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### ANALYSIS OF TAX SYSTEMS IN DEVELOPED COUNTRIES

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**Annotation.** It is critical for developing countries to evaluate large nation's tax regimes. This article examines the historical development of tax systems in the United States and other industrialized nations, as well as their earlier failures, key lessons, and the effects of their policies on various scales of economic activities. The essential objectives of this study are to identify components of tax laws in different times and geographic regions of the US, as well as to evaluate their effect on financial stability. The discoveries demonstrate that tax policy impacts a country's economic strength and financial growth. The paper concludes with proposals for fostering a tax structure that is both proficient and sustainable, which can assist governments in achieving economic stability.

**Key words:** Tax policy, sustainable tax policy, tax laws, individual fairness, wealth distribution, principle of fairness, social programs, economic interests, low tax structure, economic effects.

### Introduction

Tax systems have been fundamental to state governments throughout history. In addition to being a significant source of revenue, they have had a substantial impact on social and economic progress. Different regions have distinct taxation models due to governments structuring their tax policies according to political and economic objectives. To simplify taxation, Head Yu of ancient China, for example, divided his domain into nine regions. At that time, taxes were often paid in goods rather than cash, and the specific type of taxation depended on the available resources and the geographic characteristics of the region. Before the Sixteenth Amendment (1913) established a permanent income tax, the U.S. primarily relied on tariffs and excise taxes during the nineteenth century. This change had a significant impact on shaping modern economic policies by increasing the tax burden on both individuals and corporations while simultaneously funding public services. Feudal tax systems also influenced social and economic structures in medieval Europe, reinforcing the hierarchical relationships between rulers and subjects.

Tax regulations are becoming increasingly important tools for ensuring economic stability and enhancing public welfare in today's globalized society. For example, the United States employs tax breaks to foster entrepreneurship, whereas Scandinavia prioritizes income to pay for government services. This study investigates how tax systems have evolved over time, comparing American taxation to those of other developed countries. It examines how past taxation has influenced current economic policy and makes recommendations for developing a more efficient and long-term tax structure.

### LITERATURE REVIEW

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Distinct countries have very different tax laws, which influence income distribution, government revenue, and economic systems. Comparing the United States' tax system to that of other industrialized countries allows us to better understand its distinguishing traits and potential areas for reform.

1. International Comparisons of Taxation Systems. Slemrod and Bakija (2004) provide a thorough assessment of the differences between the tax systems of the U.S. and other OECD countries. One of their key findings is that the U.S. has a lower tax-to-GDP ratio than most developed nations is one of their primary discoveries. In 2013, the U.S. had tax receipts amounting to 25.4% of GDP, making it the third-lowest tax burden out of 34 OECD countries, compared to an average of 34.2%. Only South Korea, Mexico, and Chile collected less in taxes relative to GDP, while Denmark (47.6%), France (45.0%), and Belgium (44.7%) had significantly higher tax-to-GDP ratios.

2. Differences in Tax Structure. The limited reliance on consumption taxes is a defining characteristic of the U.S. tax system, even if income taxes and social insurance taxes are not very different. Compared to the OECD average of 10.3%, the United States only collects 3.7% of GDP from consumer taxes. The main reason for this disparity is that the United States is the only OECD nation without a value-added tax (VAT). The United States receives no revenue from VAT, but the majority of countries get substantial revenue from it (averaging 6.3% of GDP). Rather, other OECD countries hardly ever utilize retail sales taxes, which are prevalent at the state level.

International comparison of taxes as a percentage of gross domestic product, 1999

	United States	OECD average <sup>a</sup>	Japan	United Kingdom	Canada	Germany	Sweden
<b>Total taxes</b>	<b>28.9</b>	<b>37.1</b>	<b>26.1</b>	<b>36.4</b>	<b>35.9</b>	<b>37.8</b>	<b>52.0</b>
<i>Income taxes</i>	14.2	13.3	8.2	14.1	17.7	11.3	21.6
Personal income taxes	11.8	10.1	4.8	10.4	13.7	9.5	18.5
Corporate income taxes	2.4	3.3	3.4	3.7	3.6	1.8	3.1
<i>Consumption taxes<sup>b</sup></i>	4.2	11.1	4.7	11.1	8.8	10.2	10.9
Value-added taxes	—	6.4	2.5	6.8	2.6	7.0	7.1
Sales taxes	2.2	0.3	—	—	2.6	—	—
<i>Social insurance taxes</i>	6.9	9.4	9.7	6.3	4.9	14.9	13.2
<i>Other taxes</i>	3.6	3.3	3.5	4.8	4.5	1.5	6.3

Source: OECD (2001, 2003).

