

The History of Taxation in Kazakhstan

Maiya Arzayeva¹, Ulan Umitkaliev² and Mira Koishubayeva³

¹*Al-Farabi Kazakh National University, Almaty, Kazakhstan, 050038*

^{2,3}*L. N. Gumilyov Eurasian National University, Astana, Kazakhstan, 010000*

E-mail: anthropology.kz@gmail.com

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ABSTRACT The paper presents a detailed analysis of the evolution of taxation in Kazakhstan. The researchers try to reveal the meaning of the basic concepts and categories, to give the characteristics of the main types of taxes in accordance with the Tax Code of the Republic of Kazakhstan, as well as further improvements in the tax system. The purpose of the research is to obtain scientific results which formed the conceptual apparatus of research; it shows the essence, significance and role of taxes in the formation of state revenues. Taxes are not just facts relating to the empirical sphere, they are political institutions. As it happens with other institutional facts, they have only a temporal dimension. Therefore, its emergence as a social institution can be considered in the context of different evolutionary development of the state or country.

INTRODUCTION

Taxes emerged with the advent of the first state change, as the main source of centralized education finance. It should be noted that often the process of taxes nucleation identified by many authors with the emergence of institutions of the state. At the same time one overlooks the fact that the various forms of regular fees, taxes, tributes and other payments, emerged long before the state in its classic sense. They appeared in the earliest stages of formation of the first state entities such as communities, tribes associations, city-states, principalities, counties, etc. Collecting taxes provided an opportunity for the maintenance of the regular army, the administrative staff, infrastructure, and as well contributing to the evolution of the state.

Tax arises with the emergence of the state and is the foundation of its existence. For the maintenance of the state, it was necessary that citizens made contributions in cash or in other kinds that gradually turned into binding and permanent ones. Throughout the history of human development, tax forms and methods have changed, perfected, adapted themselves to the needs and demands of the state, and expanded their functions, varied role in the socio-economic processes.

In theory, the process and methods of taxes collection can be grouped into three different phases. Kazakhstan makes the first step in fiscal policy. The success of tax laws of the state depends on clear understanding of what a tax system should be. This also determines the study of the topic (Bardopoulos 2015).

METHODOLOGY

Since the beginning of the world up to the middle ages, no state has any spectacular formula for collection of its taxes. All she does is to determine the expected income and send the tax collectors to the towns and cities.

The second stage which was around XVI to early XIX century, was when the state assumed some responsibilities of government agencies, which also includes finance. This brought about control in taxation activities and thus defines its framework and process of making it more, less or broad.

In the modern time, which is the third stage, the state takes all the functions of the establishment and collection of taxes, as the rules of taxation have already been worked out. By this, regional authorities play the role of assisting the state, with some degree of independence.

At the earliest stages of the initial state organization, the form of taxation in operation can be considered a sacrifice. We should not think that it was based solely on a voluntary basis. Sacrifice was an unwritten law and, thus, became compulsory payment or collection. Moreover, the interest rate was fairly definite.

Thus, there is a dilemma, whether the state was primary or taxes, according to many scientists, priority is given to taxes. Since then, the fiscal importance of the taxes has not lost its role, but rather repeated efforts. There were no facts in the history, about the state that existed without taxes.

OBSERVATIONS AND DISCUSSION

Development of taxes and taxation in Kazakhstan has a peculiar, specific theory; this may be due to the known position of Karl Marx that the nomadic tribes and peoples developed exchanges and forms of money earlier than those in agricultural property relations.

The appearance of private property and the formation of private ownership comes from information like material (burials, coins) and written sources in the 1st millennium BC.

During the development of the early Middle Ages (the West-and Turgesh Kaganat), the question of duty as a consequence of the emergence of private property, is very limited in the written information. Nevertheless, it is known that one of the main duties was the military one (also known as “blood tax”) under which all men – soldier’s vassal tribes were part of the tribe that was called suzerain. Submission is always accompanied by the establishment of tributary relations. The category of slaves was formed out of the conquered slaves, as well as the capture of prisoners during the war. However, the term “slave-nul” cannot be understood in a “classical” form. Tribes-slaves are the tribe vassals who must pay tribute to the tribe in skins, furs, etc.

During the period of the late Middle Ages (X-XIV c), a very interesting public administration system was Karakhanid Kanagat that was based on a feudal basis, and that was not a mere repetition of previous public entities either economically or socially.

