

The authorities of Kazakhstan propose to introduce progressive individual income taxation again, which functioned up to 2007. The economists believe that the initiative's purpose is not clear and its feasibility is questionable.

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In May, after the country was quarantined for two months due to the coronavirus pandemic, and the state paid a minimal financial assistance to those in need, the head of state Kassym-Jomart Tokayev announced the need to introduce a progressive taxation to achieve equity.

“The essence of the progressive taxation is that citizens with low income will pay less than today, and for highly-paid workers the taxes will increase. Our main goal is to reduce the shadow economy in the most massive, non-transparent lower wage segment. If the tax rate is reduced for them, there will be less incentive to pay in cash,” the head of state said at the state commission meeting.

The Kazakh segment on Facebook suggested that there was no need to increase the burden on the middle class, which already pays taxes. Others said that the initiative, on the contrary, would drive the shadow economy.

Nevertheless, Tokayev soon announced precise explanations.

“In my understanding, if people earn up to 200 thousand (\$495), or maybe up to 300 thousand tenge (\$742), they do not have to pay 10% tax, they can pay about 7% tax. This will be decided by the government's working commission,” the head of state said (quote: [informburo.kz](#)).

He noted that 10% individual income tax should remain a broad-spectrum tax and still apply to the middle class. People receiving a salary from 300 to 1.5 million tenge (\$3,711) will pay 10% tax. Those who receive 25 million tenge (\$61.85 thousand) per year must pay from 10% to 15%.

These are only preliminary figures. The government is now working on the development of a progressive individual income taxation, and then it will be presented for public discussion.

Presidential adviser **Olzhas Kudaibergenov** explained that the transition to a progressive taxation can be carried out in two ways:

1. Change only the individual income tax rate, without changing the remaining fees and taxes. This will lead to increased burden on taxpayers and will cause indignation of the population and business.
2. Change the entire tax system without increasing the overall load.

“As far as I know, there are only certain plans so far, but there are still no detailed calculations. It will take a lot of time; given the practice of developing bills, the Parliament will receive it only next summer. If the introduction of the progressive taxation will be linked to the reduction of other taxes and fees burden, then this issue will be discussed only in 2022,” Kudaibergenov wrote on [Facebook](#).

Back to 2007

Currently, a single individual income tax system functions in Kazakhstan: it is 10%, regardless of the income. Some experts consider the progressive taxation to be fairer, because in this case people with higher incomes, respectively, pay more taxes to the budget.

The progressive taxation is not new for Kazakhstan; it functioned in the country until 2007. Then, the state switched to a single tax rate in order to legalize the income of the population. Allegedly, it would open the possibility to withdraw wage payments from the shadow and ease administering of taxes.

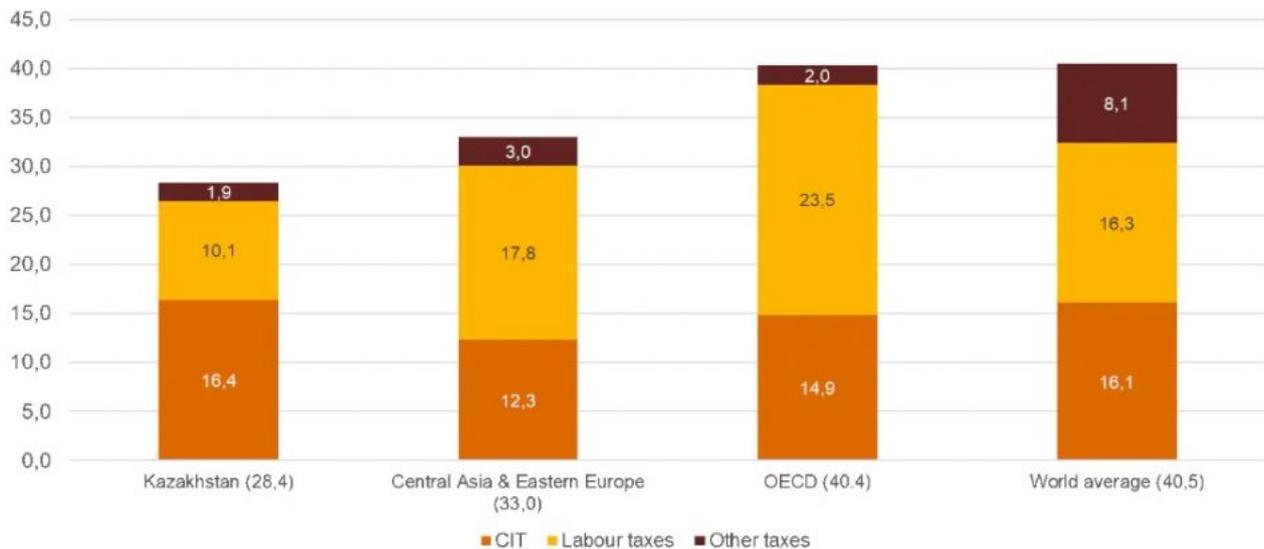
Compared to 2007, currently banks use digital technology, and people themselves require officially declared salary for receiving loans.

