



An Islamic Economic Perspective on the Implementation of Progressive Taxation to Address Income Inequality in Indonesia

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ABSTRACT

Rising income inequality in Indonesia poses a persistent socio-economic challenge that requires not only technical but also ethically grounded fiscal strategies. This study investigates the implementation of progressive taxation in Indonesia from an Islamic economic perspective, particularly through the lens of maqāṣid al-sharī'ah. Specifically, it seeks to answer the research question: To what extent is Indonesia's progressive tax policy compatible with Islamic economic principles in addressing income inequality? The study clarifies its focus on three key aspects of Indonesia's experience: the effectiveness of fiscal policy structure, levels of voluntary tax compliance, and the outcomes related to distributive justice. Adopting a descriptive qualitative method via library research, the study analyzes secondary sources from Scopus- and Web of Science-indexed journals, classical Islamic texts, and policy documents. The findings indicate that while Indonesia's progressive tax structure formally aims to enhance vertical equity, its practical impact remains constrained by low compliance, limited redistributive outcomes, and ethical disconnects in fiscal governance. When framed within Islamic values particularly 'adālah (justice), maṣlahah (public interest), and taqwa (God-consciousness) progressive taxation can be ethically legitimate and spiritually motivated. The practical contribution of this research lies in offering a normative framework for harmonizing state-imposed taxation with Islamic redistributive instruments such as zakat, infāq, and waqf. The study recommends a value-based policy approach that integrates Islamic ethics into tax design, aiming to strengthen public trust, foster voluntary compliance as 'ibādah (worship), and promote inclusive, spiritually grounded economic development in Muslim-majority contexts like Indonesia.

Keywords: *islamic economics; progressive taxation; income inequality; fiscal justice*

A. INTRODUCTION

Income distribution inequality remains a persistent and structural challenge within the Indonesian economy. Despite a decade of steady economic expansion, marked by improvements in GDP and increased foreign investment, the benefits of this growth have not been equitably shared across all segments of society. Data from Statistics Indonesia (Badan Pusat Statistik, BPS) shows that Indonesia's Gini coefficient has remained relatively stagnant, ranging from

0.38 to 0.40 over recent years. These figures indicate a moderate to high level of inequality, revealing that the nation's economic growth has disproportionately benefited higher-income groups, while lower-income communities have limited access to economic opportunities and upward mobility. This situation raises concerns about the sustainability of Indonesia's development model. A persistent concentration of wealth among a small fraction of the population undermines social cohesion and threatens long-term economic stability and inclusive growth. Recent studies, including those published in the *Economic Thought and Practice Journal* (Badriah & Arintoko, 2024), emphasize the need for structural reforms to address the underlying causes of inequality, including disparities in access to education, healthcare, and employment. In this context, progressive taxation policies, particularly those aligned with ethical frameworks like Islamic economics, have the potential to redistribute wealth more equitably and support a more inclusive and just economic system.

In an effort to reduce income inequality, the Indonesian government has implemented a progressive tax policy, particularly regarding personal income tax (Pajak Penghasilan or PPh). The enactment of the Law on the Harmonization of Tax Regulations (*Undang-Undang Harmonisasi Peraturan Perpajakan*, UU HPP), effective from early 2022, revised the income tax rate structure into five tiers: (1) Tier I: Taxable income (*Penghasilan Kena Pajak*, PKP) up to IDR 60 million is taxed at 5%; (2) Tier II: PKP above IDR 60 million up to IDR 250 million is taxed at 15%; (3) Tier III: PKP above IDR 250 million up to IDR 500 million is taxed at 25%; (4) Tier IV: PKP above IDR 500 million up to IDR 5 billion is taxed at 30%; and (5) Tier V: PKP exceeding IDR 5 billion is taxed at 35% (Sari, 2021).

The introduction of additional tax brackets reflects a deliberate policy shift aimed at creating a more equitable taxation system, where higher-income individuals contribute a larger share of their earnings. This restructuring, formalized through the Law on the Harmonization of Tax Regulations (UU HPP), is designed to reinforce vertical equity in taxation, ensuring that tax obligations align with an individual's ability to pay. By imposing higher marginal tax rates on top earners, the policy aims not only to strengthen fiscal capacity but also to address the persistent income disparities that remain a structural challenge in Indonesia's economy. Despite these well-intentioned objectives, the effectiveness of progressive tax mechanisms in reducing economic inequality remains a subject of debate, especially when examined through alternative economic paradigms.

