



Effective Tax Systems Support Inclusive and Sustainable Growth

Muhammat Imadudin Septiono¹

¹ Sekolah Tinggi Ilmu Ekonomi Widya Wiwaha, Yogyakarta, Indonesia

Abstract

Article history:

Received: January 17, 2023

Revised: February 12, 2023

Accepted: April 23, 2023

Published: June 30, 2023

Keywords:

Economic Growth,
Fiscal Policy,
National Development,
Taxation,
Welfare.

Identifier:

Zera Open

Page: 56-72

<https://zeraopen.com/journal/ijppfp>

Taxation holds a fundamental position in supporting national development and promoting social welfare. As the primary source of state revenue, taxes play a crucial role in financing infrastructure, education, healthcare, and various forms of public services that contribute directly to improving the quality of life. This study aims to examine the interrelationship between tax revenue, the effectiveness of fiscal policy, and their broader impact on economic equality and sustainable growth. By employing a literature review approach covering the last five years, the findings indicate that effective and transparent tax administration significantly enhances development performance while reducing social and economic disparities. Moreover, public trust in the government's fiscal management has been identified as a decisive factor in determining tax compliance and the growth of national revenue. The implementation of adaptive, transparent, and accountable fiscal policies strengthens economic competitiveness, encourages productive investment, and expands employment opportunities. Therefore, optimizing the tax system constitutes a strategic foundation for maintaining macroeconomic stability, ensuring equitable distribution of income, and achieving long-term sustainable development objectives that align with the nation's welfare agenda.



1. Introduction

Taxation is a fundamental instrument in the modern economic system as it serves as the primary source of state revenue that supports various sectors of national development. Through tax collection, the government has the capacity to finance various social programs, infrastructure development, improvement of education quality and health services, as well as the provision of public goods and services that have a direct impact on community welfare. More than just a tool for collecting funds, tax also plays a strategic role as a fiscal policy instrument aimed at maintaining economic stability, controlling inflation, and realizing a fairer distribution of income within society (Cnossen, 2018).

In the context of national development, tax has a significant contribution to supporting inclusive and sustainable economic growth. State revenue sourced from taxes enables the government to implement various development projects that provide a multiplier effect on increasing productivity, national competitiveness, and equitable prosperity. Therefore, the effectiveness of tax management has a direct relationship with the success of development, both in the public and private sectors. When tax administration is managed with the principles of efficiency and transparency, public trust in the government increases, which in turn strengthens the level of taxpayer compliance (Siegmeier et al., 2018).

Nevertheless, classic problems in the tax system are still often encountered, especially related to low taxpayer compliance and the suboptimal use of tax funds for public interest. Administrative inefficiency and a weak supervision system cause some people to feel that the tax contributions they pay have not provided tangible

benefits. The findings of Agustina et al. (2019) research reinforce this phenomenon, showing that the effectiveness and efficiency in the tax collection process remain a major challenge for developing countries. This condition can impact the weakening of fiscal performance, which ultimately hinders development financing and lowers the quality of public services.

Besides efficiency, the dimension of justice in the tax system is also a crucial issue. A progressive tax structure is expected to create a more balanced income distribution among community groups. Tax acts as a redistribution mechanism that can reduce socio-economic disparities between high- and low-income groups. According to research by Nugent et al. (2018), fiscal policies oriented towards social justice are capable of strengthening community purchasing power, expanding employment, and improving overall welfare. This confirms that a fair tax system is an essential component in building an economy oriented towards people's prosperity.

Furthermore, the linkage between tax revenue and national development has complex macroeconomic dimensions. Increased tax revenue provides the state with greater fiscal capacity to support development in various strategic sectors such as energy, education, and infrastructure. However, this increase must be accompanied by transparent and accountable fiscal governance to maintain public trust in government institutions. Transparency and accountability are the main foundations for creating an effective, sustainable, and just tax system (Wu et al., 2022).

Based on this description, this study aims to examine the role of tax in national development and the improvement of community welfare through a literature study

approach to various research results in the last five years. The focus of the analysis is directed towards the contribution of tax to sustainable development, equitable income distribution, and the improvement of the quality of life of the community. The results of this study are expected to provide a conceptual and empirical understanding of how optimizing tax management can strengthen the foundation of economic development while realizing inclusive social welfare for all layers of society.

