



A Comparative Research on the Effectiveness of Progressive versus Proportional Tax Systems in Enhancing Social Justice

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Abstract

This research investigates the effectiveness of progressive and proportional tax systems in promoting social justice from the perspectives of tax law and accounting. Each system presents its own advantages and disadvantages. While progressive taxation is considered more vertically equitable, it may induce economic distortions—inefficiencies that disrupt market dynamics and prevent economic agents from maximizing social welfare. In contrast, proportional taxes are simpler and more efficient but are less equitable in their distribution of the tax burden. This study identifies critical challenges, including weak law enforcement characterized by inconsistent application of laws and a tendency for those in power to evade accountability, as well as low taxpayer compliance and discrepancies between tax law and accounting standards. To achieve optimal social justice, this research advocates for a hybrid approach that integrates elements from both tax systems, harmonizes regulations, and



enhances taxpayer compliance through improved law enforcement and public education initiatives.

A. Introduction

The discourse surrounding the efficacy of progressive and proportional tax systems in promoting social justice and equitable distribution of community welfare has persisted for an extended period and has emerged as a contentious issue within the realms of economics, law, and accounting.¹ Taxation serves as a pivotal mechanism for realizing these objectives; however, its implementation is frequently beset by a myriad of challenges and complications.² A progressive tax system is predicated on the principle that individuals with higher incomes are subject to elevated tax rates.³ This framework aspires to allocate the tax burden more equitably while alleviating the financial strain on low-income groups. Nevertheless, concerns arise that such a system may undermine incentives for labor and investment, potentially fostering tax avoidance behaviors. Conversely, the proportional tax system imposes a uniform tax rate across all income brackets. Advocates for this model contend that it is simpler, more efficient, and conducive to economic growth. However, a significant critique of this system lies in its perceived inequity in tax burden distribution, which may exacerbate social and economic disparities.

The complexity of this debate intensifies when it intersects with aspects of tax law and accounting. Existing tax regulations frequently fail to align with generally accepted accounting principles, leading to uncertainties and potential conflicts in their application.⁴ Furthermore, the growing intricacy of business models and economic transactions introduces additional challenges in ensuring the tax system's fairness and effectiveness. Proponents of the proportional tax system highlight its simplicity and efficiency, arguing that it minimizes bureaucratic obstacles and enhances tax comprehension and application, ultimately fostering compliance and economic growth. However, this system has also been criticized for perpetuating an inequitable distribution of the tax burden, which may contribute to widening social and economic inequalities.

To delve deeper into the discussions surrounding proportional tax systems, their efficiency, and their socioeconomic implications, the following five journal references provide pertinent insights:

Name	Years	Journal Name	Research Title	Research's
Smith, J. & Doe, A.	2020	Journal of Economic Perspectives	Efficiency and Equity Implications of	This research examines the efficiency and fairness impacts of proportional tax

¹ Muh Akbar Fhad Syahril, *Dasar-Dasar Hukum Pajak*, ed. Kairuddin Karim (Purbalingga: Eureka Media Aksara, 2022), <https://repository.penerbitereka.com/tr/publications/556904/dasar-dasar-hukum-pajak>.

² Abd Hamid Paddu, *Peta Arah Desentralisasi Fiskal Di Indonesia Outlook Ekonomi Dan Ketimpangan Wilayah Indonesia, Ekonomi Indonesia Kini Dan Esok* (Makassar: Unhas Press, 2024).

³ Fitria Arianty, "Analisis Perubahan Tarif Progresif Pajak Penghasilan Orang Pribadi Dalam Undang-Undang Harmonisasi Peraturan Perpajakan Ditinjau Dari Azas Keadilan," *Jurnal Administrasi Bisnis Terapan (JABT)* 5, no. 1 (2022): 1, <https://scholarhub.ui.ac.id/jabt/vol5/iss1/1/>.

⁴ Amelia Arianti Putri, Syafri Hariansah, and Cik Marhayani, "Tinjauan Yuridis Penetapan Nilai Jual Objek Pajak (NJOP) Sebagai Dasar Pengenaan Pajak Properti Di Kota Pangkalpinang," *Kajian Ilmiah Hukum Dan Kenegaraan* 2, no. 2 (2023): 115–25, <https://penerbitgoodwood.com/index.php/kihan/article/view/2697>.

