Personal income tax is the basis of filling up the budgets of different levels. However, the above mentioned tax in the form in which it exists in Ukraine at the moment, does not carry an appropriate level of social orientation. The initial cause of this is that the non-taxable minimum fails to fulfill its functions, and the cost of living, which is the basis for calculating tax incentives, is not economically reasonable.

In consequence of these factors, we proposed to differentiate the level of the minimum wage in accordance with the number of people who are dependent on the taxpayer (children under the age of 18 years).

In the basis of the calculation of proposed gradation was put the Ukrainian minimum wage, increased on the minimal ability of individual to save – 30%. This level of the minimum wage, which is the main indicator, is used to single taxpayers. If the payer has one child, the amount of the basic minimum wage increases by 20%, two children – 30%, three – 40%.

Another improvement concerns the optimization of the tax base of the personal income tax. In this case, we proposed to use the indicator of non-taxable minimum, which is equal to the size of a living wage.

The proposed improvements will reduce the flow of funds in the budgets of different levels, but it will increase the social side of taxation, will contribute to the increase of tax culture among taxpayers and, consequently, to the decrease of the level of hidden income. These factors will help in the future to optimize the flow of funds in the state treasury.

**Key words:** exemption limit, minimum wages, cost of living, income tax, social tax orientation.