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## The Impact of the Progressive Scale of Personal Income Tax on Social Inequality in Russia

**Abstract:** Starting from 2025, the progressive scale of personal income tax will be introduced in Russia. Under this taxation system, the tax rate increases alongside the growth of the taxable base, i.e., individuals' income. For the first time, a five-tier progressive scale of personal income tax will be implemented, which will be directly linked to income levels. The progressive tax is expected to promote social justice, as a high level of wealth inequality characterises Russia. This article is devoted to the study of the impact of the progressive scale of personal income tax on social inequality in Russia. It analyses the experience of implementing progressive taxation in various countries and assesses the feasibility of its application within the Russian economy. The article explores the potential social and economic effects of transitioning from a flat to a progressive tax scale, including income redistribution, poverty reduction, and the promotion of social equity. Particular attention is given to possible barriers associated with implementing this tax reform, including administration issues, the shadow economy's scale, and public perception. The authors conclude that an assessment of the current tax system highlights the need for reforms to introduce progressive taxation. Such reforms would contribute to a fairer distribution of the tax burden and effectively combat economic inequality in Russian society.

**Keywords:** progressive scale of personal income tax; social inequality; income redistribution; tax policy; social justice; tax reform.

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## Влияние прогрессивной шкалы НДФЛ на социальное неравенство в России

**Аннотация:** С 2025 года в России вводится прогрессивная шкала НДФЛ, при такой налоговой системе происходит увеличение ставки с ростом налогооблагаемой базы, то есть дохода

физических лиц. Впервые вводится пятиступенчатая прогрессивная шкала НДФЛ, которая будет напрямую зависеть от уровня дохода. Предполагается, что прогрессивный налог позволит достичь социальной справедливости, поскольку в России наблюдается высокое имущественное расслоение. Статья посвящена исследованию влияния прогрессивной шкалы НДФЛ на уровень социального неравенства в России. Анализируется опыт внедрения прогрессивного налогообложения в различных странах и оцениваются возможности его применения в российской экономике. Рассматриваются потенциальные социально-экономические эффекты перехода от плоской к прогрессивной шкале, включая перераспределение доходов, снижение уровня бедности и стимулирование социальной справедливости. Особое внимание уделено возможным барьерам, связанным с реализацией данной налоговой реформы, включая вопросы администрирования, уровня теневой экономики и общественного восприятия. Авторы делают вывод, что оценка существующей налоговой системы подчеркивает необходимость реформ, направленных на внедрение прогрессивного налогообложения и это поможет в обеспечении более справедливого распределения налоговой нагрузки и эффективной борьбе с экономическим неравенством в российском обществе.

*Ключевые слова:* прогрессивная шкала НДФЛ; социальное неравенство; перераспределение доходов; налоговая политика; социальная справедливость; налоговая реформа.

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### **Abbreviations:**

PIT is personal income tax

### **Introduction**

Starting from 2025, a PIT progressive scale will be introduced in Russia (*On Amendments..., 2024*). Under such a taxation system, the tax rate increases in line with the growth of the taxable base, i.e., individual income. However, this rate type is not entirely new, as since 2021, a higher PIT rate has been applied to individuals earning over five million rubles annually. Nevertheless, a five-tier PIT progressive scale will be introduced for the first time, which will be directly linked to income levels. The first increased rate will apply to citizens earning over 200,000 rubles per month, meaning the reform will affect a wider group of people than the one introduced in 2021.

At the same time, according to statements by the Minister of Finance of the Russian Federation, Anton Siluanov, the reform will impact only 3.2% of the working population, or approximately 2 million out of 64 million employed individuals. Many families with children are expected to benefit from the changes.

The progressive tax is believed to help achieve greater social justice, given the high level of wealth inequality in Russia. For instance, the Gini coefficient in Russia in 2023 was 0.36. This places the country at a similar level of inequality to nations such as China, Chad, Kenya, and Nigeria (*Gini Coefficient, 2016*). Due to the severity of inequality, in February 2024, the President addressed the Federal Assembly, stressing the need to reform the tax system to achieve “a fairer distribution of the tax burden in favour of those with higher personal and corporate incomes.” (*The Message..., 2024*)

In this context, the question arises as to what impact the new PIT scale will have on Russia's social and economic situation. The issue of how the tax burden is distributed across different segments of the population is becoming increasingly relevant.

## Results

At present, the majority of countries around the world have adopted a progressive personal income tax scale. As noted by T.D. Odinokova (*Odinokova, 2015*), a flat tax rate remains primarily in the post-Soviet space, while most developed market economies have shifted to a progressive system. The Scandinavian countries are particularly illustrative in this regard, as they have managed to maintain a balance between high incomes and equally high taxes. According to statistical indicators, Finland, Sweden, Norway, and Denmark consistently rank among the global leaders in population welfare. At the same time, the Gini coefficient in these countries is also among the lowest in the world (0.30 in Sweden, 0.28 in Finland).

