



## Personal Income Tax Reform in Belarus

### Summary

Personal income tax is one of the most important elements of fiscal system of the state. In many countries it provides a considerable part of government revenues. Besides, this tax may have a progressive character that ensures possibilities for a certain redistribution of incomes. Such a role of personal income tax largely depends on its structure. This refers to the tax base, tax rates, and tax administration issues.

The personal income tax in Belarus has several drawbacks. First, some types of income do not fall under taxation. Second, there are many unjustified tax exemptions and deductions available without regard to the well-being of a taxpayer. Third, the marginal tax rates are relatively high. Fourth, the tax enforcement is too lax in many cases. All of this leads to non-neutrality of the tax that hampers economic performance, and reduces both the effective progressivity of taxation and the tax revenue. These facts underscore the necessity to reform the system of personal income taxation.

In principle, the new draft law on personal income tax tackles some of the drawbacks of the existing system. But further improvement and some amendments are advisable. In our view, the nontaxable minimum income should be increased to a half of the minimum of subsistence (fourfold). Besides, a flat tax rate, e.g., at the level of 14%, should be introduced. According to our estimations, implementing these proposals would enhance neutrality and progressivity of the personal income tax and would lead to growth of the tax revenue due to broadening the tax base.

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## 1. Introduction

Personal income tax is one of the most important elements of fiscal system of the state. In many countries it provides a considerable part of government revenues (20-30% – in majority of the OECD countries). Besides, this tax may have a progressive character that makes taxation more acceptable for the society as it ensures possibilities for a certain redistribution of incomes.

Such a role of personal income tax largely depends on its structure. This refers to the tax base, tax rates, and tax administration issues. First, tax base should be as broad as possible, i.e. include all types of income (primary and secondary income, dividends, interests, and so on). Tax exemptions and deductions should be reasonable and available in accordance with the well-being of a taxpayer. All of this determines the horizontal equity and economic neutrality<sup>1</sup> of personal income taxation. Second, tax rates should be differentiated according to ability to pay that determines the vertical equity of taxation. At present, in most countries a progressive tax scale applies. But there is a tendency of reduction of marginal tax rates, in particular, of the top rates. In 2000, the average top marginal tax rate for 26 OECD countries amounted to 47% as against 67% in 1980. Some transition countries even introduced a flat-rate personal income tax instead of a progressive one. Third, there should be an effective tax enforcement that permits more taxes to be collected from existing tax sources.

Currently, the personal income tax in Belarus doesn't meet these requirements of an efficient tax system. As a result, this tax has a low budgetary return and doesn't play a significant role in redistribution of incomes. According to the data of the Ministry of Finance, in 2002, the personal income tax provided 9% of revenues of the consolidated budget. This level is quite low even if compared to transition countries (see Table 1). All of this underscores the necessity to reform the system of personal income taxation.

**Table 1. Personal Income Tax Revenue in Selected Transition Countries, 2002**

Country	% of Revenues of the Consolidated Budget	% of GDP
Belarus	9.0	3.0
Czech Republic	12.2	4.8
Estonia	21.1	8.4
Hungary	16.6	7.5
Lithuania	23.6	7.0
Russia	8.9	3.3
Slovenia	15.4	6.3
Ukraine	13.8	5.0

Sources: IMF Country Reports.

This paper analyses possible options of personal income tax reform in Belarus. In particular, it evaluates the existing system of personal income taxation and determines the main objectives of the reform. Then, the paper considers a draft of the new law on personal income tax prepared by the Ministry of Finance and the Ministry on Taxes and Duties and aimed at amendment of the existing system. It concludes with a brief description of proposals for further reform of personal income taxation.