From the perspective of Islamic economics, the concept of distributive justice extends beyond state-imposed taxation, being rooted in moral, ethical, and spiritual imperatives. Islamic economic thought introduces a distinct model of wealth redistribution through instruments such as zakat, infaq, and waqf. These mechanisms are not merely financial obligations but acts of worship and social responsibility. They are deeply embedded in Islamic society, promoting both voluntary and obligatory contributions to alleviate poverty, support social welfare, and encourage equitable wealth circulation. Islamic principles advocate for a comprehensive approach to economic justice that integrates ethical conduct with institutional mechanisms. Thus, while the progressive tax system may align with broader goals of income equity, its

legitimacy and effectiveness must be critically evaluated in light of Islamic teachings, which emphasize spiritual accountability, communal solidarity, and a holistic vision of socioeconomic balance (Gunawan, 2024 ; Taqi et al., 2025).

In Islamic economics, achieving a fair and just distribution of wealth is a fundamental objective. Unlike conventional economic systems that rely predominantly on state-driven fiscal tools, Islamic economics incorporates a value-laden approach that harmonizes economic activity with ethical and spiritual dimensions. Instruments like zakat, infaq, and sadaqah serve as mechanisms for both voluntary and obligatory wealth redistribution, aimed at not only alleviating poverty but also fostering communal solidarity and preserving social harmony. These mechanisms are grounded in core Islamic values such as ‘adl (justice), tawazun (balance), and mas’uliyah ijtimaiyyah (social responsibility), which govern the management of wealth and income in a way that aligns personal ownership with collective welfare.

Although both Islamic distributive principles and state-enforced progressive taxation aim to address income inequality and promote economic equity, there is a significant gap in scholarship regarding their integration. While progressive taxes, as enacted under Indonesia’s Law on the Harmonization of Tax Regulations (UU HPP), aim to impose greater financial responsibility on the wealthy for the benefit of society, their alignment with Islamic fiscal ethics has yet to be sufficiently explored. Few studies have examined how these two systems might complement or conflict with each other, especially in predominantly Muslim societies like Indonesia. This analytical gap underscores the need for further research into the intersection between state taxation policies and Islamic socioeconomic frameworks, particularly in relation to sustainable development goals and the ethical imperatives of inclusive growth (Ahyani et al., 2025).

Several studies have explored taxation and income inequality. Research indicates that progressive taxation can reduce long-term income disparities, provided it is supported by transparent governance and targeted redistribution policies (Khieu & Van Nguyen, 2020). These studies emphasize that simply raising tax rates for higher-income brackets is insufficient without complementary institutional frameworks to ensure efficient use of public revenues for the benefit of lower-income populations. Within the discourse of Islamic economics, scholars have stressed the significance of integrating zakat the obligatory almsgiving pillar into national fiscal systems. Integrating zakat with conventional taxation is seen as a promising way to achieve a more balanced, ethically grounded redistribution of wealth. One study highlighted that combining zakat with progressive taxation could enhance the social impact of fiscal policies, particularly in Muslim-majority societies (Safitri et al., 2024). Despite these contributions, there remains a substantial gap in research regarding the synergy between progressive taxation and wealth distribution principles in Islamic economics. Few studies have provided a comprehensive analysis that not only contrasts these two systems but also explores how their convergence could create a more just and sustainable economic system.

This study aims to fill this research gap by analyzing the implementation of progressive

taxation within the framework of Islamic economics in Indonesia. Through this approach, the research seeks to identify a fiscal policy model that is not only effective in reducing income inequality but also aligned with the values and principles of Islamic economics. The long-term impact of this study holds significant potential for the formulation of a more inclusive and equitable fiscal policy. By integrating Islamic economic principles into the national taxation system, the study aims to contribute to the establishment of a more just and sustainable model of wealth distribution.

B. LITERATURE REVIEW

The theoretical foundation supporting progressive taxation is anchored in its potential to reduce income inequality and promote social welfare. Built on the principle of *vertical equity*, progressive tax systems require individuals with higher income levels to contribute a greater proportion of their earnings to public finance. According to Hasseldine (2024), progressive taxation functions as an effective tool for achieving economic justice by assigning greater fiscal responsibility to those with stronger economic capacity.

This rationale is closely linked to social contract theory, which posits that citizens should contribute to the provision of public goods in accordance with their ability to pay (Gribnau & Hughes, 2021). Empirical evidence further supports this view. For example, Hoeller et al. (2014) demonstrate that well-designed progressive tax policies can effectively reduce long-term income disparities, especially when tax revenues are allocated efficiently to public services and social protection systems. The principle of *distributive justice* undergirds this perspective, with Martinez-Vazquez et al. (2012) arguing that redistributive tax mechanisms play a significant role in alleviating poverty, mitigating social inequality, and fostering inclusive economic development. In line with this, Auerbach & Hassett (2015) emphasize the importance of progressive taxation as a counterbalance to wealth concentration in capitalist economies, advocating for policies that promote a fairer distribution of wealth across society.

Despite its normative appeal, progressive taxation is not without its critics particularly with regard to its practical implementation and effectiveness. One major concern is that such tax schemes may yield only temporary reductions in inequality without addressing its structural causes. Djankov et al. (2009) caution that excessive taxation may deter investment and entrepreneurship, thereby slowing economic growth and diminishing the overall tax base.

