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HOW T20 TAXPAYERS' MONEY CAN SUPPORT B40 HOUSEHOLDS: A CONCEPTUAL FISCAL REDISTRIBUTION FRAMEWORK FOR MALAYSIA

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Abstract: *Income inequality, cost-of-living pressures and differences in household financial resilience remain important socioeconomic concerns in Malaysia. This conceptual paper examines how Malaysia's fiscal system can transform tax revenue disproportionately contributed by higher-income (T20) taxpayers into meaningful socioeconomic support for lower-income (B40) households. Applying an integrative literature review of 60 indexed journal articles across five domains (progressive taxation and fiscal redistribution, the costs and limits of progressivity, household vulnerability and targeting, protective and productive redistribution, and tax fairness and institutional trust), used as the evidence base for theory synthesis, the paper situates this literature against Malaysia's operational redistribution infrastructure, including the Central Database Hub (PADU), the Sumbangan Tunai Rahmah (STR) cash-transfer programme and targeted subsidy rationalisation. The synthesis is organised into five interconnected components: progressive tax contribution, government fiscal capacity, redistributive allocation, B40 household outcomes and long-term inclusive development, moderated by targeting efficiency, governance and transparency, and tax fairness and institutional trust. The paper distinguishes protective redistribution, which addresses immediate vulnerability, from productive redistribution, which strengthens education, health, employability, and mobility. The paper derives eight testable propositions to guide future empirical research. The study concludes that redistributive effectiveness should be measured by households' net economic well-being after taxes, transfers, and public services, not by gross assistance alone, and recommends stronger progressive fiscal design, multidimensional targeting, and data governance safeguards for centralised targeting systems.*

Keywords: *B40, progressive taxation, fiscal redistribution, income inequality, tax fairness, tax compliance, Malaysia*

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Introduction

Taxation is one of the most important mechanisms governments use to finance national development, public services, and social protection. Tax revenue supports education, healthcare, public infrastructure, national security, welfare programmes, and broader economic development. Beyond generating government revenue, taxation also shapes how economic resources are distributed. In a progressive taxation system, individuals and households with greater economic capacity contribute proportionately more, while public expenditure can then be directed toward households with greater socioeconomic vulnerability.

The redistributive function of taxation has become increasingly important in economies where economic growth coexists with persistent differences in household income and financial resilience. Malaysia is an important context for examining this relationship because socioeconomic discussions frequently classify households into the Bottom 40 per cent, Middle 40 per cent, and Top 20 per cent of the income distribution, commonly referred to as the B40, M40, and T20. These classifications are relative and change over time as household incomes and the overall income distribution change. These categories are therefore best understood not as fixed social classes but as policy tools for identifying differences in household economic capacity.

B40 households typically have lower disposable income and face greater vulnerability to unemployment, inflation, healthcare expenditure and unexpected household expenses. Because they allocate a greater share of their income to essential consumption, they have less capacity to build emergency savings or invest. Malaysian evidence indicates that differences in socioeconomic characteristics significantly contribute to inequality in household consumption expenditure, demonstrating that income disparities carry direct implications for household welfare (Ayyash & Sek, 2020).

T20 households, by contrast, generally have stronger income-generating capacity and therefore greater ability to contribute through progressive direct taxation. The ability-to-pay principle supports this arrangement, since identical monetary tax burdens do not impose equivalent economic sacrifices across income levels. Progressive taxation therefore allows fiscal contributions to rise with taxable capacity.

The relationship between the T20 and B40 should not, however, be interpreted as a direct transfer of money from individual high-income taxpayers to individual low-income beneficiaries. Tax revenue is consolidated within government fiscal resources and allocated to a broad range of public purposes. A more appropriate conceptualisation is that progressive tax contributions increase government fiscal capacity, which can subsequently finance transfers, public services and development programmes that disproportionately benefit economically vulnerable households. Malaysia's recent shift towards centralised, data-driven targeting under the Central Database Hub (PADU) and the expansion of the Sumbangan Tunai Rahmah (STR) cash-transfer programme demonstrate this fiscal transmission process in practice, and are used later in this paper to ground the conceptual framework in current policy operation.