## 2. Existing System of Personal Income Taxation in Belarus and Its Drawbacks

### 2.1. Existing System of Personal Income Taxation

At present, the personal income tax is collected according to the Law of the Republic of Belarus "On Personal Income Tax" from December 21, 1991 (in its amendment from March 9, 1999). As per the law, taxable income includes cash income in domestic and foreign currencies and in-kind income earned in Belarus and abroad. There are several types of income that are not taxed, such as interests on deposits with banking institutions and on government securities, proceeds from the sale of private property (once every five years for real estate and once a year for vehicles), income from sale of products from private plots, and so on. A taxpayer is

<sup>1</sup> Economic neutrality implies that all types of income are taxed and taxed only once at equal rates. Exempting some types of income, while subjecting other to tax, leads to distorted decisions of physical persons.

also entitled to deduct some amounts from taxable income – 1 base amount<sup>2</sup> per month as a nontaxable minimum income, 2 base amounts per month for each child up to age of 18 and for each dependent, amounts paid to educational institutions, and some other.

The tax is collected on a progressive rate scale at the source of income. The tax rates are differentiated depending on taxable income expressed (see Table 2). Dividends and similar income, if earned, are taxed at the rate of 15%, royalties – at 40%. At will of a taxpayer, secondary income may be taxed at the rate of 20%. In this case, such an income is not included in the taxable aggregate annual income and not declared.

**Table 2. Existing Personal Income Tax Scale in Belarus**

<b>Taxable Aggregate Annual Income, BYR</b>	<b>Marginal Tax Rate, %</b>
0 – 3,402,000	9
3,402,001 – 8,505,000	15
8,505,001 – 11,907,000	20
11,907,001 – 15,309,000	25
Over 15,309,001	30

*Note.* The tax scale became effective on October 1, 2003.

Income declaration is required if a taxpayer has income from different sources, provided that this income (e.g., dividends) is not taxed at the flat rates, or if he is an entrepreneur. In the latter case, taxable income is determined as a difference between revenue from sales and documentary proven expenditures associated with entrepreneurial activities.

## **2.2. Drawbacks of the Existing System of Personal Income Taxation**

The existing system of personal income taxation has several drawbacks.

(1) Some types of income do not fall under taxation, in particular, interests and income received as economic benefits. This leads to horizontal inequity and non-neutrality of the personal income tax and creates a potential loophole. All types of income should therefore be subject to tax. However, in the case of interests and capital income in general there are some arguments in favor of leaving it tax-free, at most to impose only low flat rates on it. Leaving capital income tax-free would encourage saving and therefore strengthen the national capital market, long-term capital accumulation, and growth.

(2) There are many unjustified tax exemptions, provided both depending on the category of a taxpayer and type of income. This also has a negative impact on horizontal equity and neutrality of the personal income tax and leads to reduction of the tax base. In particular, this refers to in-kind income received from agricultural enterprises, income earned by the citizens working abroad at integration authorities, and some other.

(3) Different tax deductions, e.g., nontaxable minimum income, are available without regard to the well-being of a taxpayer. This contributes to reduction both the vertical equity of taxation and the tax base. Moreover, there are no limits on the tax-deductible amounts paid to educational institutions that may lead to unreasonable expenditures for education.

(4) 1 base amount per month, as a nontaxable minimum income, does not reflect the actual minimum monthly income, as was the case in early 1992. It is a calculated indicator at which many economic variables depend on. As a result, the nontaxable minimum income does not function as a corrector of tax burden for low-income individuals (at the moment, it equals 15.2% from the minimum of subsistence<sup>3</sup>). So, individuals may earn less than the minimum of subsistence and pay personal income tax anyway. This also contributes to reduction of the vertical equity of personal income taxation.

(5) The marginal personal income tax rates are relatively high. In particular, the top marginal tax rate of 30% applies to incomes over BYR 15,309,001 (about USD 590 per month). Furthermore, if contributions to the Social Protection Fund, contributions to the State Employment Fund, and emergency tax for recovery from the Chernobyl accident are taken into account, the situation becomes even more extreme. At present, the total level of marginal personal income

<sup>2</sup> The base amount equals BYR 16,500 as of December 2003.

