

Bardukov, I. S., & Radbil, B. I. (2025). Tax deduction: Legal nature, problems and solutions. *Current Issues of Science: Student Thought. Tuculart Student Scientific*, 5, 85–88. Ostrava: Tuculart Edition, European Institute for Innovation Development.

TOI: tss2025-01-10 DOI: 10.61726/1717.2025.68.58.001

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Ilya S. Bardukov, Undergraduate Student, Faculty of Training Specialists for the Judicial System, Russian State University of Justice. St. Petersburg, Russia.

Boris I. Radbil, Undergraduate Student, Faculty of Training Specialists for the Judicial System, Russian State University of Justice. St. Petersburg, Russia.

Scientific Supervisor: Nina N. Gontar, Ph.D. in Law, Associate Professor, Russian State University of Justice. St. Petersburg, Russia.

Tax Deduction: Legal Nature, Problems and Solutions

Abstract: Relevance of the research is determined by the increasing social and incentive role of tax deductions within the modern tax policy of Russia. In this article, the author explores the legal nature of tax deductions. Novelty of the study lies in a comprehensive analysis of practical issues related to the provision of tax deductions and in the development of proposals aimed at improving tax legislation. The purpose of the study is to identify the challenges in applying tax deductions in Russia and to justify directions for their improvement in order to enhance social protection of the population and stimulate economic activity. The study employs research methods such as analysis and synthesis of regulatory legal acts governing the procedure for granting tax deductions, comparative analysis of statistical data and law enforcement practice, the monographic method to examine academic publications and expert assessments, a systematic approach to develop proposals for improving tax mechanisms, and the empirical method to identify real problems and contradictions in the application of tax deductions. In the course of the study, legislative acts of the Russian Federation and the works of experts in this field were used. The paper considers issues related to the application of personal income tax deductions in the Russian Federation in terms of addressing a number of socio-economic tasks, and outlines possible ways to improve this institution. The authors conclude that the current tax policy of the Russian state is focused on strengthening the social and incentive role of tax deductions. Their use and the reimbursement of overpaid taxes from the budget are becoming increasingly common among citizens.

Keywords: tax deduction, legal nature, problems and solutions, personal income tax, tax code, tax.

Илья Сергеевич Бардуков, студент 4 курса, факультет подготовки специалистов для судебной системы, Российский государственный университет правосудия. Санкт-Петербург, Россия.

Борис Ильич Радбил, студент 4 курса, факультет подготовки специалистов для судебной системы, Российский государственный университет правосудия. Санкт-Петербург, Россия.

Научный руководитель: Нина Николаевна Гонтарь, кандидат юридических наук, доцент кафедры, Российский Государственный университет правосудия. Санкт-Петербург, Россия.

Налоговый вычет: правовая природа, проблемы и пути решения

Аннотация: Актуальность исследования обусловлена возрастающей социальной и

стимулирующей ролью налоговых вычетов в современной налоговой политике России. В данной статье автор раскрывает правовую природу налогового вычета. Новизна исследования заключается в комплексном анализе практических проблем предоставления налоговых вычетов и разработке предложений по совершенствованию налогового законодательства. Цель исследования – выявить проблемы применения налоговых вычетов в России и обосновать направления их совершенствования для повышения социальной защиты населения и стимулирования экономической активности. В работе используются такие методы исследования как анализ и синтез нормативно-правовых актов, регулирующих порядок предоставления налоговых вычетов, сравнительный анализ статистических данных и правоприменительной практики, монографический метод для изучения научных публикаций и экспертных оценок, метод системного подхода при разработке предложений по совершенствованию налоговых механизмов и эмпирический метод для выявления реальных проблем и противоречий в применении налоговых вычетов. В ходе исследования были использованы законодательные акты Российской Федерации и труды специалистов в данной области. В работе рассматриваются проблемы применения налоговых вычетов по налогу на доходы физических лиц в Российской Федерации с точки зрения решения ими ряда социально-экономических задач, отражаются возможные пути усовершенствования данного института. Авторы делают заключение, что современная налоговая политика российского государства сосредоточена на усилении социальной и стимулирующей роли налоговых вычетов. Их использование и возврат из бюджета излишне уплаченной суммы налогов становятся все более распространёнными среди граждан.

Ключевые слова: налоговый вычет, правовая природа, проблемы и пути решения, НДФЛ, Налоговый кодекс, налог.

Abbreviations:

PIT is personal income tax.

Introduction

The relevance of the research stems from the growing social and incentive role of tax deductions in Russia's contemporary tax policy. Despite the active use of tax deductions by citizens, a number of practical problems persist: delays in desk audits, insufficient awareness among taxpayers, complexity in the preparation of documentation, and outdated deduction limits that no longer reflect current economic realities. These factors necessitate a scholarly reconsideration of the existing mechanism and a search for ways to improve it in order to enhance the efficiency of tax administration and strengthen the social protection of citizens.

The novelty of the research lies in a comprehensive analysis of practical issues related to the provision of tax deductions, alongside the development of proposals for improving tax legislation. In particular, the study proposes measures to raise deduction limits, introduce new forms of educational outreach to the public, and adapt tax norms to modern economic conditions. This approach aims to increase the effectiveness of tax deductions as a tool of state support for citizens.

The purpose of the study is to identify the problems in the application of tax deductions in Russia and to substantiate directions for their improvement to enhance social protection and stimulate economic activity.

To achieve the purpose, the following objectives have been set:

- examine the existing system of personal income tax deductions and their role in the social and incentive functions of tax policy;
- analyse the problems that arise in practice when granting tax deductions;
- assess the impact of existing restrictions and limits on the effectiveness of tax deductions;
- develop proposals for improving the mechanism of tax deductions, including raising deduction limits and improving taxpayer awareness;
- justify the need for educational work to increase tax literacy among the population.

