

## THEORETICAL AND APPLIED PROBLEMS OF TAX BURDEN DISTRIBUTION IN THE CONTEXT OF CONSUMPTION, CAPITAL, AND LABOUR TAXATION

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**Abstract:** The purpose of this article is to examine the theoretical foundations of the distribution of the tax burden and to assess the specific features of its manifestation in modern tax systems, with a particular focus on the Republic of Armenia. The article presents the essence of taxing consumption, capital, and labor, their advantages and disadvantages, economic effects, as well as contemporary economic approaches to these fundamental issues. An empirical analysis has been conducted to assess the qualitative impact of consumption, capital, and labor taxation on economic growth in the Republic of Armenia. As a result of the study, pathways are proposed for a more proportionate distribution of the tax burden in the Republic of Armenia that would contribute to achieving an optimal balance between economic growth and social justice.

**Key words:** *tax burden, consumption taxation, labour taxation, capital taxation, tax policy, tax system*

### Introduction

The tax system is one of the most important instruments of socio-economic policy, through which the state generates public revenues and regulates economic processes. The effectiveness of the tax system, among other factors, is largely determined by the structure of the distribution of the tax burden.

In general, the fundamental issues of tax burden distribution in economic theory are discussed along three main directions:

- consumption taxation,
- capital taxation,
- labour taxation (Johansson A., Heady C., Arnold J., Brys B., Vartia L. 2008. pp. 11-14, 18-21, Stiglitz J. E., Rosengard J. K. 2015. pp. 482-485).

These three elements form the structural foundation of modern tax systems, with their relative proportions varying across countries depending on the level of economic

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development, the social conditions of the population, and the efficiency of tax administration.

In general, the issue of tax burden distribution is important not only for the formation of public revenues but also from the perspective of ensuring economic efficiency and social equity. It is no coincidence that one of the key challenges facing modern tax systems is determining which sector of the economy should bear the primary tax pressure — consumption, capital, or labour. The problem lies in the fact that taxing each of these has distinct effects on economic growth, investment, work incentives, and social inequality. Therefore, assessing the effectiveness of a tax system requires examining the relative shares of these three taxation objects within the structure of tax revenues. Moreover, this issue is of not only practical but also scientific importance, since the effectiveness of the tax system largely depends on the approaches underlying it, including the establishment of a scientifically grounded balance between the taxation of consumption, capital, and labor.

### **Theoretical and methodological foundations of the study and methods of analysis**

Various schools of economic thought propose different approaches, based on the objectives of economic efficiency, social justice, and ensuring economic growth. Representatives of the classical school — Adam Smith, David Ricardo, and John Stuart Mill — placed the principles of tax fairness and economic neutrality at the foundation of tax policy (Smith A. 2007. pp. 825–827, Ricardo D. 2004. pp. 133-139, Mill J. S. 2005. pp. 804-809). Followers of welfare economics argue that the tax system should simultaneously ensure economic efficiency and social justice (**Stiglitz J. E., Rosengard J. K. 2015. pp. 456**). Meanwhile, proponents of optimal taxation theory, such as F. Ramsey and J. Mirrlees, believe that taxes should be designed in a way that minimizes losses in economic efficiency. According to this approach, it is more appropriate to tax those objects whose impact on the behavior of economic agents is relatively small (Ramsey F. P. 2013. pp. 47-48, Mirrlees J. A. 1971. pp. 175).

To address the research objectives, the study employs the following methods: economic-statistical analysis, systemic analysis, comparative analysis, and factor analysis. The analysis draws on data from the websites of the Statistical Committee of the Republic of Armenia, the Government of the Republic of Armenia, and the State Revenue Committee of the Republic of Armenia.

### **Analysis**

The key importance of the tax system for each state, first of all, is manifested in the fact that it allows not only to generate the revenues necessary to meet state and public needs, but also, if necessary, to have an appropriate impact on economic processes and relations, acting as a unique instrument of state regulation of the economy. At the same time, it should be taken into account that the principles and mechanisms underlying the tax system can lead to exactly the opposite effect, limiting opportunities for economic and business development, contributing to a deepening polarization of income and property of the population, the expansion of shadow activities and hidden employment, and the manifestation of a number of other undesirable phenomena from the perspective of economic development. That is, the importance and significance of the tax system, so