<sup>3</sup> The minimum of subsistence is BYR 108,790 as of December 2003.

tax rate and social payments from payroll fund is 35.7% for incomes within the bottom tax scale and 50.7% for incomes within the top tax scale<sup>4</sup>. Besides, payroll fund including social payments is a part of value-added and so imposed by VAT and other indirect taxes. The marginal rate of direct and indirect taxes from payroll fund amounts to 80%. All of this enhances tax burden on payroll fund, stimulates concealment of actual incomes by the population, and so leads to mass tax evasion.

(6) The personal income tax base is determined according to the global approach, applied to the aggregate level of income. Theoretically, such an approach in combination with a progressive tax scale, nontaxable minimum income, and exclusion of double taxation better corresponds to the principles of fair taxation compared to the schedular approach applied to the different sources of income. However, the budgetary efficiency and fairness of global taxation largely depend on the possibilities of exact determination of the aggregate income of taxpayers. In the OECD countries income determination is based on declaring by taxpayers the aggregate level of their incomes. The accuracy of declarations is under control of tax authorities. In this context, the level of development of tax authorities, the degree of their computerization, and existence of professionals is of crucial importance. Moreover, the historical traditions referring to the attitudes to taxation and the compliance to tax rules by the majority of the population do matter. At present, the tax authorities in Belarus are incapable to effectively control the declaring process and verify the accuracy of declarations<sup>5</sup>. So, there is a problem of effective tax enforcement.

Rough estimates show that the government revenue from personal income tax must be higher, given the marginal tax rates. According to the data of the Ministry of Statistics and Analysis, in 2002, money incomes of the population were BYR 19,168.1 bn, of which social transfers were BYR 3,490.9 bn. The remaining part of incomes excluding nontaxable minimum income and tax deductions for children and dependents – BYR 15,559 bn – relates to economic activity and should be liable to income tax in principle. In 2002, the personal income tax provided BYR 773.1 bn of revenues of the consolidated budget, which accounted for 5% of employee's incomes less social transfers, nontaxable minimum income, and tax deductions for children and dependents. This figure is considerably less than the minimum marginal tax rate. This apparently indicates the high degree of tax evasion.

The result of mass tax evasion is that comprehensive income tax is only paid by the citizens, who strictly comply with tax rules, i.e., in general, by the citizens who have low and medium incomes. Such situation leads to unfair distribution of tax burden in relation to ability to pay (vertical inequity).

To sum up, it can be said that the personal income tax in Belarus has a low budgetary return and does not have a progressive character. Besides, it distorts economic activities and therefore hampers economic performance. Thus, one can conclude that the main objectives of personal income taxation are not being achieved up to now and that the system needs improvement.

### **2.3. Main Objectives of the Reform**

In our view, the main *objectives* of personal income tax reform should be (1) to enhance progressivity and (2) economic neutrality of the tax and (3) to increase its share in revenues of the consolidated budget.

In order to achieve these objectives, the following topics should be addressed: (1) broadening the tax base, (2) decrease of the tax burden, and (3) making more effective the tax enforcement.

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<sup>4</sup> This rate considerably exceeds the rate of corporate income tax (24%) that leads to non-neutrality of the personal income tax in relation to an organizational form of enterprises and creates unequal conditions for legal entities and individual entrepreneurs.

<sup>5</sup> A rough indicator of the inefficiency of personal income tax administration in Belarus is a low ratio of the registered taxpayers to the total population (5% in 2002 compared to 16% in most successful transition countries). Another indicator is a size of the tax gap, i.e. a difference between the potential tax revenue, if all taxes were fully enforced, and the actual taxes collected. Data from 2002 shows that this gap is high enough in Belarus (see below).

### **3. Draft Law “On Personal Income Tax”**

In order to develop the system of personal income taxation, the Ministry of Finance and the Ministry on Taxes and Duties have prepared a draft of the new law “On Personal Income Tax”. This draft law tackles some of the drawbacks of the existing system of personal income taxation. Its essentials are the following.

