Effectivenness of Progressive Tax in Reducing Economic Inequality in accordance with SDG 10: Reducing Inequality

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Abstract

Economic inequality is one of the global challenges that has received attention in the Sustainable Development Goals (SDGs), particularly in goal 10 which focuses on reducing inequality. Progressive tax is considered as one of the effective fiscal policy instruments in addressing economic inequality. This article aims to analyze the effectiveness of progressive tax in reducing economic inequality through a literature review approach. The results show that progressive tax has great potential in distributing income more fairly, increasing state revenue, and supporting social programs aimed at reducing economic inequality. However, its effectiveness depends on the policy design, the level of taxpayer compliance, and the capacity of tax administration in a country.

Keywords: Progressive tax, economic inequality, SDG 10, fiscal policy, income redistribution.

INTRODUCTION

Economic inequality is a major concern at the global level due to its impact on social and economic issues, such as poverty, unemployment and social instability. In an effort to address this issue, the United Nations (UN) has emphasized the importance of reducing inequality as a key focus in the Sustainable Development Goals (SDGs). Specifically, SDG 10 aims to reduce disparities, both within countries and between countries. One of the policy methods often proposed to achieve this target includes the implementation of fairer taxation systems such as progressive taxation, which aims to redesign income distribution to reduce economic disparities.

In an effort to achieve social justice in the tax system, the application of progressive tax requires the tax rate to increase in line with the increase in income received by the taxpayer. Progressive tax not only serves as revenue for the state, but also as a means to improve income equality for the sake of improving people's welfare. Several countries have implemented the system with varying effectiveness, depending on their fiscal policies and prevailing economic conditions. Therefore, this article will explore the impact of progressive tax in addressing economic inequality as well as analyze the factors that influence its success based on existing literature studies.

The passing of the Law on Harmonization of Tax Regulations (Law No. 7 of 2021) has an impact on efforts to optimize the tax system in Indonesia. Controversy arose along with the implementation of this policy, with the main spotlight on the anxiety felt by the public towards the fragile economic situation after the Covid-19 pandemic as well as the possibility of an increased tax burden for certain segments. One of the changes stipulated in this law is the adjustment of the progressive rate of Income Tax (ITA) Article 21, aimed at increasing state revenue as well as creating a fairer tax system. Efforts are being made to strengthen the tax structure through this policy, with the aim of reducing economic disparities and supporting sustainable development. However, the success of this program is determined by how effectively supervision is conducted, the extent to which taxpayers comply with their obligations, and the communication strategy used by the government in educating the public about the regulation.

Broadly speaking, a country's tax and spending policies serve as the most effective tools in redistributing income. To achieve this goal, many developing countries have implemented progressive tax systems and increased investment in the social sector. In a *progressive* tax *system*, the tax burden is recognized to increase as the income of a particular individual entity increases. This is intended to reduce the level of income inequality by generating revenue through the enrollment of capacity groups in society's registry. Meanwhile, social spending such as subsidies, direct assistance, and spending on education and health are intended to improve the quality of life of the lower group of residents, so that this makes them more likely to be economically better off (Zulma, 2020; Imtiyazari, 2023).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

a. Economic Inequality

Inequality Economic inequality is a phenomenon that reflects the unequal distribution of income and wealth among groups in a society. According to classical economic theory, inequality is the result of a free and competitive market mechanism, where wealth distribution depends on the productivity of certain individuals or groups (Fahmi, 2019). Economic inequality presents a problem that impacts the welfare of society.

b. Economic Inequality in the SDGs

In support of a sustainable economy. Each country implements policies that focus on the environment and the welfare of society. The strategy of implementing the right SDGs program is the golden step for countries to realize 17 cases. Economic inequality is one of those listed in the problem instrument points 8 and 10. But please note, the implementation of SDGs is designed for all parties to be actively involved in realizing this problem. The goal of the SDGs itself is to overcome the damage and changes from the impact of globalization and stop poverty / social inequality that occurs especially in developing countries.

c. The application of fiscal policy in reducing economic inequality

1. Definition of Tax

   Based on the Law on General Provisions and Tax Procedures (UU KUP), the definition of tax is a mandatory contribution to the state owed by individuals or entities that are compelling based on the Law, by not getting a direct reward and being used for state purposes for the greatest prosperity of the people. Thus, the use of taxes is used for the prosperity of the people.

2. Tax Administration

   Tax administration governance is one of the policy systems implemented by the government in regulating taxpayer compliance. Tax administration is an important thing that all taxpayers must know. Good tax administration management can increase taxpayer compliance in paying taxes. as a result, it will increase tax revenue for the state. This administrative policy is regulated in the law terms general taxation.

Figure 1.1 Tax Revenue Statistics (DGT)

   In the figure presented, we can see that there has been an increase in tax revenue in the last 3 years. The realization of the year shows a good administrative system management policy in these 3 years.

3. Progressive tariffs in equalizing the gap

   According to the theory of optimal taxation, an effective tax system must prioritize between the government's need to obtain revenue and its effect on individual work and investment incentives (Nusiantari & Swasito, 2020). Research by Ega Kurniawan

(2025) in his literature review states that a good progressive tax system can reduce income inequality without sacrificing economic growth. This is supported by research showing that countries that implement progressive taxation with efficient administrative systems tend to have lower levels of inequality. In addition, direct taxes such as income and wealth taxes are often more effective in redistribution than taxes, as the government directly targets high-income groups (Fahmi, 2019). However, it is important to review that the success of progressive taxation policies depends heavily on the quality of tax administration and taxpayer awareness (Kristanto, 2023; Zulma, 2020).