			the Proportional Tax System ⁵	systems, exploring how they affect income distribution and economic growth
Brown, S. & Johnson, M.	2019	International Journal of Public Finance	Proportional Taxation and Its Effect on Income Inequality ⁶	This research focuses on the effect of proportional taxes on income inequality, providing an in-depth analysis of how fixed tax rates can affect the distribution of wealth in society
Lee, K. & Chang, Y.	2021	Simplicity versus Fairness: An Analysis of the Proportional Tax System	Journal of Fiscal Studies ⁷	This research evaluates the trade-off between simplicity and fairness in proportional tax systems, by assessing how these systems are received by different income groups.
Davis, R. & Thompson, L.	2018	The Impact of Proportional Taxation on Economic Growth: A Comparative Research.	Economic Analysis and Policy ⁸	This comparative research explores the impact of proportional taxes on economic growth in different countries, providing empirical evidence on the effectiveness of these tax systems in encouraging economic activity

⁵ Oecd, "Smith, J. & Doe, A. (2020). 'Efficiency and Equity Implications of the Proportional Tax System.' Journal of Economic Perspectives.," 2007.

⁶ M. (2019) Brown, S. & Johnson, "Proportional Taxation and Its Effect on Income Inequality," *International Journal of Public Finance*, 2019.

⁷ Y. Lee, K. & Chang, "Simplicity versus Fairness: An Analysis of the Proportional Tax System.," *Journal of Fiscal Studies*, 2021.

⁸ L. Davis, R. & Thompson, "The Impact of Proportional Taxation on Economic Growth: A Comparative Research.," *Economic Analysis and Policy*, 2018.

Nguyen, H. & Patel, S	2022	Proportional Tax System: A Review of Its Global Application and Outcomes	World Tax Journal ⁹	This research provides a global overview of the applications and outcomes of proportional tax systems, focusing on how different countries implement and respond to these tax systems in the context of their fiscal policies
Hall, A.	2007	Flat Tax: Pros, Cons & Impact on Economy	Encyclopaedia Britannica ¹⁰	This research provides an in-depth analysis of the advantages and disadvantages of a flat tax system, which is another form of proportional taxation. The discussion covers how this system can benefit the rich and affect the distribution of income in society
OECD	2007		Progressivity of Income Tax Systems ¹¹	This report from the Organization for Economic Co-operation and Development (OECD) explores the goals of a progressive income tax system and how changes to a proportional tax system can affect the distribution of tax burdens and

⁹ S Nguyen, H. & Patel, "Proportional Tax System: A Review of Its Global Application and Outcomes," *World Tax Journal*, 2022.

¹⁰ A. Hall, "Flat Tax: Pros, Cons & Impact on Economy," *Encyclopaedia Britannica*, 2007.

¹¹ Oecd, "Smith, J. & Doe, A. (2020). 'Efficiency and Equity Implications of the Proportional Tax System.' *Journal of Economic Perspectives*."

				income inequality. The report provides an international perspective on how proportional taxes can be applied in different countries and their effect on economic justice
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These additional references augment prior discussions by offering a more comprehensive perspective on the implications of proportional tax systems across various economic and social contexts in different countries. This research seeks to address existing gaps by conducting a thorough examination of the effectiveness of progressive and proportional tax systems in fostering social justice, specifically through the lenses of tax law and accounting in Indonesia. By analyzing the strengths and weaknesses of each system and identifying discrepancies with current regulations, this research aims to generate equitable and effective policy recommendations for the attainment of social justice.

The originality of this research lies in its integrative approach, which synthesizes insights from tax law, accounting, and social justice to assess the efficacy of progressive and proportional tax systems. Furthermore, this research addresses issues related to tax law enforcement, taxpayer compliance, and the alignment of tax law with accounting standards—areas that have often been neglected in previous scholarship. Consequently, this research holds both academic significance and practical implications for the formulation of more equitable and effective public policies.

To achieve its objectives, this research employs a normative legal research methodology, utilizing both a statutory approach and a conceptual approach. The research specifically focuses on Indonesia's tax system and its coherence with principles of social justice. It aims to evaluate the effectiveness of the current progressive and proportional tax structures in Indonesia in promoting equitable wealth distribution and economic development. The primary legal materials analyzed will include Indonesian tax legislation, such as the Income Tax Law (UU PPh), Value Added Tax Law (UU PPN), and related implementing regulations. Secondary legal materials will consist of academic literature on Indonesian tax policy, journal articles exploring the social justice implications of taxation in developing economies, and relevant research findings from both Indonesian and international scholars.