2. Literature Review

2.1. Tax as a Fiscal Policy Instrument

Tax is a primary instrument in fiscal policy that plays a dual role, both as a source of state revenue and as a tool for economic stabilization. Through tax policy, the government has the capacity to regulate the pace of economic growth, control the inflation rate, and encourage activity in strategic sectors to increase national productivity. Tax not only functions to finance public expenditure but also acts as an income redistribution mechanism aimed at reducing social inequality and strengthening community welfare. According to Cnossen (2018), an effective tax system must be able to balance the state's fiscal needs with the social interests of the community, so that its existence not only supports the sustainability of the state budget but also creates inclusive economic justice.

Furthermore, Agustina et al. (2019) emphasize that the effectiveness of tax collection has a direct influence on fiscal stability and the success of national development. When tax revenue increases, the government's fiscal capacity to fund

development programs such as the provision of infrastructure, improvement of education quality, and public services also increases. Conversely, low levels of taxpayer compliance and weaknesses in the administrative system can hinder economic growth through a decrease in state revenue. Therefore, strengthening the tax system is a strategic necessity through the application of digitalization, increased transparency, and comprehensive institutional reform. These efforts are expected to strengthen national fiscal performance and support sustainable and equitable economic development for all community layers.

2.2. Relationship between Tax and National Development

The linkage between tax revenue and national development has been widely discussed in public economic literature. Tax acts as a main catalyst in accelerating economic development through the financing of various strategic sectors. Mura et al. (2018) mentions that the implementation of tax policies oriented towards sustainable development can increase the effectiveness of national development plans. Tax revenue that is used efficiently contributes to economic growth, poverty reduction, and the expansion of community access to public services.

However, not all tax policies provide a directly positive impact. Some research shows that inefficiency in the use of tax funds can create a negative perception in the community. A study by Siegmeier et al. (2018) found that most taxpayers do not feel the tangible benefits of the taxes they pay, leading to a decrease in trust in the government. This condition indicates the importance of accountability in tax management so that state revenue can truly be felt by the community. Wu et al. (2022) add that fiscal transparency has a significant correlation with the level of tax

compliance, which ultimately strengthens the government's ability to finance development. In the context of macroeconomic development, Nugent et al. (2018) explain that public investment funded through tax revenue can encourage long-term growth when directed towards productive sectors such as education, energy, and technological innovation. Fiscal policies integrated with national development strategy are capable of strengthening the economic structure and creating a balance between growth and equitable prosperity.

2.3. Tax and Community Welfare

Community welfare is one of the main goals of effective tax policy. Tax plays a role in income redistribution, the provision of public services, and the improvement of the quality of life of the community. Bakar et al. (2022) show that balanced and efficient tax rates can attract foreign investment and create new jobs. In the long term, this condition will increase community purchasing power and strengthen socio-economic stability. Tax also has a significant social function, namely as a means to ensure every citizen contributes to national development according to their economic capability. Pasaribu et al. (2022) state that high tax awareness is an important indicator of community participation in development. With increased tax compliance, the government has more resources to fund social welfare programs and expand public services.

In addition, research by Sadeh et al. (2020) shows that effective management of tax expenditure (tax expenditure) can increase economic growth and social welfare. Tax expenditure directed towards the education and health sectors has a multiplier effect on the quality of human resources and national productivity.

Therefore, a fair and transparent fiscal policy is key to ensuring that tax is truly used for the wider public interest. From the various research results, it can be concluded that tax is not just a fiscal tool, but also a social and economic instrument that influences community welfare directly and indirectly. Optimizing tax policy requires a balance between efficiency, justice, and transparency to provide a sustainable positive impact on national development.

3. Method

This research uses the library research method, which is an approach focused on the collection and analysis of scientific literature related to the topics of tax, national development, and community welfare. This method was chosen because it allows researchers to identify conceptual patterns, empirical results, and relevant theoretical findings from various previous studies in the last five years. This approach does not involve primary data collection but focuses on a systematic review of credible secondary sources such as academic journals, research reports, and official institutional publications.