In the Karakhanids state, the Khans gave their relatives, the right to receive from taxes of the population of their district, region or city that was previously levied in favor of the state. This situation is called “Inta”. Its holder Arabic term is called “*mukta*” or “*iktatar*” (*Persian term: land tenure*).

The available sources are merely indirect information on the distribution of *ikta* (land tenure) in Kazakhstan. The Institute of *ikta* (land tenure) played significant role in the economic and political life of the south and south-east of Kazakhstan. Content of the *ikta* (land tenure) and regulation of the rights of those who give *ikta* (land tenure) is very clear and determined. According to Nizam al-mulk, a *mukta* (someone who has *ikta* (land tenure)) should know that they were made only to collect the legitimate file from the people whenever they come together,

and as well make them realize that they were safe in both person and property, be it their wives, children, belongings and what have you (Mayburov 2007).

Thus, the institute of *ikta* (land tenure) did not provide a legally issued attachment of the peasants to *ikta*, although many *ikta*-holders sought to secure themselves with their conditional content (*ikta* (land tenure)) for ages. Providing nomadic ruler, the receiving of systematic income, as an *iqta*, did not require permanent residence of the holder in a specific location. *Ikta* (land tenure) holder (nomadic) could continue his way of life and regularly collecting income from villages and towns in form of agriculture. *Ikta* (land tenure) owners tried to fix the right to receive not only taxes but also the right on the ground and on the peasants, who were taxed, so they sought to turn conditional grants of land into possession. In the evolution of *ikta* (land tenure), the empowerment of the feudal lords of the land reflected a tendency to strengthen the feudal land ownership, and the transformation of the right to receive income can be seen in its transition into land rent.

Along with *ikta* (land tenure), there were other forms of tenure. Karakhanid rulers had large plots of land, which served as a source of tax revenues and funds for the conditional, temporary awards. These were land and plots confiscated from enemies of Karakhanid dynasty that sometimes were acquired by the state.

The main material base of the Muslim clergy, along with a large landholding, was *vakf* land (plots bequeathed by noble and wealthy landowners or military nomadic commander in favor of religious institutions). With *vakf* land (plots bequeathed by noble and wealthy landowners or military nomadic commander in favor of religious institutions), as a rule, no tax was levied by the state. In settled agricultural settlements of Southern and South-eastern Kazakhstan, as well as in Central Asia, one of the forms of exploitation was sharecropping. Sharecroppers were called in Parsi sources as “*muzari*” or “*barzigar*”. The essence of sharecropping is that, the land of hereditary landowners or farmers in the state was rented out. Sharecropper pledged to give most of the crop in form of tax to the state and the owner of the land or the steward *Vakiri* (*vakf* land (plots bequeathed by noble and wealthy landowners or military nomadic commander in favor of religious institutions) was also given for rent).

Between X-XII centuries, the development of commendation began (the territory of Kazakhstan, became a part of Karakhanids - Seven Rivers, part of East Turkestan Kashgar) and its essence is that small owners passed on the ground under the patronage of the wealthy while ensuring the protection from extortion and violence by other lords or officials and paid taxes for this. Property Status of those who took commendation largely was determined by their degree of subordination to the feudal lord:

- some were limited by payment of tax
- delivered other warriors
- served feudal economy, etc.

The fall of Karakhanid state in the early 40s of the XII century led to the inability of the state and her various tax duties to further develop due to the fact that the kifani conqueror rejected the prevailing institute of *iqta*, that is, it now depends on the circumstances in which the ownership of the land was changed.

Certain changes in socio-economic terms brought the Mongol conquest, because subject population was subjected to new types of taxes:

- extremely burdensome was conscription (the population was obliged to supply the warriors to the Mongol army)
- sedentary population paid land tax (*kharaj*)
- *Tagar* was set to collect and to supply troops with grain, cattle, and so on.
- emergency tax was also fixed.
- mail service (maintains of yams, that is postal stations)

Researchers established not less than 20 species of taxes levied by the Mongols everywhere. Special forms of taxes received those that were considered traditional for Kazakh society.