Research on fiscal redistribution demonstrates the importance of examining taxation and government expenditure simultaneously. A fiscal system may be progressive and poverty-reducing overall, yet still make some poor households worse off when the taxes they pay exceed the benefits they receive. The concept of fiscal impoverishment therefore demonstrates that

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gross government assistance should not be treated as equivalent to net welfare improvement (Higgins & Lustig, 2016).

In Malaysia, government redistribution has helped reduce income inequality over the long term, suggesting that progressive income taxation and transfers to lower-income households can complement economic growth by creating a more inclusive distribution of resources (Goh et al., 2023). Nevertheless, redistributive sustainability depends not only on government revenue but also on taxpayer confidence. Malaysian studies show that perceptions of procedural fairness, justice, and institutional trust shape taxpayers' compliance behaviour (Mohd Faizal et al., 2017; Hayat et al., 2022).

This paper conceptualises redistribution as a fiscal social contract. Higher-income households contribute more based on their ability to pay, the government manages and allocates the resulting revenue, and vulnerable households receive public support to improve economic security and opportunity. Taxpayers are more likely to support this arrangement when the government manages public resources transparently and redistributive programmes deliver credible outcomes.

Against this background, the difficulty this paper addresses is not a shortage of research on taxation or social assistance in Malaysia, but the fragmented way in which the redistributive chain is studied. Four specific problems follow.

First, taxation, public expenditure, targeting and household resilience are frequently analysed as separate research streams. Studies of tax progressivity typically stop at the revenue side and measure redistribution through statutory or effective tax burdens (Chen, 2012; Jalles & Karras, 2024); evaluations of social assistance assess transfers without reference to how they are financed; targeting research concentrates on eligibility errors; and household-finance research on B40 groups examines financial stress, debt and well-being largely without connecting these outcomes to the fiscal instruments that shape them (Mansor et al., 2022). Each stream is internally coherent, yet none explains how a ringgit contributed by a higher-income taxpayer is converted, through allocation and targeting decisions, into a measurable change in the resilience of a lower-income household. Without that integrated view, it is not possible to locate where in the transmission chain redistributive value is created or lost.

Second, gross government assistance is commonly treated as a proxy for household welfare gain. Policy communication and much applied evaluation report allocations, recipient numbers and per-household transfer values, yet B40 households simultaneously bear consumption taxes, user charges and the withdrawal of previously universal subsidies. Fiscal incidence research shows that a tax-and-transfer system can be progressive and poverty-reducing in aggregate while leaving a material share of poor households as net payers once all taxes and benefits are counted (Higgins & Lustig, 2016; Lustig, 2016). Where gross assistance is equated with net benefit, the redistributive effect of programmes such as STR/SARA risks being overstated for precisely the households in whose name they are justified.

Third, income-band classifications alone do not capture multidimensional vulnerability. The B40 label is a relative income threshold, but financial fragility depends also on household size, disability, caregiving obligations, health expenditure, debt exposure, location and housing costs (Alkire & Foster, 2011; Mitra et al., 2017). Malaysian evidence shows that debt-related vulnerability, more than income insufficiency, is the strongest predictor of financial stress

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among B40 households (Mansor et al., 2022), and that medical costs and limited saving capacity, rather than financial knowledge, drive vulnerability among B40 seniors (Al-shaghdari et al., 2025). A household just above the B40 threshold that supports a disabled dependant may be more vulnerable than one just below it that does not; targeting by income band alone will misclassify both.

Fourth, redistribution studies tend to under-integrate taxpayer fairness and institutional trust into the fiscal transmission process. Tax-compliance research has established that perceived fairness and trust shape tax morale and compliance (Alm, 2019; Kirchler et al., 2008), including among Malaysian taxpayers (Mohd Faizal et al., 2017; Hayat et al., 2022), but this literature is seldom connected to the expenditure side, where the credibility of targeting and the visibility of outcomes are formed. Conversely, redistribution studies usually treat the revenue base as given, overlooking that higher-income taxpayers' willingness to sustain progressive contributions is shaped by how well redistribution is seen to work. The fiscal social contract is thus theorised at its two ends but not along its length.