#### **3.1. Essentials of the Draft Law**

Under the draft law, the following types of income will be included in the tax base: (1) interests in the Belarusian rubles – on excess over the sums calculated according to the refinancing rate of the National Bank; interests in the foreign currency – on excess over the sums calculated according to the rate of 9% per annum; (2) income received as economic benefits, in particular, as a difference between the interests on loans in Belarusian rubles calculated according to the refinancing rate of the National Bank and actual interests paid on these loans; and as a difference between the interests on loans in foreign currency calculated according to the rate of 9% per annum and actual interests paid on these loans; (3) benefits received on the contracts of voluntary long-term insurance of additional pensions in the case when insurance contributions were paid by legal entities and/or physical persons instead of by the taxpayer.

Some of the tax exemptions will be abolished. This refers to: (1) income received by drafttees; (2) amounts received for bravery and heroism in the execution of civil or official duties, and some other. Some changes will take place in relation to tax deductions. So, the standard of expenditures' exclusion from revenue in the case when an entrepreneur cannot documentary prove these expenditures associated with entrepreneurial activities will be increased from 10% to 20%.

The personal income tax rate applied at will of a taxpayer to secondary income will be decreased from 20% to 15%. The rate of taxation of dividends will be decreased from 15% to 6%. In relation to (1) interests; (2) income received as economic benefits; (3) capital gains, the rate of personal income tax will be equal 15%. At will of a taxpayer, these incomes may be included in the aggregate annual income and taxed according to the general tax scale. However, the general tax scale as shown above will remain unchanged.

#### **3.2. Expected Results of the Draft Law Adoption**

Let us consider how this draft law improves the existing system of personal income taxation. First, inclusion of interests, income received as economic benefits, and some types of additional pensions in the tax base makes the definition of taxable income closer to the definition of comprehensive income. This measure would surely allow to enhance horizontal equity and neutrality of the personal income tax and would lead to growth of the tax revenue.

However, we think that the interest income tax should not be introduced for the time being. We believe that if the proposed tax is introduced at this time, it could decelerate the growth of bank deposits and so undermine the successful development of the banking system, while the benefit measured in additional budget revenue would be negligible. In our view, the negative effect outweighs potential benefits. Similar argumentation might refer on dividend income, which does not play an important role in Belarus. The draft law intends to decrease tax rates on dividends from 15% to 6%. In our view, it should be considered to leave dividend income completely tax-free at the personal level, the more so as it is charged with corporation tax at the company level. In the long run, it might be considered to introduce a “dual income” tax, which implies that all capital income including corporation profits should be taxed at the same flat rate.

Second, expected elimination of certain tax exemptions would also contribute to raising of horizontal equity and neutrality of the personal income tax, broadening the tax base, and growth of the tax revenue. But we think that absence of tax exemption of amounts paid to medical organizations for the hospital treatment of a taxpayer is unjustified because it violates the principle of horizontal equity. In contrast, it would be preferable to make this exemption more purposive.

Third, there are some other positive aspects of the draft law such as increase of the standard of expenditures' exclusion from revenue in the case when an entrepreneur cannot documentary prove these expenditures associated with entrepreneurial activities and reduction of the personal income tax rate applied at will of a taxpayer to secondary income. The latter is particular relevant given that the majority of the population receives incomes taxable at the rates of 9% and 15%. All of this should lead to reduction of the tax administration costs.

Obviously, adoption of this draft law would lead to improvement of some of the drawbacks of the existing system of personal income taxation<sup>6</sup>. But there is some free space for further development of the law.

#### **4. Proposals on Further Reform of Personal Income Taxation**

Further development of the draft law is necessary because some of the drawbacks of the existing system remained unchanged. This refers to the issues of increase of the nontaxable minimum income, decrease of the tax burden, and increase of efficiency of the tax administration. Based on this, we propose the following.

(1) In order to enhance the overall progressivity of personal income taxation, the nontaxable minimum income should be increased to a half of the minimum of subsistence (fourfold). In the longer-run it should be increased step by step to the minimum of subsistence. In order to take care of current government revenue, this should be done simultaneously with change of the tax rates.

(2) In order to make tax deductions more purposive, it should be established that a taxpayer couldn't deduct the nontaxable minimum income beginning from the month when his aggregate income exceeded 470 base amounts (about USD 3,600). Besides, it is necessary to introduce the limit on tax deduction of amounts paid to educational institutions – in the amount of actual expenditures but no more than 130 base amounts (about USD 1,000).