The main types of taxes were as follows:

- *Zyaket* - land rent or twentieth of cattle;
- *Ushur* - the tenth part of the crop in the agricultural regions;
- *sogym* - voluntary offerings to their lord cattle, gathering the most well-fed livestock intended for the autumn slaughter;
- *Sybage* - part of the perfect meat intended for elders, honored guests, relatives;
- *Hanlyk* - judicial fee of one-tenth of the amount of the lawsuit;
- *Yasyr* - the spoils of war during the feudal wars;
- *Saun* - “generic assistance”, which is expressed in giving cattle for grazing to the

poor who have the right to use milk and wool, but had to return the animals with the offspring;

- *kharaj* - two-thirds of the crop;
- *Kuhn* - fee in the sevenfold amount to relatives of the killed Sultan or Hodge;
- *Ayip* - a fine of nine cattle for causing offense to the Sultan or Hodge saying, if beatings – 27 cattles.
- *Barymta* - the seizure of cattle defendant or his family for not paying a fine or Kuna.
- *Aibana* - convicted of theft returns stolen, magnified 27 times.
- *Ticketing fees* - paid when hiring employees to line residents.
- *Kibitochnaya file* - payment for accommodation outside the hordes at the Hinterlands
- *Excise tax* - payment for livestock pass over the line at the Cossack lands and many others.

Formation of the tax system of Kazakhstan during the Soviet period occurred in the absence of theoretical developments, therefore, from the pre-revolutionary practice, some old taxes were borrowed, such as fishing, military, excise duties, stamp duty etc. A number of new taxes were introduced, such as; a single agricultural, income-property, excess profits, rental and others. The researchers briefly describes the basic tax period and the new economic policy.

Single agricultural tax was introduced in 1923 instead of a single natural (food) tax. Tax was seized depending on the size of arable land and the number of cattle per family member. Since 1928, agricultural tax became withdrawn as a tax on the total income of the peasant household.

Moreover, trade tax was introduced in 1921. Initially, only private commercial and industrial enterprises were charged, a year later, it cuts across all state like cooperative, communal and public enterprises. Tax consisted of two parts: a patent and equalizing charges. Patent fees are charged in advance on the registration of enterprises in financial institutions and the periodic issuance of the relevant patent until 1928. With the introduction of procedures for compulsory registration of all businesses, the necessity in a patent collection disappeared. Equalizing charges are levied as a percentage of economic turnover, appearing, in fact, the first tax. Bids egalitarian collection was differentiated by industry and ownership. The minimum rate was 1.6 per-

cent for the state and cooperative enterprises, the maximum rate was set for private enterprises -17.15 percent.

The tax was intended to support state and cooperative enterprises. One of the main taxes in the period of the new economic policy was income - property tax. Initially, the tax is levied on the part of the income of individuals in excess of the monthly minimum subsistence level. In 1924, the tax has been enhanced and transformed into income tax. Taxpayers were divided into three categories depending on the social situation and the size of the income. For each category, separate living wages was established, there were three scale progression. The average cost of living and the least progress were established for workers, employees, and government retirees. The highest cost of living and the average progression were established for those receiving income from personal services that are self-employed, and from employment in trade and fishing. The lowest cost of living and the greatest progress were established for all other persons.

Economic aspects are implemented as a special supplement to income tax (target residential taxes). In the future, property tax was allocated in an independent kind of tax such as housing, inheritance and donations, with vehicles and others. In 1923, the income tax began to be levied on income of businesses. Tax is levied on profits of enterprises. The objectives of taxation advocated the difference between revenue and expenses.

It should be noted that the profit of private enterprises was subject to progressive rates, for state-owned enterprises, a single rate of 8 percent was used. As we see here, it is the expression of the class approach to taxation. In our opinion, excess profits tax also deserves attention; it existed as one of the main direct taxes of the period. Excess profits tax has been set for businesses and individuals. The object of taxation served profits derived by an enterprise net the so-called "normal profit". Tax rates have been established on a progressive scale ranging from 6percent to 50percent. This tax was introduced in order to further taxation of business profits. In addition to the above taxes, there functioned also various duties and taxes such as stamp, office, notary, hunting, port, consular and others.

Now let us consider the most important indirect taxes. Indirect taxes were customs duties and excise taxes. The main type of indirect tax excise

duties were imposed in 1921 Excise taxes and have been introduced in order to regulate the level of consumption of excisable goods in different segments of the population. Among the excisable goods were tobacco and tobacco products, alcoholic beverages, wine - vodka, beer and yeast, sugar, tea, oil, hot matches, textiles, to mention but few. As a result of the tax reform, excise practical system was completely abolished. All kinds of taxes were unified in two main payments businesses, which are deductions from income and sales tax.