The following methods are used in the study:

- analysis and synthesis of legal acts regulating the procedure for granting tax deductions;
- comparative analysis of statistical data and law enforcement practice;
- monographic method to study academic publications and expert assessments;
- systems approach in developing proposals to improve tax mechanisms;
- empirical method to identify real problems and contradictions in the application of tax deductions.

Results

The contemporary tax policy of our country is focused on creating an effective system for administering personal income tax, as well as on providing incentives for citizens to voluntarily pay taxes in exchange for state social guarantees. This strategy includes the following objectives:

- equitable taxation across different social groups; ensuring an adequate standard of living for taxpayers;
- implementing additional financial support measures from the state (such as improving welfare, assistance with purchasing or building housing, healthcare, education, and promoting a healthy lifestyle);
- encouraging citizens to use their personal income on the organised securities market and to place funds in bank investment accounts, among others.

In the context of the state's social development policy, tax legislation is constantly adapting to changing economic conditions and the modern needs of society. Legislators introduce various initiatives aimed at improving citizens' living standards, including changes and enhancements to tax and duty mechanisms.

The standard tax deduction serves to implement the provisions of the law, supporting family budgets by exempting a certain share of children's income from taxation, thereby increasing the social security of taxpayers and their children (biological and adopted) (*Semenova, 2018*).

As an example, one might cite the investment tax deduction, which has become particularly relevant against the backdrop of growing interest in Russia's developing stock and investment markets. Its introduction encourages taxpayers to use temporarily free funds wisely for investment and to earn income.

Social tax deductions play a key role in financially supporting citizens' actual expenditure on education, medical services and sport.

Property tax deductions are especially important when selling residential property owned for less than the legally established period, as well as when purchasing or building such property, thereby reducing the tax burden.

The professional tax deduction helps reduce the tax liabilities of self-employed individuals, notaries, lawyers and others who work under civil law contracts and receive royalties. This provision not only lowers the amount of tax payable to the budget, but also encourages small businesses to optimise taxes legally, avoiding tax evasion schemes (*Lubyantseva, 2022*).

The socio-economic role of tax deductions is most evident in the use of the property tax deduction when purchasing residential property.

The maximum possible amount used to calculate the main property deduction is 2 million roubles, from which 13% is deducted. Thus, the amount that can be refunded is up to 260 thousand roubles (or 13% of 2 million roubles), even if the flat costs 10 million or 100 million roubles. If the property costs less than 2 million roubles, the remaining deduction can be used for future housing purchases (*Tax Code, Art. 220*).

However, several problems arise when confirming entitlement to this deduction:

1. On the one hand, tax authorities may create obstacles by failing to meet the deadlines for desk audits and for refunding overpaid tax amounts;
2. On the other hand, difficulties arise due to taxpayers' lack of awareness, which can lead to mistakes and incorrect completion of tax returns, unjustified claims for deductions, refusal to submit amended tax returns, and failure to provide a complete set of supporting documents.

There are cases where expenses on education, medical treatment, sport and insurance are claimed in a single tax return. In such instances, difficulties in using the social tax deduction may arise because:

- (1) each declared expense must be documented, leading to the need to prepare a large volume of paperwork;
- (2) tax legislation provides a general list of supporting documents without specific guidance for particular types of deductions, which can cause misunderstandings between taxpayers and tax authorities (*Karaseva, 2023*).

As a result, tax authorities most often refuse to grant social tax deductions, citing incomplete documentation or a mismatch of expenses with the regulated tax periods, which in turn leads to mistakes when filling out tax returns.

In addition, the legislative requirements and conditions for granting tax deductions are not indexed to reflect changes in the country's economic situation. The established limits have not been revised for a long time (*Sentsova, 2023*).

To improve the conditions for granting tax deductions, the following measures are proposed:

- (1) amend Article 218 of the Tax Code of the Russian Federation to increase the deduction amount, ensuring it fulfils its purpose of improving children's welfare;
- (2) increase the maximum allowable deduction for actual expenses on medical treatment, insurance and physical culture and health services, currently set at 120 thousand roubles;
- (3) increase the deduction amount for self-education and the education of children under 18 and up to 24 years of age (biological, adopted or under guardianship) to 300 thousand roubles;
- (4) enhance citizens' financial literacy regarding the use of tax deductions through awareness-raising efforts and open access to information about changes in tax legislation;

- (5) introduce open lessons and workshops in secondary schools, colleges and universities dedicated to tax law, the lawful use of tax deductions and liability for deliberate misrepresentation in this area.

In conclusion, the implementation of these proposals would strengthen the stimulating function of taxes, enabling the public to use tax deductions to improve their quality of life. In addition, it could reinforce citizens' motivation to work officially in accordance with the Labour Code of the Russian Federation to obtain formal income and benefit from state support through tax deductions.

Conclusion

Thus, it can be stated with confidence that the current tax policy of the Russian state is focused on strengthening the social and incentivising role of tax deductions. Their use and the reimbursement from the budget of excessively paid tax amounts are becoming increasingly common among citizens. Each year, a growing number of people exercise their right to apply tax deductions; however, in practice, various problems and contradictions arise. This is due to the fact that, despite ongoing improvements, the legal regulation in this area is not always effective (*Shcherbatykh, 2017*).

In conclusion, it is worth noting that issues relating to tax deductions have become topical and widely discussed both among citizens and state institutions, and are actively considered in academic publications, at conferences and forums. Since, in practice, the provision of tax deductions in Russia can be accompanied by various conflicts, it is important to conduct scholarly research into the existing taxation system and the relevant regulatory documents. The issue of PIT remains significant both for tax authorities and for citizens, and continues to attract considerable attention from specialists.

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