Notes: Dash indicates a tax is not used by the country in question. Includes taxes at all levels of government.

a. Unweighted average of all 30 nations in the Organisation for Economic Co-operation and Development.

b. Includes value added taxes, sales taxes, excise taxes, import and customs duties, and other consumption taxes.

### 1. Implications for Tax Reform

However, Slemrod and Bakija (2004) emphasize that this would be a first for rich nations. Since significant income taxes are still set up in all OECD countries with VAT systems, a crossover model as opposed to an all out change might be more useful. Moreover, no industrialized nation has at any point attempted a national retail sales tax of this size, which raises worries about its practicality and monetary effect regardless of whether different countries have effectively collected critical measures of cash through VAT.

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**2. Conclusion:**

The comparison of tax systems reveals the unique characteristics of American taxes, especially the lack of a national consumption tax and the low overall tax burden. The United States continues to rely on income-based taxation, whereas other OECD nations use a combination of income taxes and VAT to balance their tax revenues. These variations raise critical issues for discussions on tax policy, particularly regarding the feasibility and potential repercussions of implementing a national consumption tax. The work of Slemrod and Bakija offers a strong reason for fathoming these elements and essential bits of knowledge into the compromises that are available in discussions about tax reform.

**DISCUSSION:**

The tax systems of developed countries vary widely, reflecting different social programs, governmental institutions, and business interests. Compared to many European countries, the United States has a relatively low tax structure that favors consumer spending, private sector investment, and economic growth. On the other hand, countries such as the United Kingdom, France, and Germany use higher tax rates to fund extensive social programs such as social security payments, free public education, and universal healthcare.

The table below compares tax revenue as a fraction of GDP, income tax rates, corporation taxes, payroll taxes, and VAT/sales tax to identify the main differences between the tax systems of the United States and other major industrialized nations. These discrepancies have implications for income distribution, social welfare, corporate competitiveness, and economic growth.

Tax Type	USA	Canada	UK	Japan	Germany	France
Tax Revenue (% of GDP)	27%	34%	33%	32%	39%	45%
Corporate Tax Rate	21%	15%	25%	23%	15%	25%
Capital Gains Tax	0-20%	50% (depending on province)	20%	20%	26.4%	30%
Top Income Tax Rate	37%	33%	45%	45%	45%	45%
Payroll Tax	~15.3% (Social Security & Medicare)	~12%	~13.8%	~18%	~20%	~40%
VAT/Sales Tax	~7% (varies by state)	5% + provincial	20%	10%	19%	20%

**Key Takeaways:**

1. Lower overall tax revenue in the USA – As a proportion of GDP, the United States collects less tax than the majority of wealthy countries. This suggests that, whereas European countries support their massive social programs through higher taxes, the government relies more on borrowing and other funding sources.

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2. Income tax rates in the USA are competitive – The highest income tax rate in the United States (37%) is comparable to that of Canada and Japan, but lower than those of Germany, the United Kingdom, and France. However, in exchange for higher income taxes, many developed countries provide more public services (such as healthcare and education).
3. Corporate tax in the USA is relatively low – The United States has a competitive corporate tax rate of 21%, which is lower than that of European countries such as the United Kingdom and France, which tax corporations at 25%. This lower rate may attract businesses, but it may also reduce government revenue.
4. No national VAT in the USA, unlike other countries – The US has only state-level sales taxes, yet the heft of industrialized nations depend generally on value-added taxation (VAT). This reduces government revenue while making consumer goods in the U.S. more reasonable.
5. Payroll taxes in the USA are moderate – The combined amount of Social Security and Medicare taxes is approximately 15.3%, which is greater than the UK (~13.8%) but lower than France (~40%). Although reduced payroll taxes save companies money, they may also result in less substantial public benefits.
6. Capital gains taxes are lower in the USA – Compared to countries like Canada (up to half) and France (30%), the US taxes investment gains at a lower rate (0-20%). This encourages investment, but since it helps the people who are richer and rely upon ventures, it may exacerbate income inequality.