VAT replaced the 53 pre-existing taxes and tax payments. Deductions from profits replaced the 5 other taxes, including income tax from state-owned enterprises and excess profits tax. Actual inherently excess profits tax was a direct seizure of the vast majority of profits of the enterprise to the budget, as evidenced, established in 1931, the proportion of withdrawals in the amount of 81percent.

The situation is further aggravated when, in 1931, the budget began to withdraw all planned profit, and the company was only a part of the above-plan profits. This led to the fact that the company began to look for and find different ways of understating the planned profit. Therefore, two years later the deductions were made back to the actual profits. Two-channel system of taxation profits of the enterprise was introduced in the early 30s and lasted until mid 1985 and played an important role in the implementation of fiscal function of taxes, providing a stable financial budget sources.

Since 1985, there began to develop a new practice of taxation. This was due to the development of the cooperative movement and the beginning of perestroika in the country. For state-owned enterprises, normative distribution of profits was introduced. More favourable taxation conditions were established for co-operatives, which began to develop as the main form of private enterprise. The next most important step in the formation of the tax system was done in 1990.

The adoption of two laws of the USSR "On income tax from the citizens of the USSR, foreign citizens and stateless persons", "On taxes from enterprises, associations and organizations", was introduced to provide for a new procedure for taxation of individuals and legal entities. For enterprises, the following taxes were taken: income tax, sales tax, tax on exports and imports, tax payroll farmers, gains tax funds allocated for

consumption. This period was the beginning of the formation of the complex legislation on taxation. With the collapse of the union state and the acquisition of the state independence of Kazakhstan, here arose an objective necessity to create its own tax system. One had to create a new tax system virtually from scratch, in the absence of sufficient domestic experience. The taxation system in the Republic of Kazakhstan was launched with the adoption of the Law of the Republic of Kazakhstan "On the tax system in the Republic of Kazakhstan" dated December 24, 1991. According to this law, from January 1, 1992, Kazakhstan were to introduce 43 kinds of taxes, which are subdivided into 16 national, 10 mandatory taxes and fees and 17 local taxes and fees.

At the same time, there existed the number of functioning compulsory contributions to the various funds (Road Fund, the conversion, the Fund for Entrepreneurship Support and Development of Competition). Allocations to them caused fair indignation at the economic entities, because of them, tax burden considerably increased, costs and prices for the products and services raised. Besides the contributions to the tax legislation fund, business support and development of competition, the State withdrew part of their profits which remained after the payment of mandatory taxes and charges from the enterprise. The main disadvantages of the tax system of this period were the awkwardness, the presence of many duties and taxes, a large number of unjustified tax benefits and instability. This situation can be explained by the fact that, in the formation of the tax system, the first place was given to the fiscal problem. The creation of the tax system of Kazakhstan took place during the economic crisis, and the main task of the tax system was a maximum content of the budget of the country. The role and importance of taxes are particularly relevant in a market economy, when changing models and systems management.

For example, 1992-1995 was the time of demarcation of post-Soviet economies. It was accompanied by prices liberalization, high inflation (the level reached 2000%), disorganization and "Barter" of industrial relations, and finally it was expulsion of Kazakhstan from the rubble zone. With the introduction in November 1993 of the national currency—tenge, conditions for radical economic reforms arose. The result was that in the following two years, hyperinflation finished,

stabilization of the tenge exchange rate came, and mainly consumer market was saturated.

From 1996 to the first half of 1998, economy embarked on the road of recovery. The country has a strict monetary, budgetary and fiscal policy that allowed to reduce inflation. During this period, completed registration form in the modern state financial system and institutional reforms led to the formation of market infrastructure, harnessing market incentives and stabilizing the economy.

By the end of 1997, most small and medium enterprises in Kazakhstan had been in the private sector. A significant part of the largest domestic industrial enterprises was transferred to the trust management of foreign companies. Those ones managed to evaluate opportunities in the oil and gas and mining sectors. For several years, the Government also passed into the hands of home owners and their associations' utilities. At the same time, strong measures had been taken against undue state interference in economic relations.

From the second half of 1998, the positive dynamics of development of our economy had been terminated unexpectedly by South-East Asia and Russian financial crises. Despite the Government's course on mitigation, they had a very negative impact on the state of the domestic production, exports and budget as a whole.