In addition, Petach (2022) highlights administrative inefficiencies and the risk of leakage and misallocation of funds, which can undermine the system's effectiveness in delivering redistributive outcomes. Other critiques are more structural in nature. Scholars like Ozai (2025) contend that income inequality stems from broader global and institutional dynamics, not merely tax design. Under this framework, progressive taxation, though necessary, is insufficient when applied in isolation. It must be integrated into a broader policy framework that addresses systemic inequities and promotes redistributive justice through institutional reform.

The integration of progressive taxation with Islamic economic principles offers a more holistic and ethically grounded approach to tackling income inequality. Islamic economics

places a strong emphasis on *moral responsibility* and *social justice*, advocating for wealth redistribution through mechanisms such as *zakat*, *infaq*, and *waqf*. According to Abubakar (2019), these instruments are not merely fiscal tools but moral imperatives designed to prevent the concentration of wealth and to ensure that resources circulate across all segments of society.

This ethical orientation resonates with the underlying goals of progressive taxation. Widiastuti et al. (2022) argue that when progressive tax policies are aligned with Islamic fiscal instruments, they not only enhance social welfare and reduce poverty but also strengthen public compliance through religious and ethical motivations. In this context, taxation evolves from a purely technical matter to a spiritually rooted mechanism for socio-economic transformation. It produces a *dual-layered redistribution system* where state-imposed taxes complement religious obligations, thereby increasing legitimacy, efficiency, and moral resonance particularly in Muslim-majority societies.

Nonetheless, the convergence between progressive taxation and Islamic economic values remains underexplored in academic literature especially within the context of developing Muslim-majority countries such as Indonesia. Existing studies tend to focus either on the technical mechanics of taxation or the theological underpinnings of Islamic social finance, leaving a theoretical and practical gap. Addressing this gap, the current study proposes two research hypotheses: (1) The implementation of a progressive tax system in Indonesia, when aligned with Islamic economic principles, will significantly improve income distribution and reduce inequality; (2) The integration of Islamic redistributive instruments (*zakat*, *infaq*, *waqf*) with progressive taxation enhances the overall effectiveness of wealth redistribution and reinforces social solidarity.

By investigating this intersection, the study aims to contribute to the formulation of an integrated fiscal model that harmonizes state policy instruments with Islamic ethical imperatives, thus promoting a more inclusive and sustainable economic development paradigm in Indonesia.

C. RESEARCH METHOD

This study adopts a descriptive qualitative approach, employing the library research method to investigate Islamic economic perspectives on the implementation of progressive taxation as a strategy to reduce income inequality in Indonesia. The research is grounded in secondary data sourced from academic books, peer-reviewed journal articles (particularly those indexed in Scopus and Web of Science), classical Islamic texts, and policy documents. The selection criteria for these sources include: (1) relevance to the topic of fiscal justice and Islamic economics, (2) scholarly credibility and peer-reviewed status, and (3) recency and contextual relevance to Indonesia's tax policy and socio-economic landscape.

In line with Given (2008), the document analysis procedure follows several distinct steps to ensure analytical rigor. First, key concepts related to progressive taxation, Islamic fiscal ethics, and distributive justice were identified through a thorough reading of the materials. These concepts were then coded using thematic labels such as *'adālah* (justice), *maṣlahah*

(public interest), *taqwā* (God-consciousness), and *social equity*. Next, the codes were categorized under broader thematic clusters, including (1) ethical foundations of Islamic economics, (2) structural critiques of Indonesia's tax system, and (3) strategies for integration between modern taxation and Islamic redistributive instruments. This thematic framework enabled the researcher to synthesize insights from diverse sources and align them with the study's objectives.

The data analysis process used a descriptive analytical technique, which involved systematically interpreting and elaborating on the extracted concepts to construct coherent arguments within an Islamic economic framework. A deductive analysis strategy was also employed beginning with general theoretical propositions on taxation and distributive justice, and then deriving specific conclusions relevant to the Indonesian context (Huberman & Miles, 2002).

To enhance the validity and reliability of the findings, the study implemented several best practices in qualitative research. First, source triangulation was used by comparing and corroborating insights across multiple types of literature, including classical Islamic jurisprudence, contemporary economic theory, and empirical case studies. Second, peer debriefing was conducted by engaging fellow researchers in Islamic economics to review the coding scheme, thematic interpretations, and emerging conclusions. Third, an audit trail was maintained to document every stage of the analytical process from source selection to theme development ensuring transparency and enabling replicability for future research (Mistry, 2012).

This methodological framework not only enhances the credibility of the qualitative findings but also demonstrates alignment with best practices in qualitative research design. The study ultimately aims to provide a comprehensive and ethically grounded understanding of how Islamic economics interprets and responds to the implementation of progressive taxation in Indonesia, and to evaluate the extent to which this integration can offer sustainable solutions to persistent income inequality.