#### **RESULTS:**

Contrasted with other industrialized nations, the US's tax structure fundamentally affects both its economy and the principle of fairness. Here is the breakdown:

#### **Economic Effects of USA Taxes Compared to Other Developed Countries**

1. Lower Tax Revenue → Less Public Spending
  - The U.S. collects less in taxes (27% of Gross domestic product) than most prosperous nations (35-45%).
  - Economic Effect: This allows individuals and businesses to pay less in taxes, which encourages the growth of the private sector. However, it implies less money for social services that other countries provide, such as free college education, universal healthcare, and unemployment insurance.
  - Comparison: In order to reduce inequality, European countries redistribute more tax income through public services, which raises the tax burdens on workers and businesses.
2. Low Corporate Tax → Business Growth, but Less Revenue
  - The United States has a corporate tax rate of 21%, higher than Germany (15%) but lower than the UK (25%), and France (25%).
  - Economic Effect: Although a lower corporate tax attracts businesses and encourages investment, it also reduces corporate tax income, increasing the tax burden on individuals.
  - Comparison: In countries such as France and Germany, businesses pay greater taxes, which are subsequently used to fund public services. However, this may deter business investment.
3. No National VAT → Higher Consumer Spending, But Lower Revenue

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- While most industrialized countries use value-added tax (VAT) (Germany 19%, UK 20%, France 20%), the United States does not. In the United States, state-level sales taxes (about 7%) are utilized instead.
  - Economic Effect: As a result, consumer goods stay more affordable, which boosts spending and business activity. It makes it more difficult to provide public services, however, because it limits government revenue.
  - Comparison: VAT-levying countries generate more constant tax revenue, albeit at the expense of higher consumer prices.
4. Lower Payroll Taxes → Cheaper for Employers, But Less Social Security
- Payroll taxes in the USA are 15.3%, more than in Canada (12%) but lower than in France (~40%).
  - Economic Effect: Associations could select laborers significantly more fairly when payroll taxes are lower, which stays aware of the progression of occupations. But, since government upheld retirement benefits are diminished, individuals are compelled to depend upon private clinical thought and retirement hold saves.
  - Comparison: Strong social safeguards are funded by France's high payroll taxes, yet they raise labor costs and may lead to job losses.
5. Low Capital Gains Tax → Encourages Investment, However Demolishes Abundance Disparity
- Compared to Canada (up to 50%) and France (30%), the United States has a far lower capital gains tax (0-20%).
  - Economic Effect: Although a lower capital gains tax fosters investment and increases economic growth, the wealthiest benefit disproportionately since their investments create more income than their wages.
  - Comparison: Wealth disparities are reduced in countries with higher capital gains taxes, but innovation and corporate investment may be discouraged.

#### **Principle of Fairness: How USA Taxes Compared to Other Countries**

##### **1. Progressive vs. Regressive Taxation**

- The United States, like Germany, the United Kingdom, and France, has a progressive income tax system, which means that higher-income individuals pay a higher rate.
- However, the absence of a VAT reduces the system's regressiveness because it applies evenly to all consumers, potentially harming those with lower earnings disproportionately.

##### **2. Fairness in Social Services**

- Other industrialized countries provide a safety net for all of its citizens by offering additional social benefits (such as childcare, healthcare, and education) that are funded by higher taxes.
- Fairness, on the other hand, is based on individual income and private sector solutions, while the United States' lower tax structure results in fewer government services. Wealthier folks who can afford healthcare and education benefit from this.

##### **3. Wealth Distribution and Inequality**

- The United States has a greater wealth discrepancy than France and Germany due to its low capital gains tax and lack of a value-added tax.
- Higher wealth taxes, such as property and inheritance taxes, are utilized in some countries to better distribute income.

#### 4. Business vs. Individual Fairness

- Because corporate and payroll taxes are low in the United States, it is easier to establish and grow a business there.
- People, especially working class laborers who don't profit from business tax breaks, have a higher tax burden under this construction.

#### CONCLUSION.

The assessment of tax systems in industrialized countries shows that tax laws have a significant impact on social welfare, income distribution, and economic growth. The United States stands apart due to its reduced total tax burden, lack of a national consumption tax, and relatively low corporate and capital gains taxes, all of which support business investment and economic growth. In contrast to other OECD countries, this method limits public funding, resulting in fewer social services and more economic disparities.

On the other hand, European countries with higher tax-to-GDP ratios support significant social programs, ensuring a broader safety net for their residents. Although their employment of progressive taxation schemes, increasing payroll contributions, and value-added taxes improves economic stability, they can also have negative consequences, such as reduced competitiveness in the private sector.

Finding a harmony between civil rights and monetary productivity will stay a critical test for policymakers later on. The US might seek after a hybrid tax model that incorporates components of a more impartial and reasonable tax structure while safeguarding its cutthroat monetary environment. Like this, other created nations should continually assess their tax structures to adjust to moving segment and financial patterns. At last, a very much created tax policy ought to advance value, long haul development, and financial soundness while as yet turning out sufficient revenue.

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