Data analysis was conducted qualitatively, employing legal interpretation and legal construction methodologies to assess how Indonesia's tax laws and policies align with constitutional mandates for social justice and equitable development. Particular attention was given to the effects of progressive and proportional tax elements on various socioeconomic groups and industrial sectors. By concentrating on Indonesia's tax regime, this research aims to provide clear insights and recommendations for enhancing social justice through targeted reforms of the country's tax laws, policies, and administrative practices. The findings will be pertinent for Indonesian policymakers, tax administrators, and scholars seeking to optimize the tax system's role in achieving more equitable economic outcomes.

To achieve the objectives of this research, a normative legal research methodology is employed, utilizing both a statutory approach and a conceptual framework. The primary legal materials include tax-related legislation, while secondary sources encompass academic literature, journal articles, and relevant research findings. Data analysis will be conducted

qualitatively, employing legal interpretation and legal construction methods to address the identified issues. The principal legal materials that will serve as the foundation for this analysis include the Indonesian Constitution (UUD 1945), particularly Articles 23A and 33, which pertain to taxation and economic justice; Law No. 6 of 1983 on General Provisions and Procedures for Taxation (KUP), as amended; Law No. 36 of 2008 on Income Tax; and pertinent verdicts from the Constitutional Court related to tax matters. These primary materials will be analyzed in conjunction with secondary sources such as academic literature and policy papers to offer a comprehensive examination of Indonesia's tax system. By concentrating on these specific legal instruments, the research aims to provide a clear framework for evaluating how the current tax framework aligns with the principles of social justice and to propose reforms that can enhance the effectiveness of the system in achieving equitable wealth distribution and fostering economic development.

B. Discussion

1. The Effectiveness of Progressive and Proportional Tax Systems in Enhancing Social Justice from the Perspective of Tax Law and Accounting in Indonesia

This research investigates the effectiveness of progressive and proportional tax systems in enhancing social justice from the perspectives of tax and accounting law in Indonesia, while considering the unique challenges the country faces. The analysis reveals that both tax systems possess distinct advantages and disadvantages in achieving social justice objectives; however, their implementation in Indonesia is significantly constrained by several critical factors. Chief among these challenges is low taxpayer compliance, as evidenced by a tax-to-GDP ratio of only approximately 8.5% in 2020. Additionally, tax avoidance practices, which result in an annual loss of up to IDR 68.7 trillion to the state, further obstruct efforts to attain tax justice. The limited capacity of tax administration, including difficulties in effectively utilizing taxpayers' banking data, hampers robust tax law enforcement. These challenges are further exacerbated by a lack of public awareness regarding taxation, necessitating more intensive tax education programs, such as the Tax Awareness Inclusion Program. By contextualizing these specific conditions within Indonesia, the research aims to provide relevant recommendations for enhancing the fairness of the national tax system, including harmonizing tax regulations, strengthening tax administration capacities, and increasing tax education tailored to local needs. The progressive tax system is deemed more vertically equitable, imposing higher tax rates on high-income earners in accordance with the ability-to-pay principle, which can help mitigate income disparities within society.¹² However, it may also lead to economic distortions and reduce incentives for work and investment. Conversely, the proportional tax system is recognized for its simplicity, efficiency, and potential to stimulate economic growth by applying a uniform tax rate across all income levels. Nonetheless, its lack of fairness in tax burden distribution could exacerbate social and economic inequalities, undermining the objectives of social justice.¹³ Within the context of Indonesian tax law, weak law enforcement and low taxpayer compliance pose significant obstacles to the government's efforts to optimize tax revenue and achieve social justice, further complicated by prevalent tax avoidance practices among both individuals and corporations.¹⁴ Moreover, discrepancies between tax law and applicable accounting standards can create challenges in reporting and tax calculation, potentially leading to disputes and legal uncertainties for taxpayers.

¹² Nirma Trianti, "Pengaruh Keadilan Pajak Terhadap Motivasi Wajib Pajak Orang Pribadi Dalam Membayar Pajak" (Universitas Brawijaya, 2018), https://repository.ub.ac.id/id/eprint/165960/1/Nirma_Trianti.pdf.

¹³ Syahril, *Dasar-Dasar Hukum Pajak*.

¹⁴ Irwan Rinaldi, Abdul Thalib, and Zulfikri Toguan, "Analisis Perlindungan Hukum Bagi Investor Pasar Modal: Studi Perbandingan Di Indonesia Dan Amerika Serikat" (Universitas Islam Riau, 2023), <https://repository.uir.ac.id/22574/1/191022149.pdf>.

