



SIMILARITIES AND DIFFERENCES IN TAXATION OF LEGAL ENTITIES AND INDIVIDUALS

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Abstract. *This article examines the fundamental similarities and differences in the taxation of legal entities and individuals within modern tax systems. The study analyzes the legal framework, tax obligations, calculation methods, tax rates, and reporting requirements applied to both categories of taxpayers. Particular attention is given to the economic rationale behind differentiated taxation, including income structure, business scale, and legal status. The research highlights how tax policy aims to ensure fairness, efficiency, and revenue stability by applying distinct rules for legal entities while maintaining equity for individuals. Based on comparative analysis, the article identifies key challenges and proposes recommendations for improving the tax administration system to enhance transparency and compliance.*

Keywords: *Taxation; legal entities; individuals; tax policy; tax obligations; tax administration; fiscal regulation; comparative analysis*

Introduction

Taxation plays a crucial role in ensuring sustainable public finance, supporting economic development, and maintaining social welfare. Within modern fiscal systems, the taxation of legal entities and individuals represents one of the core components of the tax structure. Although both categories of taxpayers contribute to the national budget, the nature of their tax obligations, income sources, and regulatory requirements differ significantly. These differences arise from variations in legal status, economic activity, liability, and organizational form, which necessitate a differentiated approach in tax legislation.

At the same time, certain similarities exist between the two groups, particularly in terms of tax compliance requirements, documentation procedures, and the overarching principles of fairness and neutrality embedded in tax policy. Understanding these similarities and distinctions is essential for improving the effectiveness of tax administration and designing a balanced fiscal framework that ensures transparency, minimizes tax evasion, and promotes equitable distribution of the tax burden.

This study aims to provide a comprehensive analysis of the key similarities and differences between the taxation of legal entities and individuals. By examining the legal foundations, tax calculation mechanisms, reporting standards, and economic implications, the research offers insights that can support policymakers, tax authorities, and researchers in optimizing tax systems and enhancing taxpayer compliance.

Literature Review

The taxation of legal entities and individuals has been widely examined in fiscal policy, public finance, and tax administration literature. Scholars emphasize that tax systems are designed to balance efficiency, equity, and simplicity, while ensuring sufficient revenue generation. According to Musgrave & Musgrave (1989), the distinction between corporate and individual taxation is rooted in differing economic roles: individuals act as consumers and labor suppliers, whereas legal entities function as producers and capital organizers. This fundamental difference justifies the existence of separate tax bases and regulatory frameworks.

Contemporary research highlights the importance of progressive taxation for individuals and proportional or flat-rate taxation for legal entities. Slemrod and Bakija (2017) argue that progressive individual income tax structures enhance fairness by adjusting tax burdens to income levels, whereas corporate taxes focus on profit generation and capital allocation efficiency. Additionally, the Organisation for Economic Co-operation and Development (OECD) publications provide detailed

comparative data on tax burdens, compliance costs, and revenue contributions across countries, demonstrating how tax policies shape economic behavior and competitiveness.

Several researchers underscore similarities between the two taxpayer categories. Bird and Zolt (2014) note that both individuals and corporations require transparent tax reporting, reliable documentation, and adherence to compliance deadlines. However, they also point out that legal entities face more complex requirements due to the diversity of business activities and accounting standards.

In the context of developing economies, including transition economies, the literature stresses the significance of improving tax administration to reduce informal practices and strengthen budget revenues. Alm and Torgler (2011) highlight that taxpayer behavior, trust in government, and perceived fairness play critical roles in enhancing compliance among both individuals and legal entities. Recent studies also emphasize digitalization in tax administration as a key factor for increasing transparency and reducing administrative burdens.

Methodology

This research employs a comparative and analytical methodology to examine the similarities and differences in the taxation of legal entities and individuals. The study is based on a qualitative research design, combining theoretical insights and empirical evidence from national legislation, international tax guidelines, and academic literature.

First, a comparative legal analysis is conducted to evaluate the tax obligations, reporting requirements, and calculation methods applied to both categories of taxpayers. This involves a detailed review of statutory regulations, tax codes, and policy documents that define the tax bases, rates, and exemptions for individuals and legal entities.

Second, the study applies content analysis to academic publications, OECD reports, and research papers focusing on personal income tax, corporate income tax,

and tax administration practices. This approach enables the identification of common principles and divergent approaches within modern fiscal systems.