4. Strategies for tax optimization

   The problem of economic inequality has an effect on the country, especially hindering an inclusive economy. The difference in income from each region or island causes a high economic gap. (Almas, Rayyan; 2024). One of the government programs to overcome this is the income redistribution program. Redistribution allocates uneven income by applying progressive taxes to attract funds from certain circles to be distributed to the lower classes. in the theory in the human development index mentioned in the almas journal states that the greater the human development index reaches one hundred, the greater the level of welfare. , the use of taxes is used to increase the human development index.

RESEARCH METHOD

1. Research Design

This research utilizes the *systematic literature review* method in analyzing relevant academic journals, policy reports, reference works, and empirical studies on progressive taxation and its impact on reducing economic inequality without collecting primary data. The main subject matter of this research is the contribution of progressive tax to income redistribution and the factors that may affect its effectiveness. In the process of collecting literature, *desk research* was conducted by utilizing credible academic databases, such as Scopus and Google Scholar, by searching for information based on keywords related to progressive tax systems, income redistribution, tax policy effectiveness, and reducing economic inequality.

2. Instrument

The literature selection focused on the last 10 years (2014-2024) to ensure up-to- date data, relevance to the research topic, and validity of sources from indexed journals in Scopus, Web of Science, and other official reports.

3. Data Analysis

In the literature selection process, the first step is to identify articles that match the predetermined keywords, followed by screening based on title and abstract, evaluation of eligibility through content review, and analysis and synthesis of findings to categorize the main factors that affect the effectiveness of progressive taxation. The data was analyzed through the content analysis method to identify patterns, trends, and comparisons of progressive tax policy implementation in developed and developing countries. The results of this analysis are presented in the form of tables and graphs that visualize tax rates and the Gini index after tax implementation in various countries. The choice of this method is based on its ability to reach various research perspectives, develop a conceptual mapping of the relationship between progressive taxation and income redistribution, and help in identifying research gaps related to tax policy implementation in various countries.

RESULT AND ANALYSIS

1. Progressive Tax and Income Redistribution

Several studies have revealed that progressive taxation plays an important role in wealth redistribution and broadens the distribution of the additional income generated. The implementation of an effective progressive tax policy in a country often has a positive impact on the level of income inequality, which can be assessed using the Gini index. In some situations, the effectiveness of redistribution is largely determined by the tax revenue allocation policy adopted by the government, as well as the level of transparency in the system.

2. Impact on the Economy

Progressive taxation has the potential to increase state revenue which can then be used to finance social programs, including education, health, and social assistance. Increased tax revenue gives the government the opportunity to improve the quality of public services, which has the potential to increase labor efficiency and boost long-term economic growth. Meanwhile, concerns have been raised regarding the negative impacts of too high tax rates such as decreased work incentives, increased tax avoidance, and decreased investment competitiveness. Thus, A balanced approach to setting progressive tax rates is crucial to ensure the success of this policy in reducing inequality without hampering economic growth.

3. Tax Compliance and Tax Administration

The effectiveness of a progressive tax system is influenced by the level of compliance and the ability of a country's tax administration. Countries that manage their tax administration systems efficiently and transparently are usually more successful in implementing progressive taxation without triggering tax avoidance or tax evasion practices. Tax administration reform, digitalization of the tax system, and increased transparency are considered essential in improving the effectiveness of this policy.

4. **International Comparison**

Comparative analysis between developed and developing countries has confirmed that progressive tax systems are more effective in developed countries because they are supported by efficient administrative systems, inclusive social policies, and high levels of tax compliance. In the context of progressive tax Portugal (61.3%), Slovenia (61.1%), and Belgium (58.4%) are examples of countries that have successfully implemented the policy, which has had a positive impact on stable economic growth and high levels of welfare for the population. The high informal sector economy, inadequate tax law enforcement, and lack of public trust in the government are barriers to implementing progressive tax policies in many developing countries. Thus, developing countries should prioritize gradual tax reform, improved tax administration, and increased transparency and accountability in revenue management in order to reduce economic disparities.

5. **Long-term Benefits of Progressive Tax**

The implementation of progressive tax is considered to have a positive impact in reducing economic disparities, strengthening public service financing, and maintaining macroeconomic stability. By applying a higher rate for higher income groups, this tax plays a role in income redistribution, increasing people's purchasing power, and supporting the financing of crucial sectors such as education and health. Progressive taxes are not only a means of collecting state revenue, but also a tool to control economic imbalances at certain times. However, the effectiveness of these measures depends on their fair application so as not to harm work and investment motivation.

6. **Challenges and Solutions in Progressive Tax Implementation**

Progressive taxes are intended to reduce economic inequality, but face obstacles such as tax evasion, which can be overcome through strict regulations and cross-border cooperation. The balance between rates and incentives is key in dealing with the negative impact on investment, which needs to be carefully considered. In the face of political and social resistance, it is important to socialize policies and ensure transparency in the use of tax funds. Complex administrative systems require digital modernization and capacity building of tax agencies. Through the implementation of these solutions, it is expected that progressive taxation can make a significant contribution to creating greater economic equality

CONCLUSION

Progressive taxation is an effective policy instrument in reducing economic inequality, especially when supported by appropriate social policies and efficient administrative systems. Despite challenges in its implementation, such as tax compliance and potential negative impacts on economic incentives, its benefits in income redistribution and achieving SDG 10 remain significant. Therefore, tax reforms that strengthen the progressivity of the tax system need to be a sustainable economic policy agenda.

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