to speak, are twofold. In other words, the importance and significance of the tax system, so to speak, are twofold. This can contribute both to the proper performance of State functions, an increase in the volume of public goods and the formation of incentives for economic activity, as well as to the emergence of obstacles and restrictions in economic development. Therefore, the tax system should be based on scientifically sound and proven approaches that will be effective in practice, based on the socio-economic characteristics of a given country and will correspond to the opportunities for economic development and the priorities and preferences proclaimed by the state. At the same time, the solution to these problems is largely determined by the principles and conceptual approaches underlying the tax system, the justification of which, first of all, should be based on the socio-economic characteristics of a given country. In this regard, at the stage of forming the tax system, such fundamentally important issues as the level of the tax burden and the ratio of direct and indirect taxes should be clarified. In fact, the normal functioning of the tax system and, most importantly, its effective functioning as a tool for generating government revenues and influencing economic processes depends on this. At the same time, the level of the tax burden and the structure of its distribution are determined by various objective and subjective factors, and from this point of view, the state's capabilities are significantly limited by such conditions as the tax potential of the economy, priorities and priorities of socio-economic development, the tax culture of society, etc.

In essence, the nature and socio-economic content of the tax system are manifested through the functions it performs, regarding which various opinions exist in professional literature. Broadly speaking, the tax system is characterized by the functions carried out by the taxes themselves. A number of authors attribute solely a fiscal function to the tax system, whereas others attribute additional functions to it.

There is a viewpoint that the functions of the tax system are identical to the functions of taxes. However, not all functions of the tax system can be performed by every type of tax. The primary significance of any tax system lies in the implementation of its fiscal function. All other functions are performed by the system as a result of the interaction between its constituent components.

The fulfillment of the fiscal function leads to distributive, stimulative, and regulatory actions, given that all components of the financial system are interconnected. The payment of taxes cannot occur without accounting and control; thus, the supervisory function of the tax system is realized.

As a result of the functioning of the tax system, relations arise between various subjects, which represent relations regulated by legal norms aimed at the formation of a certain portion of budgetary revenues. These relations are characterized by a power-based nature, which implies an inequality of the parties. On one side stands the state, endowed with the jurisdiction to make imperative decisions, and on the other side are the taxpayers, who are obliged to act within the framework of established laws and imperative norms. Furthermore, the interests of the parties involved in tax legal relations are different and conflicting, which in many cases causes various socio-economic conflicts, consequently impacting the economy. The state must evaluate the expenditure needs of the country and society, as well as the capacities of the economy, and based on this, define the types of taxes and the level of the tax burden.

It is obvious that the government always strives to collect the maximum volume of taxes, which allows for the formation of a stable financial base necessary for the implementation of its own functions, thereby expanding the possibilities to execute large-scale and diverse expenditure programs. Moreover, the vast majority of these programs are directed toward ensuring the welfare of society (including the taxpayers themselves). However, the collection of maximum taxes should not become an ultimate goal without considering the potential development capabilities of the economy. It is evident that the development of the national economy implies and requires the formation of appropriate prerequisites, the elimination of obstacles and restrictions on economic activity, and, ultimately, a tax environment that will enable expanded reproduction through operating within the legal field. Therefore, the tax system must ensure the harmony of interests between the state and taxpayers in order to achieve the goals of both the state (forming a financial base for the normal vital activity and development of the state) and society (welfare growth, decent living conditions, and a favorable environment for economic activity).

In modern conditions of the development of economic relations, international integration cooperation, and the deepening of globalization processes, national economies undergo profound structural changes. In such a situation, the significance of state regulation of the economy and the justified intervention of the state in economic processes obviously increases substantially. At the same time, regulation tools and methods must undergo appropriate transformations, driven by the new economic environment and its concomitant challenges. In this regard, the tax system, which is one of the crucial instruments of state economic regulation, must also undergo certain changes in order to possess the necessary capacities to achieve its primary goals. Otherwise, serious risks will arise regarding the formation of budgetary revenues and, consequently, the underfunding of public expenditures. Therefore, the formation of an efficient and equitable tax system constitutes one of the vital prerequisites for the normal vital activity of the state and society. Furthermore, a key attribute of such a system must be the well-founded harmonization of the interests and concerns of the participants in tax relations. However, the normal functioning of the tax system is disrupted, and the achievement of the set goals is jeopardized when a conflict arises between the interests of the parties involved in tax relations. As a rule, this can occur for various reasons. One of the main causes is the violation of the fundamental principles underlying the tax system: equity and efficiency. By the former, one should understand the proportionality of taxpayers' participation in the process of forming state revenues, conditioned by their financial capacities, whereas the latter refers to a positive difference between the collected funds and the incurred costs throughout the entire taxation process—from tax accounting to tax collection. Moreover, taxation must apply equally to everyone, and the application of differentiated approaches should be implemented based on specific criteria that correspond to the conceptions and perceptions of justice in a given society and at a given stage of development.