(3) Given the fact that 98% of the population pay the personal income tax at the rates of 9% and 15%, it should be introduced a flat tax rate simultaneously with fourfold increase of the nontaxable minimum income. Calculations on the basis of the data of the Ministry of Statistics and Analysis including information on income distribution for 2002 show that introduction of a flat rate, e.g., at the level of 14%, with fourfold increase of the nontaxable minimum income wouldn't lead to decrease of the tax revenue and increase of the tax burden for low-income individuals (see Appendix 1 and Appendix 2). In principle, there could be a certain growth of the tax revenue due to decreasing of tax evasion<sup>7</sup>. Since reliable estimates of the extent of tax evasion are not available, it is difficult to predict this positive effect. However, we think that this effect wouldn't be significant because of the high level of social payments from payroll fund. Therefore, merely reduction of the top marginal tax rate to 14% wouldn't lead to the wide-ranging legalization of incomes by the population. It is also necessary to reform the system of social payments<sup>8</sup>. In the short-run perspective, growth of the tax revenue due to increase of economic efficiency wouldn't also be significant. But in the longer-run the reform would have positive supply-side effects (higher rate of private saving, incentives to legal business, and so on) that could lead to growth of the tax revenue due to broadening the tax base. It should be noted that reduction of the tax rates is in line with the main trends in tax reform in transition countries. As shown in Appendix 3, almost without exception, all transition countries have cut the top marginal personal income tax rate significantly.

Introduction of flat-rate personal income tax allows a shift from the system of global taxation to the system of schedular taxation and as a result a certain reduction of tax administration costs. This would partially solve a problem of tax administration, because to a certain degree responsibility to pay the tax is transferred from recipient of income on employer. As shown by

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<sup>6</sup> However, a reliable prediction of the net effect of the draft law on budget revenue cannot be drawn due to lack of the relevant data.

<sup>7</sup> The tax base broadening due to the above-mentioned measures is not taking into account here.

<sup>8</sup> The simultaneous reform of personal income taxation (introduction of flat rate at the level of 13%) and social payments (introduction of the regressive unified social tax with the maximum marginal rate at the level of 35.6%) carried out in Russia in 2000 has led to 32% real growth of the tax base and 19% real growth of the tax revenue in 2001. The share of personal income tax in revenues of the consolidated budget increased from 6.4% in 2000 to 8.9% in 2002. The share of the tax in GDP increased from 2.4% in 2000 to 3.3% in 2002. At the same time, the share of labor remuneration grew from 40.2% of GDP in 2000 to 46.1% of GDP in 2002.

experience of transition countries (e.g., Estonia), the personal income tax has a high budgetary return when collected at the source of income.

Because of the existence of different possibilities for tax evasion by high-income individuals, high marginal rates of personal income tax have not proven to be particularly effective in correcting severe inequalities in income distribution. In this context, it is necessary to assume measures on raise of progressivity of the fiscal system at large (in particular, indirect taxes, taxes on property and wealth).

## **5. Conclusions**

In Belarus, there exists a wide consensus that the reform of personal income taxation is necessary in order to increase both the tax revenue and its fairness and economic feasibility. In this context, the new draft law on personal income tax prepared by the Ministry of Finance and the Ministry on Taxes and Duties represents a positive step forward. While some of the changes proposed in the draft law broaden the tax base and streamline the tax system, some other, such as introduction of interest income tax, are economically unjustified. We argue that the latter changes should not be adopted. Moreover, there are some other possibilities for further improvement of the existing system of personal income taxation: It is also necessary to increase the nontaxable minimum income and decrease the tax rates. Appreciating the real danger of reduction of the tax revenue, we recommend to introduce a flat-rate personal income tax, e.g., at the level of 14%, and increase the nontaxable minimum income fourfold. This would allow to increase the tax revenue while keeping the tax burden for low-income individuals unchanged. Finally, it is important to note emphasize that the full-scale effect of the personal income tax reform will be possible only provided the reform of social payments aimed at reduction of their size.