These four problems are interdependent. Analysing the fiscal chain in isolated segments obscures the net-benefit question; a gross-assistance lens conceals targeting errors; income-band targeting weakens programme credibility; and weak credibility erodes the voluntary compliance on which future fiscal capacity depends. This paper therefore addresses them jointly.

To address these problems, this paper develops a conceptual explanation of how tax contributions from higher-income taxpayers can support B40 households through Malaysia's fiscal system, grounded where possible in the country's operational redistribution infrastructure. Specifically, the paper examines the relationship between progressive taxation, government fiscal capacity, redistributive allocation and B40 household outcomes. It considers the importance of targeting efficiency, governance, tax fairness and institutional trust in determining whether redistribution is economically effective and fiscally sustainable. From this synthesis, eight propositions guide future empirical testing.

Literature Review

The review is organised into five strands: progressive taxation and fiscal redistribution; the costs and limits of progressivity; B40 household vulnerability and targeting; protective and productive redistribution; and tax fairness and institutional trust. Each strand reports both contrary and supporting evidence, and the section closes by identifying the gaps the conceptual framework is designed to address.

Progressive Taxation and Fiscal Redistribution

Progressive taxation rests on the principle that individuals with greater economic resources should bear a proportionately larger share of the tax burden. This principle reflects vertical equity, treating taxpayers in different financial circumstances differently according to their capacity to contribute. Progressive taxation may reduce inequality directly by narrowing differences in disposable income, and indirectly by financing programmes that benefit lower-income households. Empirical evidence shows that the redistributive effectiveness of fiscal systems depends not only on statutory tax rates but also on how progressive taxation interacts with transfers (Guillaud et al., 2020), and that greater tax progressivity can gradually reduce income inequality over time (Jalles & Karras, 2024).

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Fiscal redistribution occurs when taxation and government expenditure jointly modify the distribution of market-generated resources, so a complete assessment requires considering both the revenue and expenditure sides of fiscal policy. Because countries differ substantially in how much their fiscal systems redistribute resources, redistributive effectiveness is better assessed through broader social welfare outcomes than through income inequality alone (Coady et al., 2022).

An exclusive focus on tax progressivity can nonetheless present an incomplete picture. A fiscal system may appear progressive at the aggregate level. It may even reduce measured poverty, while some economically vulnerable households become worse off once taxes and compulsory payments are netted against the benefits they receive, a pattern described as fiscal impoverishment (Higgins & Lustig, 2016). The redistributive design of personal income taxation further depends on deductions, exemptions and reliefs. Where these disproportionately benefit higher-income taxpayers, they weaken the redistributive effect even under a formally progressive rate schedule (Riedel & Zinke, 2026). Headline tax rates alone, therefore, do not determine the progressivity of a fiscal system; the design and administration of reliefs and exemptions also shape effective tax burdens.

The evidence on how much redistribution progressive taxation itself achieves is, however, contested. Comparative fiscal incidence studies of middle-income countries find that the size of redistribution varies widely and depends heavily on the scale and progressivity of transfers and of in-kind spending on education and health. At the same time, direct taxes are constrained in several of these economies by narrow bases (Lustig, 2016). Developing economies' capacity to rely on personal income taxation is also limited by employment structure: broad-based income taxes have historically expanded only as wage employment in larger, formal firms has grown (Besley & Persson, 2014; Jensen, 2022). Malaysian evidence is likewise two-sided. Long-run estimates suggest that government redistribution has reduced income inequality and can complement growth (Goh et al., 2023). Yet, an analysis of the Malaysian personal income tax found that bracket design, deductions, inflation, evasion and legal loopholes erode its effective progressivity despite a rising statutory schedule (Chen, 2012). Malaysia's redistributive capacity therefore cannot be read from its rate schedule; it depends on the effective base, the design of reliefs and the expenditure side of the budget.