The phenomena and crisis manifestations recorded in the global economy over recent decades have once again substantiated the necessity of strengthening state regulation of the economy. In such a situation, the concentration of a certain portion of the gross domestic product within the budgetary system through tax instruments emerges as a vital means of the state's targeted influence on economic and social processes, thereby

contributing to the creation of the financial foundations for the proper implementation of state functions. The tax system acquires particular importance not only in forming the prerequisites necessary for the normal functioning of the economy but also in the process of satisfying the expenditure needs of society and the state.

In general, the distribution of the tax burden is examined across three main objects: consumption, capital, and labour. Economic studies indicate that different types of taxes have varying impacts on economic growth. Research by the OECD has shown that consumption taxes have the least negative effect on economic growth, while corporate income taxes exert the most significant adverse impact (**Johansson A., Heady C., Arnold J., Brys B., Vartia L. 2008.** pp. 11-14).

1. **Consumption taxes** are indirect taxes applied to the consumption of goods and services. Their main types include value-added tax (VAT), excise taxes, and sales taxes.

The concept of consumption taxation has been widely developed within neoclassical theory, which posits that taxes should have minimal influence on economic decision-making. Economist Irving Fisher argued that taxing consumption rather than income could stimulate savings and investment. According to him, long-term economic growth depends on the level of investment and savings, and consumption taxation does not reduce these incentives (**Fisher I. 2013. pp. 30–33**). Nicholas Kaldor, who developed the theory of expenditure taxation, believed that consumption taxation is more equitable because it targets the use of income rather than its acquisition (**Kaldor N. 1955. pp. 15-18**). He proposed replacing personal income taxation with expenditure taxation.

The main advantages of consumption taxes include:

- Promotion of economic efficiency: Consumption taxes have a relatively small impact on capital accumulation, contributing to long-term economic growth. This approach underlies the consumption-based tax system proposed by Robert Hall and Alvin Rabushka (**Hall R. E., Rabushka A. 2007. pp. 12-18**).
- Stimulation of investment: When consumption rather than income is taxed, economic agents are more inclined to save and invest.
- Simplicity of tax administration: Consumption taxes often feature simpler accounting mechanisms and comparatively fewer opportunities for tax evasion compared to profit taxation.
- Broad tax base: Consumption taxes cover a significant portion of the economy, ensuring stable revenues for the state budget.

At the same time, consumption taxes are often regressive, as low-income households allocate a larger share of their income to consumption. Consequently, they can exacerbate social inequality. Additionally, there is a high risk of inflation, which can negatively affect the social conditions of the population.

2. **Capital or business taxation**, primarily implemented through corporate income tax, is viewed in economics as an important tool for generating public revenues and ensuring social justice. Business taxation is justified in economic theory for several key reasons. First, it serves as a mechanism for income redistribution. Economist Joseph Stiglitz notes that business activity heavily depends on the institutional and economic environment created by the state. Therefore, taxing profits is fair, as it finances these public goods (**Stiglitz J. E., Rosengard J. K. 2015. pp. 18-20**). Experts highlight the following advantages of capital taxation:

- Income redistribution: Business profits are often concentrated among high-income individuals, so taxing them helps reduce income inequality.
- Financing public goods: Businesses benefit from state-provided infrastructure, legal systems, and markets, so it is fair for them to contribute to their funding.

However, capital or business taxation can reduce investment activity, encourage capital flight, and increase opportunities for tax avoidance. These issues have become particularly relevant in the context of globalization, as capital can easily move to countries with lower tax burdens.

3. **Labour taxation** refers to the taxation of individuals' income, primarily through personal income tax and social contributions. Labour taxation is a key source of state budget revenue and a tool of social policy. At the same time, it plays an important role in income redistribution. However, an excessively high tax burden can reduce labour supply and encourage shadow employment. In public finance theory, labour taxation is often seen as a means of ensuring social justice. The optimal taxation theory developed by James Mirrlees shows that the tax system must balance efficiency and equity (**Mirrlees J., Adam S., Besley T., et al. 2011. pp. 39-42**).

According to OECD research (Revenue Statistics 2025, OECD), capital taxes have the most negative impact on economic growth, labour taxes have a negative effect, consumption taxes are less harmful, and property taxes have the least adverse impact. In particular, in the most efficient structure, the optimal range for consumption taxation is considered 40–45%, for labour taxation 25–30%, and for capital taxation 15–20%.