A year later, came the post-crisis period. He was marked by a sharp macro-economic stabilization and improvement of basic socio-economic indicators. Properly conducted in 1999, devaluation of the tenge, in conjunction with fiscal discipline, steady growth of the global economy, created favorable conditions for foreign trade, and a significant inflow of foreign direct investment allowed Kazakhstan to strengthen the real economy and enter a new phase of economic development. Especially this progress was noticed in industries associated with the extraction and refining of oil, restoration of agriculture, their increased exports and GDP. Because of democratic reforms in Kazakhstan, a dynamic private sector appeared, actively implementing its projects in various fields of production and in the formation of the corresponding modern infrastructure, including finance, banking, energy, transport and telecommunications sectors (Nurmov et al. 2014).

In the process of reforming the economy of Kazakhstan, a significant role was played out-

side the capital, as its structural reforms required significant financial resources, which in most of the country were extremely limited. In particular, the importance for the economic growth of the country and the foreign direct investment should be noted.

During the years of independence of the Republic, their volume exceeded 40 billion US dollars. At the same time, a leading position of investments in Kazakhstan's economy remains in the United States, which accounted for about a third of all investment. This is followed by the European Union, especially the United Kingdom and Italy.

Currently, in accordance with the Tax Code of the Republic of Kazakhstan in Kazakhstan, there are 13 taxes, 6 types of fees and 10 boards, as well as stamp duty (2009):

1. Taxes:

- The corporate income tax;
- Individual income tax;
- Value Added Tax;
- Excise;
- rent tax on exports;
- special payments and taxes subsoil;
- Social tax;
- The land tax;
- tax on vehicles;
- The property tax;
- tax on gambling;
- fixed tax;
- Land tax.

For certain groups of taxpayers, there are special tax regimes that involve the use of a simplified procedure for the calculation and payment of certain taxes and reporting on them. These include small businesses, peasant (farmer) economy, legal entities who are producers of agricultural products, certain types of business activities. Payment of taxes under these conditions is based on payment of a patent, a single pass, single land tax, the simplified declaration, a fixed total tax (for gaming). These modes are a variety of (a combination of) income, of a property, social and indirect taxes.

Thus, Kazakhstan over the years, going the hard way, has achieved considerable success, preserving and strengthening social and political stability. The State has been steadily implementing democratic and market reforms. The country achieved macro-economic stabilization, formed necessary for a successful business legislation, structural reforms were carried out, which, despite their unpopularity during implementation, provided a solid foundation for the

rapid development of our country in the medium and long-term.

For the past five years, Kazakhstan is the leader among the Central Asian countries for GDP growth and gradually becomes a bridge between Europe and Asia. Kazakhstan has become a stable, predictable and reliable partner. The main areas of investment are minerals, agriculture, infrastructure, development of social sphere and tourism. Due to its geographical location, Kazakhstan is a large inter-regional transit country that in recent years allowed to attract the necessary flow of finance and know-how. For the next 25 years, contracts with foreign investors more than \$ 100 billion (2008). The authors agree with the previous researcher (Bardopoulos 2015) that taxes are some fee imposed by the government to raise funds. Tax evasion is a form of resistance to taxation, which was confirmed by this research.

CONCLUSION

Kazakhstan intends to continue to intensify economic cooperation with European countries and with our partners in the CIS. The priority today is to create a new air, rail, road, pipeline and power lines connecting Europe with the Asian Pacific coast. It is important to note that in its preparation, the Government tried to take into account, the opinion of the business community by discussing the project with the participation of all stakeholders. In addition, the preparation of the republic to join the WTO will also require a reduction of the tax legislation in accordance with the requirements of the organization. Therefore, the importance and urgency of improving the tax laws is not in doubt.

RECOMMENDATIONS

According to the authors, in a modern civilized society, taxes are the main source of state revenue. In addition, taxes are the economic impact of the state on public production, on its dynamics and structure and on the development of scientific and technical progress. Financial science still cannot clearly answer many tax issues and ongoing tax reforms of all developed countries, showing a fair, proportionate and reasonable taxation system. The tax system in Kazakhstan as well as many countries in the world has been developed and will be improved gradually. In the future, researchers should pay

attention to the detailed study of the problem, as it affects the economic situation of the state.

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