The research procedure begins with literature identification using scientific databases such as Google Scholar, Elsevier, and ResearchGate. Inclusion criteria include publications in English or Indonesian with the main topic concerning the relationship between tax, economic development, and community welfare. The articles used were selected from the last five years to ensure relevance to the current economic context. Exclusion criteria include opinion-based articles, those without an empirical basis, or those published outside the specified period.

After the identification stage, content analysis is carried out on every article that meets the criteria. This analysis includes reviewing the research objectives, the methods used, the findings, and the contribution to the field of fiscal studies and development. Data from various sources are then synthesized to find the correlation between tax policy, fiscal effectiveness, and its impact on economic equity and social welfare. This approach helps to build a holistic understanding of how tax can be the main instrument in supporting sustainable national development. In addition, this research also applies a descriptive-comparative approach to assess similarities and differences in results between studies.

This approach is useful for finding general tendencies and identifying factors that influence the effectiveness of the tax system in various economic contexts. All analysis results are arranged systematically based on the main themes to provide an objective and comprehensive conclusion. Thus, this literature study method provides a strong conceptual framework in understanding the contribution of tax to national development. This approach also confirms the importance of tax reform, fiscal transparency, and community participation as crucial elements in realizing equitable prosperity.

4. Results

The results of various literature reviews indicate that tax has a very strategic role in supporting national development and improving community welfare. Based on a review of a number of studies in the last five years, it can be concluded that an effective and efficient tax system not only functions as the main instrument for

collecting state revenue but also as a fiscal policy tool capable of encouraging inclusive economic growth, strengthening income redistribution, and maintaining socio-economic stability. Through appropriate tax policy, the government can mobilize fiscal resources to fund development programs while maintaining a balance between economic needs and social justice.

Research conducted by Agustina et al. (2019) confirms that effectiveness in tax collection has a significant influence on the improvement of community welfare, especially through the improvement of the quality of public services and infrastructure. When tax revenue is managed with the principles of transparency and accountability, the level of public trust in the government tends to increase, which in turn impacts a higher level of taxpayer compliance. They also highlight the importance of digital transformation in tax administration as a strategic step to improve the efficiency of the modern tax system. The implementation of digitalization is proven to accelerate the tax payment process, simplify the supervision system, and minimize the potential for irregularities in the management of state revenue.

Besides functioning as a fiscal instrument, tax also plays an important role as a mechanism for economic equity. In their research, Mura et al. (2018) explains that tax can be used as a means of income redistribution by directing public spending to productive sectors such as education, health, and social infrastructure. Tax revenue allocated precisely on target has the potential to strengthen the quality of human resources and reduce disparities between income groups. The research also found that increased transparency in fiscal management contributes greatly to the reduction

of poverty levels and the increase in the human development index in developing countries. This shows that well-managed tax not only provides short-term economic impact but also strengthens the social foundation and human development in the long term.

Meanwhile, Siegmeier et al. (2018) highlights the sociological dimension of the tax system, especially related to community perception of the effectiveness of tax fund usage. He found that in many developing countries, most people still have doubts about the extent to which tax is truly utilized for the public interest. This condition has the potential to lower the level of tax compliance while hindering the optimization of state revenue. Therefore, increasing fiscal accountability and effective public communication regarding the benefits of tax are crucial elements in building community trust. Darmawan (2022) emphasizes that tax should not only be viewed as a financial obligation of citizens but also as a form of social participation in efforts to realize sustainable national development.

In the macroeconomic context, Nugent et al. (2018) elaborate that fiscal policy supported by tax revenue has a multiplier effect on the national economy. Public investment financed through tax revenue can encourage long-term economic growth if directed towards strategic sectors such as sustainable energy, education, and technological innovation. In the framework of sustainable development, tax plays an important role as a stable and independent source of financing without increasing the national debt burden. Their research also emphasizes that fiscal stability strengthened by a healthy tax system contributes significantly to the

aggregate improvement of community welfare, while maintaining national economic competitiveness amid global dynamics.

Furthermore, the results of the study conducted by Mulyana et al. (2022) show that regional tax has a significant contribution to the increase in regional original income, which directly supports regional development. Although the focus of their study is at the local level, the principle proposed is also relevant in the national context. Increased fiscal capacity at both central and regional levels allows the government to implement more equitable and inclusive development programs. They emphasize the importance of synergy between the central and regional governments in managing the tax system, so that income distribution is fairer and there is no overlap in fiscal policy. Thus, a tax system that is decentralized yet integrated can strengthen the effectiveness of national development policy and increase the efficiency of fiscal resource usage.