D. RESULT AND DISCUSSION

1. Result

a. Islamic Economic Perspective on Wealth Distribution

Islamic economic principles place distributive justice (*'adālah*) at the core of financial activity, emphasizing the ethical and metaphysical view of wealth as a trust (*amānah*) that must serve the common good. The Qur'an (Surah al-Hashr, 59:7) warns against wealth accumulating exclusively among the rich, forming a foundational basis for redistribution policies. This vision rejects monopolistic practices and wealth hoarding, advocating instead for a balanced circulation of resources across all levels of society.

This ethical framework is institutionalized through mechanisms like *zakāt*, *infāq*, and *waqf*, which aim to mitigate inequality and ensure wealth reaches the underprivileged.

According to Awais et al. (2024) and Hassan & Choudhury (2019), these instruments are not only fiscal but also moral imperatives, reflecting Islam's comprehensive commitment to social justice. The Islamic economy actively promotes corrective measures to prevent the structural persistence of inequality, supporting the proactive distribution of resources.

Progressive taxation, while not directly derived from classical fiqh, aligns with the objectives of *maqāṣid al-sharī'ah*, particularly *ḥifẓ al-māl* (protection of wealth) and *ḥifẓ al-nafs* (protection of life and welfare). As argued by Azid & Sunar (2019), such taxation functions as a modern instrument compatible with Islamic ethics when governed by justice, transparency, and proportionality. Beyond revenue generation, progressive tax policies can foster *al-tawāzun al-ijtimā'ī* (social balance) and support the broader aim of *maṣlahah 'āmmah* (public welfare), affirming the relevance of dynamic fiscal reforms within a *sharī'ah*-compliant economic system.

b. Compatibility of Progressive Taxation with Islamic Teachings

A comprehensive review of Islamic economic literature reveals a consistent understanding that progressive taxation, though a modern fiscal mechanism, does not inherently contradict Islamic legal and ethical values. Islam upholds the principle of distributive justice and encourages measures that reduce excessive income inequality, as long as such interventions are applied transparently and equitably. The ethical basis for addressing socio-economic disparities is deeply rooted in Islamic teachings, which view wealth as a trust and its circulation as essential for social harmony (Musgrave, 1994).

While obligatory taxes like *zakāt* are fixed and religiously mandated, they may not comprehensively address all contemporary public needs within a modern state. In such contexts, progressive taxation can be introduced as a supplementary fiscal tool, designed to complement rather than replace Islamic fiscal instruments. It serves as a legitimate response to economic imbalances, particularly when state revenues from traditional sources are insufficient to fund public welfare, infrastructure, and poverty alleviation efforts (Korneev et al., 2021).

Islamic jurisprudence permits the imposition of additional levies under certain conditions especially when public interest (*maṣlahah*) demands it and religiously prescribed sources fall short. These levies must adhere to the principles of justice (*'adl*), avoid undue hardship, and promote the greater good. Historical practices and evolving interpretations support this flexibility, highlighting that Islamic economic thought can integrate contemporary fiscal tools, such as progressive taxation, when they align with the overarching objectives of Islamic law (*maqāṣid al-sharī'ah*) and promote socio-economic balance (*al-tawāzun al-ijtimā'ī*) (Tritton, 1950).

c. Empirical Reflection: Progressive Taxation in Indonesia

Indonesia's implementation of a progressive tax system is, in principle, intended to address economic inequality by placing a higher tax burden on those with greater income.

However, empirical data suggest that the system has not achieved its redistributive potential. Over the past decade, the nation's Gini ratio has consistently fluctuated between 0.38 and 0.40, signaling persistent disparities in wealth distribution (Putra & Qibthiyah, 2019). This trend implies that while the structural framework for redistribution exists, its practical application is hindered by systemic challenges. These include a narrow tax base, widespread tax avoidance particularly among high-income groups and ineffective allocation of tax revenues toward pro-poor development programs (Prawira et al., 2024).

From the standpoint of Islamic economics, this failure represents not only a deficiency in fiscal policy but also a breakdown of ethical responsibility. In Islam, economic justice is not merely a matter of legal instruments but is deeply embedded in the concept of *fard kifāyah* a collective obligation to ensure social welfare and eliminate structural injustice. The lack of effective redistribution mechanisms reflects a moral shortcoming in fulfilling communal duties toward the underprivileged. Islamic economic thought emphasizes the need for *taqwā* (God-consciousness) to guide individual and institutional behavior, ensuring that wealth serves the broader public interest rather than being hoarded or manipulated by elites (Suwardi, 2023).

Thus, addressing inequality in Indonesia through progressive taxation requires more than technical tax reform it demands a paradigmatic shift toward values-based economic governance. Islamic principles advocate for a system where both the state and its citizens internalize ethical accountability, aligning fiscal policy with moral imperatives. This includes greater transparency in revenue use, equity in tax enforcement, and public education on the ethical dimensions of taxation. When viewed through this lens, progressive taxation is not only a fiscal necessity but also an ethical obligation within the framework of *maqāṣid al-sharī'ah*, particularly in protecting wealth (*ḥifẓ al-māl*) and promoting social justice (*'adālah ijtīmā'īyyah*).

