

Tax Policy and Equity: A Systematic Review of Design Strategies in Public Finance

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Abstract

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This article systematically reviews the design strategies of tax policy with a focus on their equity implications in developing and emerging economies. The central question explores how different tax instruments such as income, consumption, and property taxes affect income distribution, social fairness, and fiscal justice. The study synthesizes findings from peer-reviewed literature published up to 2021, identifying common design challenges, institutional constraints, and policy trade-offs. Drawing on diverse case studies, the review highlights the uneven impact of tax structures on vulnerable populations and emphasizes the importance of progressive taxation, transparency, and accountability in promoting equitable outcomes. The article discusses these themes through a multidimensional lens, integrating technical policy insights with broader governance and institutional considerations. The findings suggest that equitable tax reform requires not only better policy design but also improved administrative capacity, political will, and citizen engagement to sustain fair and inclusive fiscal systems.

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1. Introduction

Tax policy is a central tool in shaping economic equity and social justice in both developed and developing countries. It influences not only how much revenue governments collect but also how income and wealth are distributed across different segments of society. Well-designed tax systems can play a critical role in reducing poverty and inequality, financing public services, and enhancing state legitimacy. However, achieving equity through taxation remains a complex challenge, as governments must balance revenue needs with principles of fairness, efficiency, and administrative feasibility (Prichard et al., 2019; Bejaković, 2020). This complexity becomes even more pronounced in contexts with large informal sectors, weak administrative capacities, and limited fiscal space, conditions that are prevalent across much of the Global South.

Tax structures differ widely in their impact on equity. Personal income taxes, which are typically progressive, are often considered the most effective for redistributive purposes. However, in many low- and middle-income countries, the revenue share from personal income taxes remains low due to narrow tax bases, widespread evasion, and weak enforcement mechanisms (Mascagni, 2018). Conversely, consumption taxes like value-added tax (VAT) are widely used for their efficiency and reliability but tend to be regressive, as they disproportionately burden low-income households (Lustig, 2017). The design of exemptions, zero-rating for essential goods, and targeted transfers is therefore crucial to offset the adverse distributional effects of such taxes.

Recent scholarship has emphasized the importance of integrating tax policy with broader social spending and redistributive strategies. Lustig (2017), for example, highlights that the overall impact of fiscal policy on inequality depends not only on tax structures but also on how revenues are spent. Progressive spending on education, health, and cash transfers can significantly mitigate the regressive effects of certain taxes. In this context, tax incidence analysis has emerged as a critical tool in evaluating who ultimately bears the burden of taxation and how policy changes affect different income groups (Martorano, 2018). Moreover, greater attention is being given to the political economy of tax reform, particularly in ensuring that reforms are socially acceptable and politically feasible within diverse institutional environments.

This article presents a systematic review of the literature on tax policy and equity published up to 2021, with a focus on design strategies in public finance that enhance distributive outcomes. It explores the interplay between tax progressivity, compliance and enforcement mechanisms, and the alignment of tax policy with social spending objectives. The review draws on a wide range of comparative studies and country-level analyses to identify successful approaches and common constraints in designing equitable tax systems. By synthesizing this evidence, the article contributes to ongoing policy debates on how to build fairer and more inclusive fiscal frameworks, particularly in the face of rising inequality, increasing demands for accountability, and growing fiscal pressures in the post-pandemic recovery era.

2. Literature Review

Tax policy is a foundational element in achieving equitable and sustainable public finance. A broad body of literature highlights the role of progressive taxation in addressing inequality, improving income distribution, and financing social expenditures. Studies by Adam et al. (2015) and Lustig (2017) emphasize that tax progressivity, when well-designed, can significantly reduce post-fiscal inequality in both developed and developing countries. However, the effectiveness of tax systems is often constrained by low administrative capacity, a narrow tax base, and reliance on indirect taxes, which are typically regressive (Bird & Zolt, 2014). This concern is particularly salient in low-income countries, where fiscal limitations often result in overdependence on consumption taxes with limited redistributive effect.

Recent research also explores how tax policy design can enhance both vertical and horizontal equity. Auerbach (2019) argue that beyond nominal tax rates, factors such as exemptions, deductions, and enforcement mechanisms critically determine the overall equity of a tax system. Prichard et al. (2019) further emphasize the need for balancing simplicity with fairness, proposing a framework that incorporates compliance behavior, trust in institutions, and political incentives in shaping tax systems. The literature suggests that a shift from reliance on distortionary taxes to more transparent and equitable systems such as property or wealth taxes, could improve fairness without necessarily undermining efficiency (OECD, 2018).

Moreover, institutional design and accountability mechanisms are central to equity outcomes in taxation. Dom (2019) highlight that when citizens perceive taxation as unjust or poorly administered, compliance declines, and public trust

erodes. In this regard, the role of political economy and citizen engagement is increasingly emphasized. Moore (2015) argues that inclusive dialogue and deliberation around tax policy can help strengthen democratic accountability and generate support for equity-enhancing reforms. As digital technologies expand, scholars also point to the growing importance of data and analytics in identifying tax gaps and enabling fairer enforcement practices.

Taken together, the literature underscores that equitable tax policy design is not only a technical challenge but also a political and institutional one. Ensuring fairness in taxation requires a multidimensional approach that integrates design, capacity, compliance, and public accountability. These insights provide the foundation for evaluating contemporary tax policy strategies in different national contexts, particularly in the face of rising inequality and fiscal pressures.