The Costs and Limits of Progressivity

A framework that treats higher-income contributions as fixed would overstate what progressive taxation can deliver. The public-finance literature identifies four channels through which greater progressivity may impose economic costs or erode the revenue it is intended to raise, and the evidence on each is mixed.

The first channel is behavioural response in labour supply, effort and investment. Higher marginal rates reduce the after-tax return to additional work, entrepreneurship and human-capital investment among top earners. Cross-country OECD evidence associates more progressive personal income taxes with lower long-run output (Arnold et al., 2011), and optimal-tax analysis shows that the revenue-maximising top rate depends critically on how responsive top incomes are to taxation (Piketty et al., 2014). The balance of evidence nevertheless suggests that real labour-supply responses are modest, and that much of the measured response at the top reflects changes in the timing and form of income rather than reductions in work (Saez et al., 2012).

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The second channel is avoidance and evasion. Because high-income taxpayers receive a larger share of their income from business profits, capital and discretionary remuneration, they have greater scope to re-characterise, defer or shift income, and greater access to professional tax planning (Slemrod, 2007). Matching leaked offshore data to administrative records, Alstadsæter et al. (2019) show that evasion rises steeply with wealth and is concentrated at the very top, so that official statistics understate both inequality and the gap between statutory and effective progressivity. Audit-experiment evidence, however, finds that evasion is negligible where income is third-party reported and concentrated in self-reported income (Kleven et al., 2011), implying that the avoidance cost of progressivity is partly a function of administrative design rather than of rates as such.

The third channel is the mobility of capital and of high-income individuals. Evidence from the European football market and Denmark's preferential scheme for high-earning foreigners shows that top earners' location decisions respond to tax rates (Kleven et al., 2013, 2014), and comparable responses have been documented for highly productive inventors (Akcigit et al., 2016). Financial wealth is even more mobile, with a substantial share held in offshore centres beyond the reach of domestic tax authorities (Zucman, 2014). These findings matter for a small, open economy that competes with regional financial centres for skilled labour and investment. The evidence is not uniform, however: administrative data on millionaire migration in the United States show that tax-induced relocation among the rich is real but small, because high earners tend to be embedded in place-specific businesses and social networks (Young et al., 2016).

The fourth channel, which subsumes the first three, is the elasticity of the tax base. The elasticity of taxable income summarises how reported income responds to marginal rates across every margin, real and fiscal. Early estimates were large (Feldstein, 1995). However, subsequent work produced considerably lower central estimates and showed that the elasticity is not a fixed behavioural parameter: it depends on the breadth of the base and on the avoidance opportunities that the tax code itself creates (Gruber & Saez, 2002; Saez et al., 2012). This conclusion is pivotal for the present paper. Where the base is narrow and riddled with reliefs, raising statutory rates on the T20 may yield little additional revenue and invite further avoidance; where the base is broad and well administered, a given degree of progressivity can be sustained at lower efficiency cost.

Against these costs, other evidence suggests that the trade-off between redistribution and growth is weaker than often assumed. Cross-country analysis finds that, except in extreme cases, redistribution has no robust negative effect on growth, whereas lower net inequality is associated with faster and more durable growth (Berg et al., 2018). Progressivity may also raise rather than lower tax morale (Doerrenberg & Peichl, 2013). The literature therefore supports neither an unconstrained case for higher top rates nor a presumption that progressivity is self-defeating. It supports a conditional position: the net redistributive contribution of the T20 depends on effective progressivity, base breadth, administrative capacity and taxpayer legitimacy. The framework developed in this paper incorporates these conditions explicitly rather than assuming that higher-income contributions are invariant to policy.

B40 Household Vulnerability and the Limits of Income-Band Targeting

Household vulnerability extends beyond reported monthly income, as expenditure commitments, savings, household composition, and exposure to economic shocks also shape financial well-being. Lower-income households typically allocate a greater share of available

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income to essential consumption and therefore have less capacity to accumulate emergency savings or investment assets. Differences in socioeconomic characteristics contribute significantly to household consumption inequality in Malaysia, indicating that variations in income and household characteristics translate into different levels of consumption capacity and material well-being (Ayyash & Sek, 2020).

