

ABSTRACT

This thesis investigates the impact of tax ratio towards income inequality in Indonesia's Java Island, offering a direct and indirect analysis of how tax policies influence economic disparity. Utilizing an econometric framework and using Two-Stage Least Squares (2SLS) regression, this study examines data from six provinces over a period of 12 years, starting from 2011 to 2022. Key variables such as the tax ratio in ratio format, social spending in nominal format, Human Development Index (HDI) in ratio format, and Spending per Capita in nominal format are analyzed to assess their impact on income inequality. The findings reveal a significant empirical relationship between the tax ratio and income inequality in our model. The study underscores the importance of raising the general tax ratio to alleviate income inequality. The thesis also provides policy recommendations aimed at expanding the tax base, and implementing progressive taxation to reduce income inequality.

Keywords: Tax Ratio, Income Inequality, Panel Data Analysis, Social Spending, Human Development Index (HDI), and Spending per Capita, Two-Stage Least Squares (2SLS), Java Island, Indonesia