As observed, each type of taxation is intended to address specific issues. It is no coincidence that modern economies commonly adopt a combined approach, where the tax system includes consumption, capital, and labour taxes in certain proportions, striving to simultaneously ensure economic efficiency, social justice, and tax revenue stability.

In 2016, the Tax Code of the Republic of Armenia was adopted, one of the foundational principles of which was “prioritizing long-term economic growth without focusing on short-term results.” As a practical implementation of this principle and a means to enhance the competitiveness and investment attractiveness of the national economy, it was declared necessary to place the main emphasis on consumption taxation, while establishing the lowest possible tax burden on the incomes of economic entities and individuals. The expected outcomes included attracting foreign direct investment, modernizing and re-equipping the national economy, promoting exports, increasing the competitiveness of the national economy at least within the region and the Eurasian Economic Union, and ensuring long-term and sustainable economic growth (Justification of the draft Tax Code of the Republic of Armenia).

In the tax system of the Republic of Armenia, from the perspective of consumption, capital, and labour taxation, the following types of taxes are distinguished respectively: value-added tax and excise tax, corporate income tax, and income tax. The following dynamics were recorded for these taxes over the period 2015–2024.

Over the period 2015–2024, tax revenues in absolute terms have generally increased — from 1,067.9 billion drams to 2,390.9 billion drams, or approximately 2.2 times. The only exception was 2020, when a decline was recorded from 1,464.3 billion drams to 1,385.2 billion drams, due to the pandemic and military-political situation.

**Table 1. Consumption, capital and labor taxation in Armenia, 2015-2024**  
(billion drams)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Tax revenues	1067.9	1079.7	1158.0	1258.1	1464.3	1385.2	1586.9	1926.0	2221.9	2390.9
Consumption taxation	473.9	450.8	488.9	547.2	676.6	595.2	669.1	807.1	916.6	902.4
Percentage share in tax revenues (%)	44.4	41.7	42.2	43.5	46.2	43.0	42.2	41.9	41.2	37.7
VAT	423.9	391.1	406.6	438.2	506.5	471.6	556.0	679.6	767.2	755.9
Excise tax	50.0	59.7	82.3	109.0	170.1	123.6	113.1	127.5	149.4	146.5
Capital taxation Corporate income tax	103.6	127.2	109.8	170.1	233.8	148.8	158.6	222.8	321.5	335.7
Percentage share in tax revenues (%)	9,7	11,8	9,5	13,5	16,0	10,7	11,4	11,6	14,5	14,0
Labor taxation personal income tax	311.7	332.7	341.5	356.6	440.8	411.5	426.3	474.8	554.5	650.1
Percentage share in tax revenues (%)	29,2	30,8	29,5	28,3	30,1	29,7	26,9	24,6	24,9	27,2

Source. Statistical Yearbook of Armenia, 2025, Statistical Yearbook of Armenia, 2020.

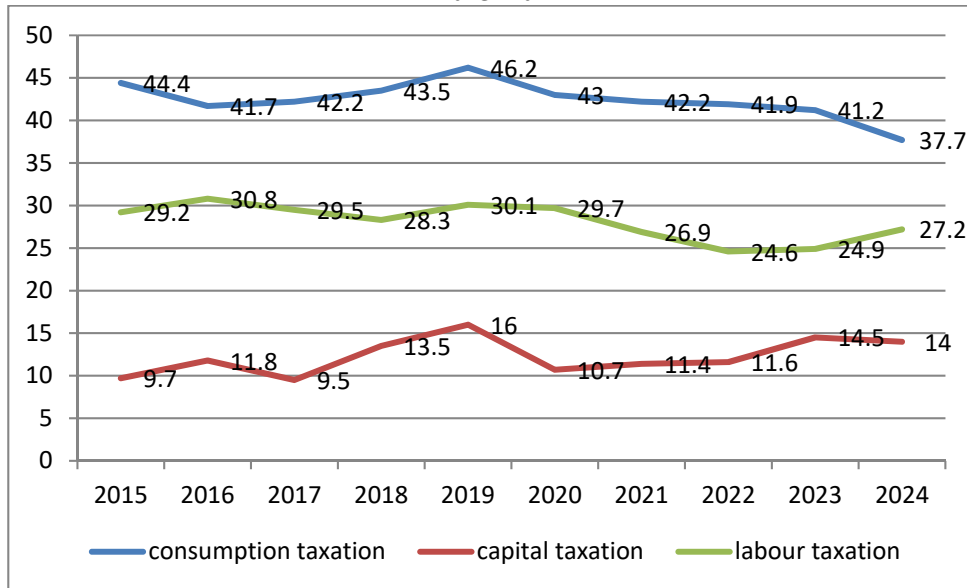
The data in Table 1 show that consumption taxation (VAT + excise tax) remained the largest component of tax revenues throughout the entire period, growing by about 1.9 times between 2015 and 2024. Although the total volume of consumption taxation increased in absolute terms, its share in total tax revenues decreased — from 44.4% in 2015 to 37.7% in 2024.

