ABSTRACT

This study empirically estimates the effect of tax revenue on income inequality using a panel data covering 131 countries between 2000 and 2018. The study measure tax revenues as the percentage of personal income tax revenue to total government revenue. Employing a fixed-effects model, the baseline results show a negative but statistically insignificant relationship. When the sample is classified into groups of countries according to their income, the results show that higher percentage of personal income tax revenue lowers income inequality in high-income countries but not in middle- and lower-income countries. This might be due to the effectiveness of tax administration and the larger tax bases in high-income countries. The results remain robust to the use of the Instrumental Variable Method. Additionally, the results remain consistent when other measures of tax revenue are used.

Keywords : Income Inequality, Taxation, Personal Income Tax Revenue

JEL classification: D3, H2