In 2020, Kazakhstan was ranked 64 th among 190 countries in Paying Taxes 2020 [study](#) by PricewaterhouseCoopers and the World Bank Group, which analyses tax policies and practices. In 2019, the country was ranked 60th .

Published on the official PwC website report notes:

“The total tax rate in Kazakhstan is 28.4%, which represents the share of taxes and contributions in the company’s profits. This indicator decreased by 1% compared to the previous year.”

Total Tax and Contribution Rate (%) **Kazakhstan, Europe & Central Asia, world average and** **OECD countries**



Data from *Paying Taxes 2020* study

Another indicator used in the study is the average number of payments per year. 10 payments were counted in Kazakhstan - three more compared to the results of *Paying Taxes 2016 - 2018*.

In the Central Asian and Eastern European countries, this figure is 13.9 payments, while in the countries of the Organisation for Economic Co-operation and Development - 10.1 payments. The global average is 23.1 payments per year.

According to the PwC partner Elena Kaeva, the overall rating of Kazakhstan can improve if the principle of taxpayer fairness is implemented, if ambiguities are decided in business' favour, with a better understanding of business models of industries by tax audits, by providing time for introducing new information systems and informing taxpayers.



Elena Kaeva. Photo: Press service archives

“Dead-Born” Idea

Social activist Mukhtar Taizhan called the progressive individual taxation the “dead-born” idea. According to him, the meaning of economic policy is not the fight against the rich, but the reduction of the poor. The new initiative will lead to cash payments and grey economy again.

“The companies close to the financial police will make profit of the necessity to cash out; we went through this already. In general, I expected measures for drastically reducing the quasi-public sector, vacant land, strengthening the institutions of private property and the judiciary, reducing government spending and monopolism, and developing competition in the economy. However, here it comes again. All the same. The result will also be the same,” [claims](#) Taizhan.



Zharas Akhmetov. Photo: [chinalogist.ru](#)

Kazakh economist Zharas Akhmetov also expresses doubts about the effectiveness of a return to the progressive taxation. He notes that in Kazakhstan, the tax system is fiscal and less engaged in a stimulating function.

“It is not completely clear to me what the authorities want and why. If the zero-rate on low salaries is introduced, despite part of the salaries will come out of the shadows, the budget will receive nothing. Social justice has nothing to do with this. A person, who receives little, does not care about lowering income taxes. Since the individual tax is withheld from employers, the employee does not feel the tax reduction. It is important for him how much he received in cash or to his account,” says Akhmetov.

He also noted that the President explained that the changes would not affect the people with average salaries, but this is not enough for the overall situation. According to the economist, about 6.5 million people in Kazakhstan are employees, whose incomes are quite transparent and taxed. About a million more are self-employed and only a part of them regularly pays taxes: lawyers, notaries, etc. Others do not pay taxes and something needs to be done.

“Judging by the President’s speech, the progressive taxation will affect workers with salaries of more than 1 million tenge per month. This, as a rule, is the top management of large corporations and top managers of national companies. I strongly doubt that top management of national companies are receiving salaries in cash,” the expert noted.

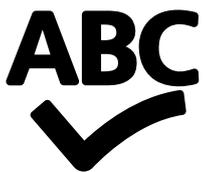
The economist and researcher **Timur Aisautov** also believes that the state tax policy should not only collect fees, but stimulate industrialization and diversification of the economy. However, this does not happen.

“Kazakh tax policy does not differentiate priority and non-priority sectors of the economy. The State Revenue Committee of the Republic of Kazakhstan seeks tax “equalization” to simplify and facilitate its work. All economy sectors with rare exceptions, according to the tax authorities, should pay taxes at a single rate,” says Aisautov.

He notes that if earlier control of the differentiated tax policy was complicated by paper work, now, with the introduction of digital technologies, this is quite feasible.

Title photo: vlast.kz

This article was prepared as part of the Giving Voice, Driving Change - from the Borderland to the Steppes Project.



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