Corporate income tax grew almost 3.2 times over the observed period — from 103.6 billion drams in 2015 to 335.7 billion drams in 2024. Its relative share in tax revenues increased from 9.7% in 2015 to 14.0% in 2024. It should also be noted that in 2020 the corporate income tax rate was reduced from 20% to 18%, which also affected inflows from this type of tax. In other words, capital taxation in Armenia is a relatively more volatile component, yet one that has gained growing importance in the long term.

Income tax also recorded steady growth over 2015–2024 — approximately 2.1 times. However, its share in the structure of tax revenues showed some fluctuation — decreasing from 29.2% in 2015 to 27.2% in 2024. In essence, labour taxation has maintained high importance in the long run, although its proportion decreased in certain periods, particularly in 2021–2023, when the growth of corporate income tax was faster.

Overall, during the observed period, the relative shares of consumption, capital and labour taxes in total tax revenues exhibited the following dynamics.

**Figure 1. Shares of consumption, capital, and labour taxes in total tax revenues, 2015–2024**



Source. Statistical Yearbook of Armenia, 2025, Statistical Yearbook of Armenia, 2020.

Thus, it can be concluded that throughout the entire period, consumption taxation has remained the primary component, labour taxation the second largest, and capital taxation a relatively smaller but rapidly growing component. At the same time, despite its dominant role, the relative importance of consumption taxation is declining, while capital taxation demonstrates the highest relative growth, which may indicate the activation of profitable sectors of the economy or improvements in tax administration. Labour taxation continues to maintain its position as a stable second component, although its share does not exhibit the same rapid growth as capital taxation. Overall, during 2015–2024, a slow shift is observed in the structure of the tax burden in the Republic of Armenia—from consumption toward income- and profit-generating bases. In other words, despite the objectives set out in the Tax Code, the actual dynamics of structural changes in tax revenues differ in practice. Undoubtedly, it is necessary to take into account those objective factors, the influence of which was also significant on the formation of the ratio of taxes on consumption, capital and labor in the republic during the period under review. Among the mentioned factors, one can especially highlight macroeconomic development, economic realities and constraints, the tax potential of the economy, etc.

### Conclusion

The issue of tax burden distribution is one of the central questions of modern tax policy. Economic theory widely accepts the approach according to which the tax system should be built on three main tax bases—consumption, labour, and capital—taking into account the advantages and disadvantages of each. Therefore, a combined approach is most appropriate for modern tax systems, allowing the simultaneous achievement of economic efficiency and social balance.

The analysis of the structure of tax revenues in the Republic of Armenia shows that during 2015–2024 the share of consumption taxes exhibits a downward trend, driven by

low social security, inflationary effects, and the risk of consumption constraints. The role of capital taxation is increasing, due to reforms implemented in corporate income tax, growth in economic activity, and rising corporate profits. The share of labour taxation is declining, mainly due to the flattening of personal income tax rates.

To improve the effectiveness of the tax system in the Republic of Armenia, it is necessary to implement a combined tax policy, the foundation of which should be the relative dominance of consumption taxes, the social orientation of labour taxation, and the competitiveness of capital taxation. Such an approach would make it possible to ensure economic growth, increased investment activity, and strengthened social justice. It is necessary to maintain the formed structure between consumption, capital, and labour taxation, with a partial shift of the tax burden from labour taxation toward consumption taxation. As options for solving this problem, one can consider reducing the VAT rate on basic necessities while simultaneously narrowing the scope of non-social tax privileges established for this type of tax. As a solution to this problem, we can consider reducing the VAT rate on essential goods while reducing the range of non-social tax benefits established for this type of tax, which will reduce the regressiveness of consumption taxes to a certain extent. At the same time, to neutralize possible budgetary losses from income tax, it is necessary to introduce a progressive tax scale, thereby preserving not only the economic but also the social significance of this tax type. In other words, emphasis should be placed on consumption taxes to ensure economic efficiency, and on taxes levied on labour and capital to ensure social justice.

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