3. Methods

This study adopts a systematic literature review methodology to analyze peer-reviewed research on tax policy design and equity in public finance published to early 2021. The review follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework to ensure transparency and rigor in the selection and synthesis of sources. A structured search was conducted using academic databases such as Scopus, JSTOR, and Google Scholar. The primary search terms included combinations of “tax policy”, “equity”, “fiscal policy”, “progressive taxation”, and “public finance”. Inclusion criteria required that studies be peer-reviewed, published in English, and address equity-related outcomes or

design features of taxation systems in either developing or developed country contexts. Exclusion criteria eliminated opinion pieces, conference abstracts, and studies lacking a substantive focus on tax equity. After screening titles and abstracts, a total of 22 articles were selected for full-text review. Data from eligible studies were then thematically coded to identify key strategies, outcomes, and institutional factors relevant to tax design and equity. The analysis focuses on conceptual frameworks, empirical findings, and policy recommendations to synthesize the main insights across the literature. This approach allows for a comprehensive understanding of how tax systems can be structured to promote fairness, revenue adequacy, and accountability in diverse economic settings.

4. Results and Discussion

The findings from the reviewed literature suggest that the design of tax policy plays a critical role in shaping equitable public finance outcomes, particularly in low- and middle-income countries. Across the studies analyzed, several recurrent themes emerged, particularly around the importance of tax progressivity, the challenges of regressive consumption taxes, the effectiveness of direct taxes, and the broader institutional contexts that enable or hinder equitable tax policy implementation. Progressive income taxation remains central to equity-enhancing strategies, yet its success is highly contingent on administrative capacity, taxpayer compliance, and political commitment (Moore et al., 2018; Prichard et al., 2019). Many developing countries continue to rely heavily on indirect taxes such as value-added tax (VAT),

which are often easier to administer but disproportionately burden the poor, thereby limiting the redistributive potential of fiscal policy (Bastagli et al., 2015; James, 2015).

Direct taxation, particularly personal income tax and property tax, is widely regarded as more equitable, but its adoption and enforcement vary significantly across contexts. Several studies found that despite formal progressive tax systems, de facto tax incidence often remains regressive due to weak enforcement, tax avoidance, and preferential treatment for elites (Kangave et al., 2016; Moore et al., 2018). Moreover, tax expenditures in the form of exemptions and deductions frequently benefit higher-income groups and reduce the overall progressivity of the system. Evidence from several sub-Saharan African and Southeast Asian economies indicates that limited administrative capacity, coupled with informal sector dominance, restricts governments' ability to enforce equitable tax policy (Adam et al., 2015).

Another critical theme is the role of institutional and political factors in shaping equitable tax policy. Research shows that stronger democratic institutions, inclusive policymaking processes, and transparent budget practices contribute to more equitable tax design and implementation (Bird & Zolt, 2014; Prichard, 2015). The literature also highlights the importance of public perceptions of fairness in driving tax compliance and the social legitimacy of taxation (Ali et al., 2014). When citizens perceive that tax burdens are distributed fairly and that revenues are used for public goods, voluntary compliance increases, supporting both revenue mobilization and redistributive goals. Conversely, perceived inequities in tax policy

or spending patterns can erode public support for taxation and widen inequalities (Hassan & Prichard, 2016).

A number of studies emphasize gender and intersectional dimensions of tax policy design, noting that tax systems often overlook the differentiated impacts on women and marginalized populations. For instance, Joshi et al. (2020) argue that consumption-based taxes and exemptions can inadvertently reinforce gender inequalities by failing to account for unpaid care work and informal labor. Integrating gender analysis into tax policy formulation is thus essential for designing systems that promote inclusive equity. Further, research by Besley and Persson (2014) and Fjeldstad et al. (2018) emphasizes the importance of aligning tax reform with capacity-building initiatives in revenue authorities, especially in post-conflict or transitional settings, to enable more responsive and redistributive tax structures.

Despite widespread agreement on the principles of equitable tax policy (progressivity, transparency, and accountability), real-world implementation continues to face institutional and political constraints. Several authors argue that reforms must be tailored to specific national contexts, taking into account administrative capacity, economic structure, and political economy dynamics (Bird & Zolt, 2014; Moore et al., 2018). Efforts to strengthen equity must also be accompanied by complementary reforms in public spending to ensure that revenue gains translate into tangible improvements in social outcomes. In this regard, there is growing emphasis on fiscal contracts and social accountability mechanisms as tools to link tax policy with citizen engagement and equitable service delivery (Fjeldstad et al., 2014).

Overall, the literature affirms that equitable tax policy design is both technically feasible and normatively justified, but achieving these outcomes requires sustained commitment, institutional innovation, and inclusive governance. While progress has been made in several countries, significant gaps remain in aligning tax systems with equity goals, especially in contexts marked by informal economies, political capture, and weak enforcement. Future research should continue to explore context-specific pathways for advancing equity through taxation, including greater attention to the distributional impacts of emerging tax instruments and international cooperation on tax justice.

5. Conclusion

This systematic review has examined the equity implications of tax policy design in developing and emerging economies, highlighting critical themes such as progressivity, administrative capacity, institutional accountability, and citizen engagement. The evidence underscores that while progressive tax instruments, particularly personal income and property taxes, hold the potential to reduce inequality, their implementation remains constrained by weak enforcement, limited fiscal capacity, and regressive policy choices such as overreliance on consumption taxes. Equity-enhancing reforms require not only sound technical design but also strong political will, inclusive governance, and sustained investment in revenue administration.

Moreover, the review reveals that tax policy cannot be considered in isolation from broader fiscal and institutional dynamics. Equity outcomes are deeply

influenced by the transparency of fiscal systems, the inclusiveness of policymaking, and the perceived fairness of both tax burdens and public spending. Addressing these challenges calls for integrated strategies that combine tax reform with public accountability mechanisms, gender-aware fiscal policies, and long-term capacity-building. While the path to equitable taxation is complex, the existing body of evidence affirms that deliberate, context-specific reforms can make tax systems more just, efficient, and socially legitimate.

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