2. Discussion

The findings of this research underscore a critical intersection between modern fiscal policy and Islamic economic thought particularly in the context of income redistribution through progressive taxation. While Indonesia's adoption of progressive tax brackets aims to address economic inequality, the implementation remains fragmented and, in many ways, misaligned with both constitutional aspirations and Islamic ethical values.

a. Harmonizing Modern Fiscal Tools with Islamic Economics

Progressive taxation, although rooted in the fiscal philosophy of modern secular capitalist economies, fundamentally aligns with the normative ideals of Islamic economic thought. Islam promotes a socio-economic framework grounded in moral responsibility, where wealth is regarded as a trust (*amānah*) to be safeguarded and hoarding (*kanz*) explicitly discouraged. The ethical imperative to circulate wealth, share surplus resources, and prioritize the community's well-being over individual accumulation forms the cornerstone of Islamic economic justice. Within this paradigm, the application of progressive taxation

emerges not as an alien concept but as a mechanism that resonates deeply with the core Islamic values of justice (*‘adālah*), transparency (*shafāfiyah*), and mutual responsibility (*takāful*).

Contemporary Islamic economic discourse emphasizes the necessity to move beyond literalist interpretations of classical jurisprudence in order to address modern fiscal and structural challenges effectively. When framed within the ethical and legal boundaries of Islamic governance, progressive taxation can serve as a powerful policy tool to reduce socio-economic disparities, especially in contexts where traditional instruments like *zakat* and *ṣadaqah* are insufficient for addressing systemic inequality. Recent studies have highlighted that although *zakat* is foundational, its institutional capacity and redistributive scale often fall short in meeting the complex needs of modern societies (Oktafia et al., 2023). Consequently, integrating progressive taxation within Islamic fiscal policy provides a complementary approach to realizing distributive justice more comprehensively.

Further analysis argues that aligning tax structures with the objectives of *maqāṣid al-sharī‘ah*, particularly the preservation of wealth through equitable means, justifies the adoption of contemporary fiscal instruments, including progressive taxation, as long as they are implemented fairly and serve the public interest (Roslan & Akbar, 2020). Thus, there is no inherent contradiction between Islamic principles and the use of modern fiscal mechanisms; the key lies in ensuring these policies uphold the moral and social goals of the *Shariah* namely poverty alleviation and wealth redistribution.

Within the framework of Islamic governance, normative flexibility exists to legitimize and operationalize taxation policies that promote public welfare, particularly when wealth disparities threaten social stability and cohesion. From this perspective, progressive taxation is not merely permissible but essential in advancing the ethical objectives of Islamic economics in the contemporary era (AbuBakar & AbdulRahman, 2007). This fiscal policy complements voluntary and limited-scope mechanisms like *zakat* and *ṣadaqah*, filling critical gaps in social welfare provision.

Moreover, the implementation of progressive taxation in Islamic economics opens pathways for synergy between moral values and practical economic development demands. Fiscal justice is not merely a normative ideal but must be actualized within effective, responsive systems that address societal needs. This calls for Islamic economic thought to innovate and adapt continually in response to global socio-economic dynamics without compromising its foundational *Shariah* principles.

In conclusion, when applied in accordance with Islamic ethical and legal norms, progressive taxation is far from conflicting with Islamic principles. Rather, it represents a vital extension of Islam’s enduring commitment to justice, equity, and the collective welfare of society. Through such harmonization, Islamic economics can contribute significantly to creating a more just and sustainable fiscal system, reaffirming its relevance and capacity to meet the challenges of the modern world.

b. Critical Gaps in the Indonesian Context

Although Indonesia has officially adopted a progressive tax structure, its practical implementation remains largely ineffective. The country continues to grapple with a low tax-to-GDP ratio, rampant tax evasion particularly among high-income earners and fragile redistribution mechanisms that fail to close the wealth gap (Nainggolan, 2023). These structural weaknesses point not only to administrative inefficiency but also to a deeper dissonance between the normative objectives of taxation and their actual, tangible impact on social equity and welfare.

From the perspective of Islamic economics, this failure is not merely a technical or policy oversight; it reflects a moral deficit a failure to uphold the collective obligation (*fard kifāyah*) of building a just and balanced society. Fiscal justice, in the Islamic worldview, is not a peripheral concern; it is central to the *maqāṣid al-sharī'ah* (higher objectives of Islamic law), which aim to uphold human dignity (*karāmah al-insān*), ensure equitable distribution of resources, and promote *al-tawāzun al-ijtimā'ī* (social harmony and balance).