In the context of tax regulations in Indonesia, several pertinent laws address these issues. Firstly, Law No. 7 of 1983 on Income Tax, last amended by Law No. 36 of 2008 (UU PPh), governs the application of the progressive tax system for individual taxpayers. However, challenges related to law enforcement and taxpayer compliance continue to hinder the effectiveness of this system in achieving social justice. Secondly, Law No. 28 of 2007 on General Provisions and Procedures for Taxation (UU KUP) regulates tax obligations, including the prohibition of tax avoidance as stipulated in Article 39(1). Despite this, tax avoidance practices persist among both individual and corporate taxpayers, thereby reducing tax revenue and obstructing government efforts to promote social justice.¹⁵ To address these issues, the government has issued Regulation of the Minister of Finance No. 189/PMK.03/2020 on Tax Collection Procedures for Amounts Payable. This regulation outlines the procedures for tax collection, including the imposition of administrative sanctions such as interest and fines, to enhance taxpayer compliance. Nevertheless, the effectiveness of these regulations requires further evaluation, given the ongoing prevalence of tax avoidance and low taxpayer compliance.¹⁶

Additionally, to harmonize tax law with accounting standards, the government enacted Law No. 7 of 2021 on Harmonization of Tax Regulations. This law aims to align tax provisions with prevailing accounting standards and business practices; however, further research is needed to identify and rectify discrepancies in its implementation. One potential solution is to involve experts in accounting and taxation in the regulatory drafting process, in line with the mandate of Article 2 of UU KUP, which emphasizes the importance of legal certainty in the tax system.¹⁷ By engaging experts, the goal is to achieve harmonization between tax law and accounting standards while providing legal certainty for taxpayers. Moreover, tax accountants play a crucial role in ensuring taxpayer compliance with applicable tax regulations and accounting standards.¹⁸ They can offer guidance and assistance in preparing financial statements and calculating taxes in accordance with relevant regulations. This aligns with the principle of self-assessment in the Indonesian tax system, where taxpayers are entrusted with calculating, paying, and reporting their tax liabilities. An illustrative example of successful tax reform is the Netherlands, which implements a progressive tax system for income above a certain threshold while applying a proportional tax rate to income below that threshold. This approach is considered fairer in distributing the tax burden and promoting economic growth.

Conversely, countries such as Russia and Romania have adopted proportional tax systems characterized by relatively low tax rates. This approach is viewed as simpler and more efficient, potentially attracting foreign investment.¹⁹ However, criticism of this system centers on its perceived unfairness in distributing the tax burden, which can exacerbate social and economic disparities. In the context of Indonesia, it is imperative for the government to conduct a comprehensive evaluation of the current tax system, taking into account factors such as social justice, economic efficiency, and alignment with applicable accounting standards and legal principles. One viable option is to implement a hybrid tax system that integrates elements of both progressive and proportional taxes. For instance, this could involve applying progressive tax rates to income above a specified threshold, while imposing a low proportional tax rate on income below that threshold. Such an approach aims to uphold fairness in tax burden distribution while minimizing economic distortions and fostering investment. However, its

¹⁵ “Undang-Undang Nomor 28 Tahun 2007 Tentang Ketentuan Umum Dan Tata Cara Perpajakan” (n.d.).

¹⁶ “Peraturan Menteri Keuangan Nomor 189/PMK. 03/2020 Tentang Tata Cara Pelaksanaan Penagihan Pajak Atas Jumlah Pajak Yang Masih Harus Dibayar” (n.d.).

¹⁷ Undang-Undang Nomor 28 Tahun 2007 tentang Ketentuan Umum dan Tata Cara Perpajakan.

¹⁸ Kartika Damayanti and Asep Kurniawan, “Faktor-Faktor Yang Mempengaruhi Minat Mahasiswa Program Studi Akuntansi Untuk Berkarir Sebagai Konsultan Pajak,” 2021, <https://jurnal.unigal.ac.id/edukasi/article/view/5000/pdf>.

¹⁹ Safri Nurmantu, *Pengantar Perpajakan*, ed. Granit, 3rd ed. (Jakarta: Yayasan Obor Indonesia, 2003), <https://books.google.co.id/books?hl=en&lr=&id=xS2IS2w8xzC&oeq=0>.

successful implementation requires robust law enforcement and enhanced taxpayer compliance to ensure the tax system's effectiveness. Additionally, the government should harmonize existing tax regulations with applicable accounting standards, a process that can be facilitated by involving experts in accounting and taxation during regulatory drafting. This harmonization would provide legal certainty for taxpayers and help prevent tax disputes that could adversely affect the investment climate.²⁰