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**Effective Tax Rate and Tax Revenue Under the Selected Options  
of Personal Income Tax Reform in Belarus**

<b>Nontaxable Minimum Income, Base Amounts</b>	<b>Effective Tax Rate, %</b>	<b>Tax Revenue, % of Revenue Under the Existing Tax Scale</b>	<b>Effective Tax Rate, %</b>	<b>Tax Revenue, % of Revenue Under the Existing Tax Scale</b>
	<b>Existing tax scale</b>		<b>Stretching out of the existing tax scale (twofold)</b>	
1	<b>6.7</b>	<b>100.0</b>	6.5	96.6
2	6.0	89.3	5.8	86.2
3	5.3	78.6	5.1	75.9
4	4.6	68.2	4.4	65.6
5	3.9	57.8	3.7	55.3
6	3.3	49.5	3.2	47.4
7	3.0	44.4	2.8	41.9
	<b>Flat tax rate 10%</b>		<b>Flat tax rate 13%</b>	
1	7.2	106.5	9.3	138.5
2	6.4	95.1	8.3	123.6
3	5.6	83.7	7.3	108.8
4	4.8	72.3	6.3	94.0
5	4.1	60.9	5.3	79.1
6	3.5	52.1	4.5	67.8
7	3.1	46.1	4.0	59.9
	<b>Flat tax rate 14%</b>		<b>Flat tax rate 15%</b>	
1	10.0	149.1	10.7	159.8
2	8.9	133.2	9.6	142.7
3	7.8	117.2	8.4	125.5
4	6.8	101.2	7.3	108.4
5	5.7	85.2	6.1	91.3
6	4.9	73.0	5.2	78.2
7	4.3	64.6	4.6	69.2
	<b>Two marginal tax rates 9 and 15% (20 base amounts<sup>1</sup>)</b>		<b>Two marginal tax rates 9 and 15% (30 base amounts<sup>1</sup>)</b>	
1	6.7	99.6	6.6	98.5
2	6.0	88.9	5.9	88.0
3	5.2	78.3	5.2	77.3
4	4.5	67.9	4.5	67.0
5	3.8	57.2	3.8	56.6
6	3.3	49.1	3.3	48.5
7	2.9	43.5	2.9	42.9
	<b>Two marginal tax rates 10 and 15% (20 base amounts<sup>1</sup>)</b>		<b>Two marginal tax rates 10 and 15% (30 base amounts<sup>1</sup>)</b>	
1	7.2	108.1	7.3	108.5
2	6.5	96.6	6.5	97.5
3	5.7	85.1	5.7	85.2
4	4.9	73.7	4.9	73.6
5	4.2	62.0	4.2	62.1
6	3.6	53.2	3.6	53.2
7	3.2	47.1	3.2	47.1

Source: author's calculations on the basis of the data of the Ministry of Statistics and Analysis as of 2002.

<sup>1</sup> Separator of the tax brackets that refer to two marginal tax rates.



**Marginal and Effective Tax Rates for Low-Income Individuals  
Under the Selected Options of Personal Income Tax Reform in Belarus**