When progressive taxation fails to mitigate inequality due to weak enforcement and poor institutional governance, it not only undermines economic functionality but also violates the Islamic imperative to protect the public interest (*maṣlaḥah 'āmmah*) and guarantee equitable welfare. This divergence between principle and practice threatens to widen the economic divide and risks fostering *fasād* (social disorder), a condition Islam repeatedly warns against as a disruptor of societal stability and moral cohesion. Economic inequality left unchecked does not merely signal policy failure it signals a breakdown of collective responsibility and the erosion of trust in institutions meant to act as stewards of justice.

Moreover, Islam introduces a profound normative framework in the form of *al-kifāyah al-'āmmah* the obligation of the state to guarantee a minimum standard of well-being for every citizen. This concept extends beyond charity, demanding systemic efforts to redistribute wealth and opportunities in a way that reflects both compassion and justice. Within this framework, wealth is not seen as absolute private property but as a trust (*amānah*) that entails responsibility toward the community. Therefore, both state structures and affluent individuals carry a dual burden: to uphold fairness in wealth accumulation and to actively participate in wealth redistribution.

This condition is particularly troubling when evaluated against the objectives of *maqāṣid al-sharī'ah*, which aim to uphold human dignity, protect property rights, and maintain social balance (*al-tawāzun al-ijtimā'ī*). When progressive taxation fails to mitigate inequality due to poor enforcement and institutional weaknesses, it compromises the Islamic imperative of safeguarding public interest (*maṣlaḥah 'āmmah*) and equitable welfare (Kasri & Ahmed, 2015). Income disparity, if perpetuated, can contribute to *fasād* (social disorder), which Islamic teachings explicitly warn against as a threat to societal harmony and stability.

While *zakat*, *ṣadaqah*, and *waqf* remain central pillars of Islamic social finance, their scope and impact, in many cases, are insufficient to address the complexity and scale of contemporary socioeconomic disparities. In such circumstances, progressive taxation if applied transparently, proportionately, and with ethical safeguards can serve as a legitimate and necessary extension of Islamic fiscal ethics. It is not a substitute for religious obligation but a modern mechanism aligned with the Islamic vision of distributive justice. When guided by *sharī'ah* values, taxation transforms from a mere fiscal instrument into an *'ibādah ijtīmā'iyah* (social worship) a collective expression of solidarity, justice, and moral accountability.

Therefore, bridging the gap between policy and practice in Indonesia's progressive tax regime requires more than technocratic adjustments. It demands a moral reorientation of fiscal governance, where Islamic values are not merely invoked rhetorically but operationalized substantively. This includes fostering a culture of ethical tax compliance, institutional transparency, and public engagement building what Islamic economics envisions as a morally coherent society where economic policy serves not just growth, but dignity, inclusion, and balance.

In sum, Islamic economics calls for a transformative shift from policy-centric governance to value-centric governance, where the effectiveness of fiscal tools such as progressive taxation is evaluated not merely through quantitative indicators but through their alignment with the higher objectives of Islamic law (*maqāṣid al-sharī'ah*). These objectives include preserving wealth without encouraging hoarding, enabling prosperity without engendering oppression, and fostering an economy grounded in justice, equity, and spiritual accountability.

Central to this value-based approach is the Islamic principle of *al-kiḥāyah al-'āmmah* the moral and institutional responsibility of the state to ensure a minimum standard of well-being for all citizens. This principle imposes an ethical obligation not only on governance structures but also on affluent segments of society to contribute fairly and proportionately to public welfare (Farida & Nuzula, 2024). It reflects the collective duty (*fard kifāyah*) to uphold social justice and human dignity across economic strata.

In contexts where traditional religious instruments such as *zakat*, *ṣadaqah*, and *waqf* prove insufficient to meet the complexities of modern socioeconomic challenges, progressive taxation, if applied justly, transparently, and proportionately, emerges as a morally legitimate and functionally necessary tool within the framework of Islamic governance. Far from contradicting religious norms, such taxation serves to complement them, reinforcing the commitment to equity and public interest (*maṣlahah 'āmmah*).

Therefore, a shift toward a morally embedded, Sharī'ah-aligned fiscal reform is not only desirable but essential. It offers a pathway for bridging the widening gap between normative policy objectives and real-world outcomes, particularly in Indonesia's ongoing pursuit of inclusive economic justice. By grounding fiscal policies in Islamic ethical principles, the

state can restore trust, strengthen compliance, and build an economy that not only grows but uplifts.

c. Ethical Imperatives Beyond Legal Instruments

Islamic economics demands more than mere legal compliance; it calls for a higher moral consciousness rooted in the pursuit of justice, compassion, and accountability. At its core, Islamic economic thought is a value-driven system where ethical behavior is not optional but foundational. Economic transactions are not to be separated from spiritual commitments; rather, they are to be seen as manifestations of one's faith and responsibility before God and society.

