

SIMILARITIES AND DIFFERENCES IN THE TAXATION OF LEGAL ENTITIES AND INDIVIDUALS

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Abstract

Taxation is one of the most important instruments through which the state regulates economic activity, redistributes income, and finances public services. Both legal entities and individuals are subject to taxation, but the principles, procedures, and scope of taxation differ according to their legal status, income sources, and economic roles. This article examines the main similarities and differences between the taxation of legal entities and individuals. It highlights that both categories are taxpayers who are obligated to comply with tax legislation, maintain transparency, and contribute to the state budget. At the same time, important differences exist in tax bases, rates, filing procedures, allowable deductions, and policy objectives. Understanding these similarities and distinctions is essential for improving tax administration, ensuring fairness, and strengthening the overall efficiency of the tax system.

Keywords:

taxation, legal entities, individuals, tax system, tax liability, corporate tax, personal income tax, tax compliance, deductions, fiscal policy

Taxation plays a central role in the financial and legal systems of all modern states. Through taxes, governments collect revenue necessary for the provision of education, healthcare, infrastructure, defense, and other public services. In this process, both legal entities and individuals act as taxpayers and bear certain obligations before the state.

A legal entity usually refers to an organization recognized by law as having rights and obligations separate from those of its founders or owners. Examples include companies, firms, corporations, and institutions. An individual, on the other hand, is a natural person who earns income through employment, business activity, property ownership, or other lawful sources. Although both are subject to tax obligations, the methods and purposes of their taxation are not identical.

This article analyzes the specific similarities and differences between the taxation of legal entities and individuals and explains why these distinctions are significant in legal and economic practice.

General Similarities in the Taxation of Legal Entities and Individuals

Despite the differences in status and economic function, legal entities and individuals share several common features in the field of taxation.

First, both are recognized as taxpayers under tax law. This means that both legal entities and individuals have a legal obligation to pay taxes established by the state. Failure to fulfill this obligation may lead to penalties, fines, or other legal consequences.

Second, both categories are required to comply with tax legislation and reporting rules. Taxation is not limited to the payment of money alone; it also includes duties such as registration

with tax authorities, accurate calculation of tax liabilities, submission of declarations, and preservation of financial documents. In this sense, both legal entities and individuals are participants in a formal tax relationship with the state.

Third, the taxation of both groups is based on the principle of economic capacity. In most tax systems, tax liability depends on income, profits, property, or transactions. Therefore, the more income or wealth a taxpayer has, the greater the potential tax burden. This principle seeks to ensure fairness and proportionality in taxation.

Fourth, both legal entities and individuals may benefit from tax incentives, deductions, or exemptions under certain conditions. Governments often use tax privileges to encourage socially beneficial behavior, such as investment, charitable contributions, education, innovation, or the creation of jobs. As a result, both groups may receive tax relief depending on their activities and status.

Finally, both legal entities and individuals contribute to the formation of the state budget and play a role in the country's economic development. Their tax payments support public expenditure and help maintain social and economic stability.

Main Differences in the Taxation of Legal Entities and Individuals

Although there are shared principles, the taxation of legal entities and individuals differs significantly in substance and administration.

Difference in Legal Status

The first major difference lies in legal nature. A legal entity has an independent legal identity separate from its founders, shareholders, or managers. Therefore, its tax obligations are imposed on the organization itself. In contrast, an individual is taxed personally as a natural person. This difference affects the way tax liability is determined and enforced.

Difference in Tax Base

Legal entities are usually taxed on their profits, meaning the difference between total revenue and allowable business expenses. This form of taxation is commonly known as corporate income tax. The tax base is calculated through accounting records, financial statements, and business documentation.

Individuals, by contrast, are generally taxed on personal income. This may include wages, salaries, dividends, rental income, interest, freelance earnings, or income from entrepreneurial activity. Personal income tax is therefore based on the income received by a person rather than the profit of an organization.

Difference in Tax Types

Legal entities are often subject to a broader range of taxes than individuals. In addition to corporate income tax, companies may pay value-added tax (VAT), property tax, land tax, excise tax, payroll-related taxes, and other mandatory contributions depending on their business activity.

Individuals mainly pay personal income tax, property tax, land tax, and in some cases social contributions or taxes on self-employment income. Their tax burden is usually narrower in structure, although it may still be significant.

Difference in Tax Rates and Calculation Methods

Tax rates for legal entities and individuals often differ. Corporate tax is usually imposed at a fixed rate on taxable profits. Individual taxation, however, may follow a progressive system, where tax rates increase as income rises. This reflects the social function of taxation, especially in achieving income redistribution and social justice.

In addition, tax calculation for legal entities is generally more complex because it requires professional bookkeeping, expense classification, depreciation accounting, and financial

reporting. Individuals, especially salaried employees, may face a simpler process because taxes are often withheld directly by employers.

Difference in Reporting and Administration

Legal entities normally have stricter accounting and reporting obligations. They are required to keep detailed financial records, prepare annual or quarterly tax reports, undergo audits, and ensure compliance with corporate accounting standards.

Individuals may also be required to submit declarations, but in many cases the process is simplified. For example, employees may not need to calculate their taxes independently if withholding is handled by the employer. However, self-employed persons or individuals with multiple income sources may face more complex reporting requirements.

Difference in Policy Objectives

The taxation of legal entities is often connected to broader economic goals, such as promoting investment, regulating corporate behavior, supporting strategic industries, and stimulating economic growth. Governments may reduce taxes for businesses in order to encourage production, exports, or innovation.

The taxation of individuals is more closely related to social policy objectives. Personal income tax is frequently designed to promote equity, reduce income inequality, and ensure that citizens contribute to public finances according to their ability to pay. Therefore, social justice plays a more visible role in the taxation of individuals.

Interrelationship Between the Two Forms of Taxation

Although legal entities and individuals are taxed separately, their taxation is closely connected. For example, a company pays corporate income tax on its profits, while the wages it pays to employees become taxable income for individuals. Similarly, dividends distributed by companies to shareholders may also be taxed at the individual level.

This relationship sometimes creates the issue of economic double taxation, especially when company profits are taxed first at the corporate level and later at the shareholder level. Tax systems often address this through exemptions, reduced rates, or tax credits.

Moreover, the tax behavior of legal entities directly influences individuals. Businesses may transfer part of their tax burden to consumers through prices, to workers through wages, or to shareholders through lower dividends. Therefore, the distinction between the taxation of legal entities and individuals is not absolute; both affect each other within the broader economy.

In conclusion, the taxation of legal entities and individuals has both common and distinctive characteristics. Their main similarity lies in the fact that both are taxpayers obligated to comply with tax law and contribute to the state budget. Both are subject to legal control, reporting duties, and the general principle that tax liability should reflect economic capacity.

At the same time, important differences arise from their legal nature, income structure, tax base, rates, reporting procedures, and policy purposes. Legal entities are mainly taxed on profits and business activity, while individuals are taxed on personal income and wealth. Corporate taxation is more strongly connected with economic regulation, whereas individual taxation is more closely linked to social justice and redistribution.

A clear understanding of these similarities and differences helps improve the quality of tax policy and ensures a balance between efficiency, fairness, and legal certainty. In a modern economy, an effective tax system must take into account the unique role of both legal entities and individuals while maintaining coherence and equality before the law.

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