<b>Nontaxable Minimum Income, Base Amounts</b>	<b>Marginal Tax Rate, %</b>	<b>Effective Tax Rate, %</b>	<b>Marginal Tax Rate, %</b>	<b>Effective Tax Rate, %</b>
	<b>Existing tax scale</b>		<b>Stretching out of the existing tax scale (twofold)</b>	
1	9.0	5.6	9.0	5.6
2	9.0	4.7	9.0	4.7
3	9.0	3.8	9.0	3.8
4	9.0	3.0	9.0	3.0
5	9.0	2.1	9.0	2.1
6	9.0	1.5	9.0	1.5
7	9.0	1.2	9.0	1.2
	<b>Flat tax rate 10%</b>		<b>Flat tax rate 13%</b>	
1	10.0	6.2	13.0	8.0
2	10.0	5.2	13.0	6.8
3	10.0	4.3	13.0	5.5
4	10.0	3.3	13.0	4.3
5	10.0	2.3	13.0	3.0
6	10.0	1.7	13.0	2.2
7	10.0	1.3	13.0	1.7
	<b>Flat tax rate 14%</b>		<b>Flat tax rate 15%</b>	
1	14.0	8.7	15.0	9.3
2	14.0	7.3	15.0	7.8
3	14.0	6.0	15.0	6.4
4	14.0	4.6	15.0	4.9
5	14.0	3.3	15.0	3.5
6	14.0	2.3	15.0	2.5
7	14.0	1.8	15.0	1.9
	<b>Two marginal tax rates 9 and 15% (20 base amounts<sup>1</sup>)</b>		<b>Two marginal tax rates 9 and 15% (30 base amounts<sup>1</sup>)</b>	
1	9.0	5.6	9.0	5.6
2	9.0	4.7	9.0	4.7
3	9.0	3.8	9.0	3.8
4	9.0	3.0	9.0	3.0
5	9.0	2.1	9.0	2.1
6	9.0	1.5	9.0	1.5
7	9.0	1.2	9.0	1.2
	<b>Two marginal tax rates 10 and 15% (20 base amounts<sup>1</sup>)</b>		<b>Two marginal tax rates 10 and 15% (30 base amounts<sup>1</sup>)</b>	
1	10.0	6.2	10.0	6.2
2	10.0	5.2	10.0	5.2
3	10.0	4.3	10.0	4.3
4	10.0	3.3	10.0	3.3
5	10.0	2.3	10.0	2.3
6	10.0	1.7	10.0	1.7
7	10.0	1.3	10.0	1.3

*Source:* author's calculations on the basis of the data of the Ministry of Statistics and Analysis as of 2002.

*Note.* Low-income individuals are those who have income up to 15 base amounts per month.

<sup>1</sup> Separator of the tax brackets that refer to two marginal tax rates.

**Top Marginal Personal Income Tax Rates Before and After Reform  
in Transition Countries**

Country	Before Reform, %	After Reform, %	Direction of Change	Year
Albania	30	25	↓	2001
Armenia	30	20	↓	2001
Azerbaijan	40	35	↓	2001
<b>Belarus</b>	<b>50</b>	<b>30</b>	<b>↓</b>	<b>1999</b>
Bosnia and Herzegovina (Fed.)	–	25 <sup>2</sup>	0	1995
Bosnia and Herzegovina (Rep.)	–	25 <sup>3</sup>	0	1998
Bulgaria	39	29	↓	2002
Croatia	45	35	↓	2001
Czech Republic	–	32	0	1993
Estonia	–	26 <sup>1</sup>	0	1994
Georgia	–	20	0	1992
Hungary	42	40	↓	1999
Kazakhstan	30	20	↓	2004
Kyrgyz Republic	33	20	↓	2002
Latvia	–	25 <sup>1</sup>	0	1995
Lithuania	–	33	0	1991
Macedonia	35	18	↓	2001
Moldova	28	25	↓	2002
Poland	–	40	0	1992
Romania	45	40	↓	2000
Russia	30	13 <sup>1</sup>	↓	2001
Serbia and Montenegro (Serbia)	40	14 <sup>1, 4</sup>	↓	2001
Serbia and Montenegro (Montenegro)	40	25	↓	2002
Slovak Republic	38	19 <sup>1</sup>	↓	2004
Slovenia	–	50	0	1990
Tajikistan	40	20	↓	2002
Turkmenistan	25	12	↓	2003
Ukraine	40	13 <sup>1, 5</sup>	↓	2004
Uzbekistan	45	36	↓	2002

Sources: IMF Country Reports.

<sup>1</sup> Flat tax rate.

<sup>2</sup> Wages are treated differently from other incomes. The wage tax rates vary in the range of 10-50%.

<sup>3</sup> A regressive tax scale applies.

<sup>4</sup> Wage tax.

<sup>5</sup> Since 2006 – 15%.