This moral dimension becomes particularly crucial when evaluating why progressive taxation, despite being institutionally adopted in Indonesia, has yet to achieve its intended redistributive impact. The issue lies not solely in the technical design of tax policy rates, brackets, or enforcement but in a deeper societal disconnect from the ethical imperatives that should underpin such policies. The failure is as much moral as it is managerial: a reflection of how economic behavior, stripped of spiritual and ethical consciousness, becomes merely transactional and devoid of collective purpose.

In classical Islamic thought, as articulated by scholars such as al-Ghazali, the purification of wealth through acts of giving is not a mere fiscal obligation but a spiritual exercise an expression of devotion, solidarity, and acknowledgment of divine ownership over all resources (Costa, 1998). Wealth is seen not as a personal possession to be hoarded but as a trust (*amanah*) to be circulated and used for the benefit of the community. This theological vision profoundly reorients the way individuals relate to taxation and public finance: not as burdens imposed by the state, but as ethical instruments for promoting social equity.

This ethos underscores that economic instruments like taxation must be embedded within a culture of trust (*amanah*), social fraternity (*ukhuwah*), and moral excellence (*ihsān*). Without this internalization of values, progressive taxation risks being reduced to a bureaucratic routine technically sound, yet spiritually hollow. A tax system without moral conviction is akin to a body without a soul: functional perhaps, but lifeless and uninspiring.

Modern Islamic scholarship has further emphasized that successful fiscal governance within a Shari'ah-compliant framework requires more than just regulatory enforcement; it demands a shared moral commitment among citizens (Fidiana, 2020). This includes cultivating ethical tax behavior, combating corruption, enhancing transparency, and fostering a sense of collective responsibility in managing public wealth. When taxation is seen as a means of mutual upliftment rather than state extraction, public trust in institutions grows, and voluntary compliance improves. The zakat model—voluntary, transparent, and socially embedded offers a compelling ethical parallel to what progressive taxation could aspire to be in a modern Islamic context.

Moreover, interdisciplinary studies in Islamic finance suggest that *moral capital* defined as the reservoir of shared ethical values and social trust within a society is just as critical as physical or financial capital in achieving economic justice (Hefner, 2012). Where this moral capital is weak, even the most well-crafted fiscal policies struggle to gain legitimacy. In the context of Indonesia's progressive taxation policy, this lack of moral capital reflects a broader crisis: the misalignment between public institutions and the spiritual-ethical vision envisioned by Islam. Institutions may speak the language of equity, but without ethical legitimacy, their voice remains unheard or distrusted.

In light of this, the path forward requires more than policy reform; it demands a cultural reorientation. The revitalization of moral consciousness within public finance must begin at the level of education, both formal and informal. Fiscal ethics rooted in Islamic values must become part of civic education, Friday sermons, religious discourse, and leadership training. Integrating Islamic values into fiscal education, public dialogue, and institutional practices can breathe new life into progressive taxation, transforming it from a mere fiscal mechanism into a moral instrument of social justice.

As some have argued, the Islamic vision of economic life is not simply about managing scarcity or maximizing utility it is about realizing *maqāṣid al-sharī'ah*, the higher objectives of Islamic law, which include the preservation and equitable distribution of wealth through just and compassionate means (Tourkochoriti, 2019). In this light, taxation becomes a sacred trust and a social covenant—one that binds the individual not only to the state but to the collective moral journey of the *ummah* in its pursuit of justice, dignity, and shared prosperity.

d. The Role of the State in Islamic Fiscal Policy

In the architecture of Islamic economic governance, the state plays a pivotal role as the guarantor of *'adālah* (justice) and custodian of public welfare (*maslahah 'āmmah*). Unlike secular conceptions where the state is often reduced to an administrative manager of fiscal affairs, Islamic economic thought envisions the state as a *moral agent* entrusted by divine command to ensure equity, uphold dignity, and create an environment conducive to human flourishing. Its fiscal authority, therefore, is not merely bureaucratic or technical, but profoundly ethical, embedded within a sacred trust to manage collective resources with justice, compassion, and integrity.

This framework grants the state not just the right but the *responsibility* to formulate and implement fiscal policies aimed at redistributing wealth, curbing inequality, and protecting the socioeconomically vulnerable. Particularly when traditional instruments of social solidarity such as *zakat*, *waqf*, and *ṣadaqah* prove insufficient in addressing the demands of complex, modern economies, the state must step in as a proactive force to uphold the *maqāṣid al-sharī'ah*

Historically, Islamic jurisprudence has provided theological and legal flexibility through the principle of *maṣlahah mursalah*—public interest considerations not directly stipulated in the Qur'an or Sunnah but aligned with Sharī'ah's ultimate objectives. This principle,

developed by scholars like al-Ghazālī, al-Shātibī, and Ibn ‘Āshūr, serves as a foundational justification for the state to impose taxes beyond zakat, as long as such measures are intended to secure the welfare and rights of the *ummah*. Thus, progressive taxation, far from being an innovation foreign to Islam, is better understood as a necessary complement to religious fiscal obligations within a dual-system model that harmonizes the spiritual (zakat) and civil (taxation) responsibilities of wealth distribution (Askari et al., 2014).