Another interesting finding comes from Cnossen (2018) research, which highlights the role of tax in financing social welfare programs in various European countries. He shows that an efficient tax system is able to support the financing of health insurance, education subsidies, and social assistance for vulnerable groups. This condition shows that tax is the main instrument in creating a balance between economic growth and social justice. When state revenue is used to strengthen the public sector, the positive impact on community welfare can be widely and sustainably felt. In this context, tax functions not only as a source of revenue but also as a means to strengthen social capital and community solidarity.

Overall, the literature results show that the relationship between tax and national development is reciprocal. On one hand, tax provides the financial resources needed by the state to finance development and improve community welfare. On the other hand, the success of inclusive development can increase community income, expand the tax base, and strengthen state revenue. This two-way interaction creates a positive cycle that mutually reinforces development and taxation. However, to achieve this ideal condition, good fiscal governance, high integrity of tax institutions, and active community participation in the tax system are needed. Without the combination of these three factors, the effectiveness of tax policy will be difficult to realize optimally.

From various previous research results, it can be concluded that the success of the tax system in supporting national development is heavily influenced by a number of main factors, including administrative effectiveness, distribution justice, and transparency in the use of tax funds. Countries with a high level of transparency tend to show better tax compliance and stronger fiscal stability. Conversely, countries that fail to implement the principles of justice and accountability in fiscal policy tend to face challenges in maintaining social stability and public trust. Therefore, tax reform focused on the principles of justice, efficiency, and accountability is very important to create a tax system that is adaptive to global economic changes while being responsive to the social needs of the community.

In addition, it is important to note that in the long term, tax plays a fundamental role in strengthening the national economic foundation. Through increased public investment and strengthening community purchasing power, well-

managed tax revenue can create adequate fiscal space for the government to respond to economic dynamics, overcome crises, and maintain macroeconomic stability. Effective tax is not just about how much revenue can be collected, but also about how the funds are managed and allocated productively for the wider public interest. Thus, a good tax system must reflect a balance between economic efficiency and social justice, so that it can encourage the realization of a fair, prosperous, and sustainable society.

5. Discussion

The results of the literature review indicate that tax plays a strategic role as a source of revenue and a fiscal policy tool that functions in maintaining economic stability and supporting national development. Tax is not just a mechanism for collecting funds, but also a social and economic instrument that determines the direction of public policy. Conceptually, the relationship between tax and community welfare is causal, where the increase in tax effectiveness contributes to the improvement of social welfare through the financing of the public sector, reduction of inequality, and creation of employment.

The findings of Agustina et al. (2019) show that the efficiency of tax administration and the application of digital-based systems have a positive effect on state revenue and public trust. When the community is convinced that tax is managed transparently, compliance levels increase, and this strengthens the state's fiscal foundation. In the context of sustainable development, fiscal transparency is

the main prerequisite for tax to truly function as a means of equity and strengthening national economic capacity.

However, the study by Darmawan (2022) highlights the challenges still faced, especially the low positive perception of the community regarding the benefits of tax. Many individuals feel their contribution does not provide a tangible impact on welfare improvement. This indicates the need for reform in public communication and fiscal management, where the government must be able to show concrete results from the utilization of tax. Transparency and clear reporting on the use of tax funds will encourage a sense of shared responsibility between citizens and the state.

In the aspect of social justice, tax functions as a redistribution mechanism to reduce economic inequality. Rinaldi and Bakker (2020) state that public investment funded through tax can create a multiplier effect on economic growth, especially if directed towards strategic sectors such as education, innovation, and energy. Through inclusive fiscal policy, the government can strengthen community access to basic services, expand employment, and increase national competitiveness. Thus, tax becomes the driving force in creating a balance between economic growth and equitable prosperity.