Malaysian household-finance research adds specificity to this picture. Among B40 households, debt-related vulnerability, including reliance on side jobs or overtime to meet living costs, is the strongest predictor of financial stress, which in turn lowers financial well-being (Mansor et al., 2022). Among B40 seniors, medical costs, weak saving habits, and diminishing social support explain financial vulnerability, whereas financial literacy does not, suggesting that vulnerability is largely structural rather than a matter of individual knowledge (Al-shaghdari et al., 2025). The Movement Control Order during the COVID-19 pandemic further revealed how quickly B40 consumption patterns change when income is interrupted (Thinagar et al., 2021).

Vulnerability becomes especially visible during shocks such as illness, unemployment, disability, family emergencies or increases in essential living costs. Higher-income households can often absorb such shocks through savings, investment assets, or access to credit; lower-income households, by contrast, may need to reduce consumption, postpone healthcare, borrow at high cost, or liquidate limited assets, reinforcing existing disadvantages.

International evidence on financial fragility points the same way. A large proportion of households in advanced economies report being unable to raise a modest emergency sum at short notice, and such fragility extends well into the middle of the income distribution (Lusardi et al., 2011); measuring fragility by liquidity rather than income identifies a different, and broader, population of at-risk households (Brunetti et al., 2016). Specific circumstances compound this. Disability imposes substantial additional costs of living, so that a household with a disabled member requires materially more income to achieve the same standard of living as an otherwise similar household (Mitra et al., 2017). An income threshold that ignores such costs will systematically understate need.

These findings expose the limits of income-band classification as a targeting instrument. Multidimensional measurement identifies deprivation across several indicators simultaneously and can rank households quite differently from income alone (Alkire & Foster, 2011). Yet targeting research also cautions against assuming that more elaborate targeting is necessarily better. Proxy-means tests based on observable household characteristics routinely produce large exclusion errors among the poorest (Brown et al., 2018). The accuracy gains from narrow targeting must be weighed against administrative costs, stigma and the political sustainability of programmes perceived as benefiting only a small group (Coady et al., 2004; Hanna & Olken, 2018). The literature thus supports multidimensional targeting in principle while warning that its value depends on data quality, verification and the error profile it produces in practice.
Because of this vulnerability, fiscal policy carries a relatively greater welfare effect for B40 households. Additional income delivered through transfers has a higher marginal welfare value where financial resources are limited, while taxation of essential consumption imposes a disproportionately heavy burden on the same households. B40 wellbeing should therefore be assessed by weighing benefits received against fiscal burdens borne, not either side alone.

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Protective and Productive Redistribution

Redistributive expenditure can be divided conceptually into protective and productive redistribution. Protective redistribution preserves household welfare during economic hardship; cash transfers, food assistance, healthcare subsidies, housing assistance, and emergency support are common instruments that provide immediate liquidity and reduce the likelihood that temporary shocks harden into persistent poverty or high-cost indebtedness (Barrientos, 2012; Bastagli et al., 2019).

Productive redistribution, by contrast, strengthens households' future economic capacity by investing in education, technical training, healthcare, childcare, digital inclusion, employment programmes and entrepreneurship, thereby improving human capital and future income-generating opportunities. The rationale rests on human-capital theory and on evidence that early investments in skills and health yield higher long-run returns than later remediation (Heckman, 2006). The distinction matters because the two mechanisms address different dimensions of vulnerability: protective redistribution responds to immediate need, while productive redistribution addresses the structural determinants of future income.

The empirical literature supports this distinction while showing that it is functional rather than tied to particular instruments. A review of cash-transfer evaluations in low- and middle-income countries finds consistent gains in consumption, school enrolment and use of health services, with more variable effects on learning and longer-run outcomes (Bastagli et al., 2019). Cash transfers can themselves become productive: Mexican beneficiary households invested part of their transfers in productive assets that raised long-term consumption (Gertler et al., 2012), and unconditional transfers in Kenya increased household assets and generated local multiplier effects with little inflation (Haushofer & Shapiro, 2016; Egger et al., 2022). The balance of experimental evidence does not support concerns that transfers discourage work (Banerjee et al., 2017; Baird et al., 2018). The durability of these gains is nevertheless contested: when transfers end, the human-capital improvements they produced often fade (Baird et al., 2019).