This dual system, however, demands a high standard of ethical governance. The state's fiscal interventions must be grounded in *shar‘ī legitimacy*, designed to avoid injustice, exploitation, excessive burden (*taklīf*), or arbitrary seizure of wealth. The moral compass of Islamic governance insists that the state act as a *ra‘īn* (shepherd or steward), whose leadership is judged not only by procedural legality but by the moral perception of the public. A taxation system perceived as extractive, corrupt, or inequitable even if technically lawful risks undermining both compliance and legitimacy.

Transparency, accountability, and public participation are not merely administrative principles; they are spiritual imperatives in Islamic governance. As the Prophet Muhammad (peace be upon him) famously said, “*Each of you is a shepherd, and each of you is responsible for his flock.*” This hadith resonates deeply in the fiscal domain: the state, as the shepherd of wealth and public interest, is accountable not only to its people but ultimately to God.

Contemporary empirical studies further underscore that progressive taxation when aligned with Islamic values can serve as an effective tool to reduce inequality and enhance social cohesion in Muslim-majority contexts. For instance, the implementation of progressive taxes in Indonesia, Malaysia, and other countries shows promising redistributive effects when anchored in proportional burden-sharing and mutual assistance (Kasanah & Ryandono, 2022). However, these successes hinge critically on the degree of public trust in governmental institutions a trust that must be earned through ethical stewardship and participatory fiscal governance (Wahab & Rahim Abdul Rahman, 2011).

To sustain this trust, Islamic governance must cultivate a culture of fiscal inclusion. Citizens must be treated not as passive taxpayers, but as co-stewards of the national economy. Mechanisms for transparency such as open budget initiatives, public audits, and civic consultations should be institutionalized as expressions of *shūrā* (consultation), a core tenet of Islamic political theory. When people feel heard, respected, and assured of the just use of their contributions, tax compliance ceases to be coerced and becomes a voluntary act of faith and citizenship.

Ultimately, the state's role in Islamic fiscal policy transcends revenue collection. It is a moral mission to shape economic life around the ideals of distributive justice (*‘adālah iqtisādiyyah*), mutual responsibility (*takaful*), and public interest (*maṣlahah*). Progressive taxation, when framed and implemented within this value matrix, emerges not only as an administratively sound policy but as a religiously inspired imperative an extension of Islam’s

broader commitment to socioeconomic justice. In an age marked by rising inequality and fiscal disenchantment, reimagining the state's fiscal authority as a moral vocation may be the key to restoring both legitimacy and equity in Islamic economic governance.

E. CONCLUSION

This study reaffirms that Islamic economics is inherently a value-driven system, wherein fiscal policy serves not merely as a mechanism for financial regulation, but as a vital instrument for fulfilling moral and social imperatives grounded in divine revelation. Although progressive taxation originates from modern fiscal frameworks, it demonstrates strong normative and ethical alignment with the principles of Islamic economics when situated within the objectives of *maqāṣid al-sharī'ah*. Far from being incompatible with Islamic teachings, progressive tax mechanisms can operate as effective tools of distributive justice, particularly when traditional religious instruments such as *zakat*, *waqf*, and *infāq* fall short in addressing the structural complexities and enduring inequalities of contemporary socio-economic systems.

The consonance between progressive tax policies and Islamic thought lies in their shared aims: facilitating the circulation of wealth, safeguarding the vulnerable, and ensuring the fulfillment of communal obligations. When rooted in the foundational values of justice (*'adālah*), public interest (*maṣlaḥah*), and social solidarity, progressive taxation can complement religious fiscal mandates, empowering the state to fulfill its role as a steward of equitable development and a guardian of collective welfare.

Indonesia's experience with progressive taxation highlights both the promise and the challenges of such alignment. Despite having a formally progressive tax structure, its practical effectiveness has been hindered by weak enforcement, low compliance among high-income groups, and a disjunction between policy formulation and ethical execution. These shortcomings underscore not only administrative inefficiencies but also a deeper erosion of ethical consciousness and the absence of a shared moral commitment to fiscal justice as both a spiritual duty and a social obligation.

Consequently, advancing fiscal justice requires more than administrative reform it demands a moral and spiritual recalibration of fiscal governance. Islamic ethical values must be re-integrated at every stage of policy development, implementation and oversight. Strengthening the moral foundations of taxation will not only enhance transparency and public trust but also elevate tax compliance to the level of *'ibādah* (worship) and civic responsibility. Through such a holistic and ethically grounded approach, progressive taxation can transcend its technical function and emerge as a genuinely Islamic instrument for fostering an economy that is just, inclusive, and ethically sound.

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