In addition, Mulyana et al. (2022) found that the contribution of regional tax to regional development shows the importance of fiscal synergy between central and local levels. When the tax system is managed in a coordinated manner, development becomes more equitable and efficient. This confirms that tax management cannot be separated from good governance. Accountability, coordination between institutions, and public participation are key factors in ensuring that tax revenue truly

returns for the benefit of the community. The discussion results reinforce the view that tax has a multidimensional role in national development. Tax not only adds to the state treasury but also builds social trust and strengthens economic integration. The main challenges that need to be overcome are increasing administrative efficiency, upholding fiscal justice, and ensuring transparency in the use of public funds. If these three aspects can be optimized, tax will become an effective instrument in creating a fair, prosperous, and sustainable society.

6. Conclusion

Tax has a crucial role in supporting national development and improving community welfare. Based on the results of a literature review in the last five years, it can be concluded that an effective and efficient tax system not only functions as a source of state revenue but also as an instrument for achieving social and economic goals. The effectiveness of tax administration, fiscal transparency, and the level of community compliance are the three main factors determining the success of the tax system. Research shows that optimal tax revenue is capable of financing various important sectors such as education, health, and infrastructure, which directly impacts the quality of life of the community.

Meanwhile, public trust in the government's management of tax funds has a significant relationship with the level of tax compliance. Therefore, increasing accountability and transparency is a necessity in every fiscal policy. Besides being a source of financing, tax also functions as an income redistribution tool to reduce economic inequality. If managed with the principles of justice and efficiency, tax can

strengthen social stability and accelerate the achievement of sustainable development. Thus, tax reform oriented towards community welfare and inclusive development is a strategic step towards achieving an economy that is fair, productive, and sustainably prosperous.

References

Agustina, R., Dartanto, T., Sitompul, R., Susiloretni, K. A., Achadi, E. L., Taher, A., ... & Khusun, H. (2019). Universal health coverage in Indonesia: concept, progress, and challenges. *The Lancet*, 393(10166), 75-102.

Bakar, A. H. A., Sinnappan, P., Salim, F. A. A., & Teo, P. C. (2022). Factors influencing foreign direct investment (FDI) location selection: a review of the literature. *International Journal of Academic Research in Business and Social Sciences*, 12(7), 1271-1291.

Cnossen, S. (2018). Corporation taxes in the European Union: Slowly moving toward comprehensive business income taxation?. *International Tax and Public Finance*, 25(3), 808-840.

Darmawan, I. (2022). The role of the government in the Indonesian economy: A review of the economic constitution. *American Journal of Humanities and Social Sciences Research (AJHSSR)*, 6(2), 155-159.

Mulyana, M., Din, M., Mustamin, M., Amir, A. M., Karim, F., & Betty, B. (2022). Local government own-source revenue and general allocation funds on capital expenditure: Economic growth as moderating variable. *Arthatama: Journal of Business Management and Accounting*, 6(1), 44-54.

Mura, M., Longo, M., Micheli, P., & Bolzani, D. (2018). The evolution of sustainability measurement research. *International Journal of Management Reviews*, 20(3), 661-695.

Nugent, R., Bertram, M. Y., Jan, S., Niessen, L. W., Sassi, F., Jamison, D. T., ... & Beaglehole, R. (2018). Investing in non-communicable disease prevention and management to advance the Sustainable Development Goals. *The Lancet*, 391(10134), 2029-2035.

Pasaribu, G. T., Ayu, L. M., & Pamuntjak, A. (2022). Tax Reforms and Financial Performance of the Indonesian Directorate General of Taxes between 2017 and 2021: Literature Review. *Journal of Finance and Accounting*, 6(5), 11-21.

Rinaldi, C., & Bekker, M. P. (2020). A scoping review of populist radical right parties' influence on welfare policy and its implications for population health in Europe. *International Journal of Health Policy and Management*, 10(3), 141.

Sadeh, A., Radu, C. F., Feniser, C., & Borşa, A. (2020). Governmental intervention and its impact on growth, economic development, and technology in OECD countries. *Sustainability*, 13(1), 166.

Siegmeier, J., Mattauch, L., Franks, M., Klenert, D., Schultes, A., & Edenhofer, O. (2018). The fiscal benefits of stringent climate change mitigation: an overview. *Climate Policy*, 18(3), 352-367.

Wu, Z., Zhou, M., Zhang, Z., Zhao, H., Wang, J., Xu, J., & Li, G. (2022). An incentive profit-sharing mechanism for welfare transfer in balancing market integration. *Renewable and Sustainable Energy Reviews*, 168, 112762.