Two conclusions follow for the framework. First, protective and productive redistribution should be distinguished by the function they serve, stabilising present consumption as against expanding future earning capacity, rather than by instrument, since the same transfer may serve either function depending on its design, duration and complementary services. Second, protective support appears necessary but insufficient for durable mobility; sustained gains require sequenced or complementary investment in capabilities, consistent with evidence that inequality reduction depends on the structure of transfers as well as on their scale (Guillaud et al., 2020).

Tax Fairness and Institutional Trust

The sustainability of redistribution depends partly on taxpayers' willingness to continue participating in the fiscal system. Although audits, penalties, and enforcement remain important, contemporary tax-compliance research shows that deterrence alone cannot explain taxpayer behaviour: compliance reflects a combination of economic incentives, social norms, behavioural motivations, and institutional conditions (Alm, 2019). This broader perspective matters for progressive taxation because taxpayers' willingness to contribute may depend substantially on whether they perceive the fiscal system as legitimate.

Tax fairness is central to this legitimacy. Taxpayers are more willing to comply when they believe tax burdens are distributed equitably and that individuals in comparable circumstances

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are treated consistently. Evidence indicates that a tax system's progressivity can influence tax morale (Doerrenberg & Peichl, 2013), and that perceptions of fairness also shape tax morale in developing-country contexts (Castañeda, 2024). Cross-country evidence further shows that willingness to pay taxes varies with cultural and institutional characteristics, confirming that compliance cannot be reduced to financial calculation alone (Alm & Torgler, 2006; Torgler & Schneider, 2007).

Trust in government further strengthens this relationship. Higher confidence in institutions is associated with stronger tax morale (Ciziceno & Pizzuto, 2022), and cross-country experimental evidence confirms that trust in authorities and their perceived power significantly influence compliance behaviour (Batrancea et al., 2022). This relationship extends to developing-country settings, where trust in government shapes taxpayers' willingness to pay (Kouamé, 2021).

The Malaysian evidence base directly supports these findings. Perceptions of procedural justice and institutional trust influence tax-compliance behaviour among Malaysian taxpayers (Mohd Faizal et al., 2017), while perceived fairness, tax awareness and enforcement considerations shape compliance intentions in the Malaysian context (Hayat et al., 2022). Evidence from Asian countries similarly indicates that trust and the perceived power of tax authorities influence compliance, suggesting that sustainable revenue mobilisation depends as much on institutional credibility as on administrative capacity (Mas'ud et al., 2019).

The evidence on fairness and trust is not, however, uniformly supportive. The slippery-slope framework distinguishes voluntary compliance, grounded in trust, from enforced compliance, grounded in the power of authorities, and holds that the two can interact, so that heavy reliance on coercion may crowd out cooperation where trust is low (Kirchler et al., 2008; Kogler et al., 2013). Field experiments appealing to the civic value of paying tax have frequently produced weak or null effects (Blumenthal et al., 2001), and reviews conclude that, although tax morale correlates with compliance, evidence that policy can deliberately raise morale is mixed (Luttmer & Singhal, 2014). Survey experiments further show that informing people about inequality heightens their concern but does little to increase support for redistributive policies, partly because of low trust in government's capacity to deliver them (Kuziemko et al., 2015). Two implications follow. Fairness and trust are better treated as conditions built over time through institutional performance than as levers activated by communication alone. Among higher-income taxpayers, the decisive variable may be less abstract fairness than confidence that revenue is converted into results.

These behavioural considerations directly affect redistribution from the T20 to the B40. Higher-income taxpayers may accept greater tax obligations when the government manages revenue responsibly, identifies beneficiaries accurately, and delivers credible outcomes through redistributive programmes; conversely, perceptions of wastage, weak targeting, or inconsistent enforcement can weaken support for progressive taxation. This also implies a fiscal feedback loop: effective, transparent expenditure strengthens perceptions of government competence, which can improve tax morale and voluntary compliance, thereby reinforcing future fiscal capacity.