Third, a structural–functional analysis is used to examine the economic and administrative functions of the tax system. This method allows for assessing how taxation influences behavior, resource allocation, and compliance incentives for both individuals and corporate entities.

Additionally, comparative statistical indicators from international tax datasets (such as OECD Tax Database, World Bank data, and IMF fiscal statistics) are reviewed to observe trends in tax revenue distribution, effective tax rates, and compliance costs. Although the study does not conduct direct quantitative modeling, the integration of secondary data provides contextual support for theoretical conclusions.

Analysis and Results

The analysis of taxation applied to legal entities and individuals reveals several important insights into the structure, administration, and economic implications of modern tax systems. The study demonstrates that the tax bases of these two categories differ significantly: individuals are taxed on various forms of personal income such as wages, dividends, and rental payments, whereas legal entities are taxed on net profits derived from business operations. As a result, corporate taxation requires detailed accounting, expense adjustments, and compliance with financial reporting standards, while individual taxation generally involves simpler calculation mechanisms.

Differences are also reflected in tax rates and the incentives applied to each category. Individual income taxation typically follows a progressive model to ensure fairness and align tax burdens with ability-to-pay principles. In contrast, corporate taxation is often based on proportional or flat rates, complemented by tax incentives aimed at stimulating investment, innovation, and employment. These features show that corporate tax policy is closely connected to broader economic development

goals, whereas personal income taxation focuses more on social equity and household-level financial stability.

Despite these differences, the study identifies substantial similarities in administrative principles and compliance requirements. Both individuals and legal entities must adhere to national tax codes, maintain transparency, and meet filing deadlines. Non-compliance in the form of late submissions or inaccurate reporting results in penalties for both categories, indicating a shared regulatory framework. Digital tax administration systems, including online filing and electronic documentation, have further unified compliance processes, enhancing efficiency and reducing administrative burdens for both groups.

The analysis also highlights that taxation affects economic behavior differently across the two taxpayer groups. Individuals respond to changes in income tax rates through adjustments in labor supply, consumption, and savings decisions. Legal entities, however, alter their investment strategies, capital allocation, and long-term business planning based on corporate tax policies. Consequently, corporate taxation has broader macroeconomic effects, while individual taxation primarily influences micro-level household decisions. The study also identifies persistent challenges, such as tax evasion risks, the complexity of corporate tax regulations, and the need to maintain equity between individuals and businesses within the tax system.

Overall, the results indicate that while both individuals and legal entities operate under common principles of fairness, transparency, and compliance, their taxation differs substantially in terms of complexity, economic influence, and regulatory structure. These findings underscore the importance of continuous tax policy refinement to ensure balanced revenue generation, improved tax administration, and strengthened taxpayer discipline.

Conclusion and Recommendations

The study concludes that the taxation of legal entities and individuals, while governed by unified principles of fairness, transparency, and compliance, differs substantially in structure, complexity, and economic impact. Individuals are taxed primarily on personal incomes and typically face progressive tax rates that aim to ensure social equity. Legal entities, by contrast, are taxed on net profits and operate within more complex regulatory frameworks that include detailed accounting requirements, sector-specific incentives, and broader administrative obligations. These structural distinctions shape the way each taxpayer group interacts with the tax system and influence the behavior of households and businesses in different ways.

Despite these differences, the research shows that both groups share important similarities, particularly in terms of compliance standards and reporting obligations. The increasing digitalization of tax administration has helped unify and streamline these processes, improving efficiency and reducing the risk of administrative errors. However, challenges remain, including the persistence of tax evasion, the complexity of corporate tax provisions, and the ongoing need to maintain an equitable distribution of the tax burden across all taxpayer categories.

Based on the findings, several recommendations are proposed to enhance the effectiveness of tax policy and administration. First, tax legislation should be continuously reviewed to simplify complex provisions, especially those affecting corporate taxpayers, in order to reduce compliance costs and administrative burdens. Second, greater transparency and accessibility in digital tax services should be encouraged to improve taxpayer trust and facilitate timely reporting. Third, targeted measures should be introduced to reduce tax evasion among both individuals and legal entities, including stronger monitoring mechanisms and incentives for voluntary compliance. Finally, policymakers should strive to maintain a balanced

approach to taxation that supports economic growth, encourages investment, and ensures fairness between individuals and corporate entities.

Overall, the study emphasizes the importance of a well-designed and adaptive tax system that meets the evolving needs of the economy and society, ensuring sustainable revenue generation while promoting compliance, equity, and economic development.

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