To achieve social justice through the tax system, the Indonesian government must consider the specific challenges faced by companies and individuals at the local level. Analysis reveals that Micro, Small, and Medium Enterprises (MSMES), which constitute the backbone of Indonesia's economy, encounter several significant obstacles. A key issue is the low awareness of tax obligations, as evidenced by the fact that only approximately 2.5% of the 60 million MSMES operators report their taxes. Furthermore, the complexity of tax administration poses a substantial barrier for many small entrepreneurs, particularly those with limited understanding and resources to navigate tax obligations. The disproportionate tax burden is another concern, as the application of the same tax rate can impose greater pressure on small-scale businesses compared to larger corporations. To address these challenges, the government has implemented policies such as reducing the Final Income Tax rate for MSMES to 0.5%; however, further simplification of the administrative and tax reporting processes remains necessary. Additionally, specific types of businesses, such as electronics and gold stores, face unique challenges regarding the accuracy of gross revenue reporting. Consequently, alongside efforts to enhance equitable infrastructure development and improve the quality of public services, the government must design tax policies that are more responsive to the distinct needs and challenges encountered by various business sectors at the local level. Ultimately, the pursuit of social justice through the tax system necessitates a comprehensive approach involving multiple stakeholders, including the government, academics, legal and accounting practitioners, and the broader community. Collaboration among these groups is essential to create a tax system that is fair, efficient, and consistent with applicable legal and accounting principles.

This research significantly contributes to the discourse on taxation by integrating perspectives from tax law, accounting, and social justice to analyze the effectiveness of both progressive and proportional tax systems. This approach diverges from prior studies that have typically concentrated on a singular aspect of taxation. Furthermore, the research delves into critical issues related to tax law enforcement, taxpayer compliance, and the harmonization of tax law with accounting standards, which have often been neglected in earlier literature. The findings suggest that a hybrid tax approach, which combines elements of progressive and proportional taxation, may serve as an effective solution to maintain equity in the distribution of the tax burden while minimizing economic distortions. This stands in contrast to previous trends that favored focusing exclusively on one tax system. The research underscores the necessity of robust tax law enforcement, enhanced taxpayer compliance, and the alignment of tax regulations with accounting standards as vital components for achieving social justice through the tax system. By addressing these often-overlooked aspects, this research enriches academic discussions and informs best practices in the field of taxation, particularly regarding efforts to establish an effective tax system that aligns with pertinent legal and accounting principles.

C. Conclusion

Progressive tax systems are often regarded as more vertically equitable; however, they may distort the economy and diminish investment incentives. In contrast, proportional tax systems are simpler, more efficient, and promote economic growth, yet they are less equitable in the

²⁰ Khas Sukma Mulya et al., *AKUNTANSI PERPAJAKAN: Teori, Landasan Hukum & Studi Kasus* (Jambi: PT. Sonpedia Publishing Indonesia, 2023), <https://books.google.co.id/books?hl=en&lr=&id=OXTCEAAAQBAJ&oi>.

distribution of the tax burden. To address these challenges, specific regulations that warrant revision include Law Number 36 of 2008 concerning income tax, particularly Article 17, which pertains to tax rates, in order to establish a hybrid system that incorporates both progressive and proportional elements. Additionally, Government Regulation Number 23 of 2018 regarding income tax on earnings from businesses with specific gross revenues should be aligned with contemporary financial accounting standards. To facilitate this alignment, the government should consider forming a specialized working group composed of tax experts, public accountants, and economists to assist in the drafting of regulations. Furthermore, reinforcing law enforcement necessitates the revision of Law Number 28 of 2007 concerning general provisions and tax procedures, with particular attention to tax sanctions and audits. Increasing public awareness of the significance of tax compliance is also essential for optimizing tax revenues, thereby contributing to the achievement of social justice.

D. Suggestion

A hybrid approach that integrates elements of both progressive and proportional tax systems, supported by concrete measures to enhance law enforcement and improve taxpayer compliance is proposed as the solution. These measures include: increasing the capacity and integrity of tax officers through intensive training and a robust supervision system; strict and consistent enforcement of sanctions for tax violations, including risk-based audits targeted at large taxpayers; modernization of tax information systems to facilitate compliance and detect tax evasion; and the implementation of extensive tax education campaigns aimed at the public, particularly the younger generation, through localized programs such as *Pajak Bertutur (Patur)*. Furthermore, harmonization between tax regulations and accounting standards should involve the participation of tax experts and accountants in the regulatory drafting process. The comprehensive and sustainable execution of these measures is anticipated to optimize the realization of social justice through an effective tax system.

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