6
UK	16	8	110	22,2	10,2	3,1	35,5
USA	69	11	175	27,6	10	9	46,7
Canada	8	8	131	8,4	12,7	5,8	26,9
Sweden	38	4	122	15,7	35,5	1,9	53

Source: compiled by the author based on [10]

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residents, shifting tax burdens away from businesses to local residents is counterproductive [6].

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.

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.

Tax policy as a crucial part of financial policy and has several types. 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 (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 of 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.

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.

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.

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 can not 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.

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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