Let us take Sweden as an example. Personal income tax is divided into municipal and national components. The Constitution stipulates that the country's authorities can set tax rates and collect revenue for their respective budgets. At the local level, citizens pay municipal income tax. Rates vary from 27.5% to 33.7%, with Stockholm, for instance, imposing a rate of 29.82%.

The national income tax rate is 0% for annual income below 426,300 SEK. For income between 426,300 and 604,700 SEK, the rate is 20%; for income exceeding 604,700 SEK per year, the rate rises to 25% (*Skatter, 2022*). Thus, total income tax in Sweden ranges from 27.5% to 58.7%.

It is worth noting that the maximum PIT rate in Russia under the new scale will be 22%, which is significantly lower than in Sweden. Moreover, under the new system, only the portion of income exceeding the threshold will be taxed at the increased rate.

A flat tax system increases the tax burden on low-income groups while favouring the wealthy. However, according to E.S. Vylkova (*2021*), to significantly reduce poverty and income inequality, it is essential to exempt incomes below several subsistence levels from PIT simultaneously, and to apply a PIT progressive scale to wealthy and ultra-wealthy taxpayers. Vylkova's view seems well-reasoned, as under the new PIT system, the first tax bracket remains at 13%, meaning that the tax burden for low-income groups will not increase. In this regard, the tax reform remains incomplete, as it only addresses inequality from the top end of the income distribution.

Nevertheless, high tax rates on the wealthy may help narrow the gap between the rich and the poor, ensuring fairer access to resources. However, suppose taxes on the wealthy are increased while rates for the poor remain unchanged. In that case, this may only slightly reduce the privileged access of the rich, without significantly improving access for the poor.

According to the Constitution (*1993*), Russia is a social state whose policy aims to create conditions that ensure a dignified life and the free development of the individual. The mechanism by which the progressive PIT scale operates is the redistribution of economic resources. Revenue generated from higher PIT rates will go into the federal budget. This will allow for increased spending on social and economic goals: support for participants of the extraordinary military operation and their families, large families, and so on. In other words, the increased PIT rate will help finance the needs of the most vulnerable segments of the population.

Despite its advantages, the progressive tax system has significant drawbacks, such as reduced motivation among high-earning workers and the outflow of skilled professionals to countries with more attractive tax conditions. A vivid example of the negative consequences is the case of France, where in 2012 a temporary 75% tax rate on income exceeding one million

euros was introduced (*In France...*, 2012). This decision sparked dissatisfaction among entrepreneurs and celebrities, including Gérard Depardieu, who renounced his French citizenship due to the heavy tax burden. As a result, the French government repealed the tax two years later, acknowledging its negative impact on the economy and the country's investment appeal.

A progressive tax, which assumes increased tax rates for wealthier individuals, can help citizens feel that their contribution to public resources is fair and proportionate to their income. This, in turn, may reduce perceptions of economic inequality and injustice, thereby improving public morale. Implementing such a system may promote greater social cohesion and trust in public institutions, as people will see that tax policy aims to narrow the gap between different segments of society.

This sociological dimension is reflected in statements made by government officials. For example, according to Russia's Minister of Finance, Anton Siluanov, revenue from the changes to the tax system will be used to increase social payments, support maternity and childhood, and develop social infrastructure. These statements are particularly well-received in light of statistics provided by the Ministry, which show that the introduction of the PIT progressive scale will affect only about 3% of the country's working-age population (*Siluanov...*, 2024).

It is also worth noting that the changes will not affect the income of participants in the special military operation, nor will they impact bonuses and additional payments for those working in the Far North and other regions with harsh or unique climatic and environmental conditions. Considering current state policy and national unity surrounding the military actions in Ukraine, these exemptions will also have a positive effect on public sentiment.

### Conclusion

An analysis of the flat tax system in Russia until 2021 and the current two-tier system reveals many issues related to its limited effectiveness in addressing economic inequality. One of the key problems lies in the fact that the flat and two-tier tax systems essentially apply a uniform percentage rate to all citizens, regardless of their income level. This can result in high-income individuals significantly benefiting from the system, as they pay taxes at the same or only slightly higher rate than those with lower incomes. Consequently, the tax burden on low- and middle-income earners becomes comparatively heavier, exacerbating the issue of economic inequality.

Moreover, the flat and two-tier systems do not promote the redistribution of wealth, leading to a shortfall in financial resources needed to fund social programmes that support vulnerable population groups. This shortfall hampers investment in areas such as education, healthcare, and social infrastructure—investments that could otherwise improve living standards across all segments of society.

The absence of a more developed PIT progressive scale limits the state's capacity to combat poverty and social exclusion. The introduction of a five-tier progressive taxation system could help rectify this situation by enabling wealthier citizens to contribute more significantly to public resources, thereby reducing inequality.

Thus, assessing the existing tax system highlights the urgent need for reform to implement progressive taxation. Such reform would facilitate a fairer distribution of the tax burden and offer a more effective means of addressing economic inequality in Russian society.

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