Synthesis and Research Gaps

Overall, the literature indicates that progressive taxation, its behavioural costs, fiscal redistribution, household vulnerability, tax fairness and institutional trust are interconnected

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rather than independent. Progressive taxation generates resources for redistribution, but redistribution's effectiveness depends on how those resources are allocated and whether they measurably improve household welfare. Meanwhile, the system's overall sustainability depends on taxpayers' perceptions of fairness and government effectiveness. These relationships provide the conceptual foundation for the framework developed in this paper.

Three features of this literature define the present paper's contribution. First, the evidence is segmented: each strand identifies relationships within one link of the fiscal chain, but few studies trace the full path from tax contribution to household resilience and back to taxpayer legitimacy. Second, the evidence is genuinely contested at several links, notably the revenue cost of progressivity, the durability of transfer effects and the malleability of tax morale, so a credible framework must specify the conditions under which each link holds rather than assume it. Third, Malaysian evidence on B40 vulnerability and fiscal incidence is thinner than Malaysian evidence on tax compliance, leaving the household end of the transmission chain comparatively under-theorised. The framework developed below responds to these gaps by integrating the strands, expressing contested links as conditional propositions, and placing net household outcomes at the centre of evaluation.

Methodology

This study adopts a conceptual research design in which an integrative literature review provides the evidence base for theory synthesis. The approach is therefore predominantly an integrative review rather than a narrative or systematic review. It differs from a narrative review in applying an explicit, reproducible search and selection procedure, and from a systematic review in combining diverse theoretical and empirical sources across disciplines and methods to generate a new framework rather than aggregating effect sizes (Torraco, 2005; Whittemore & Knafl, 2005; Snyder, 2019). The review output is then used in a theory-synthesis conceptual design that integrates previously disconnected concepts and findings into a single explanatory framework (Jaakkola, 2020). A conceptual approach is appropriate because the objective is not to estimate a causal relationship from primary data, but to integrate established theoretical and empirical insights, together with Malaysia's current fiscal policy, into a coherent framework that explains how progressive taxation can support lower-income households.

Databases and Search Strategy

The authors searched the Scopus database from 2000 to 2026, with a final update search in August 2026. Google Scholar served as a supplementary source for Malaysia-specific journals not consistently indexed in either database; because Google Scholar returns relevance-ranked results, we screened only the first 5,000 records per query. The core search was restricted to peer-reviewed, English-language journal articles published between 2000 and 2026, a window selected to capture the period following Malaysia's major post-2000 subsidy-rationalisation reforms. Search strings were constructed for each of the five review domains by combining concept terms with outcome or context terms using Boolean operators, and were applied to titles, abstracts and keywords. Table 1 reports the exact Scopus strings and the number of records retrieved from each database.

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Table 1: Database Search Strings and Records Retrieved

Domain	Scopus search string (TITLE-ABS-KEY)	Scopus (n)
D1. Progressive taxation and fiscal redistribution	TITLE-ABS-KEY(("progressive tax*" OR "tax progressivity" OR "fiscal redistribution" OR "fiscal incidence" OR "redistributive effect*") AND (inequality OR poverty OR welfare))	674
D2. Costs and limits of progressivity	TITLE-ABS-KEY(("elasticity of taxable income" OR "top income tax*" OR "tax avoidance" OR "tax evasion" OR "migration of top earners" OR "tax-induced mobility") AND (progressiv* OR "marginal tax rate*"))	112
D3. Household vulnerability and targeting	TITLE-ABS-KEY(("B40" OR "low-income household*" OR "financial vulnerability" OR "financial fragility" OR "multidimensional poverty") AND (Malaysia OR targeting OR "cash transfer*" OR "means test*"))	661
D4. Protective and productive redistribution	TITLE-ABS-KEY(("cash transfer*" OR "social protection" OR "social assistance") AND ("human capital" OR productive OR "labo* supply" OR "long-term" OR "long-run"))	1461
D5. Tax fairness and institutional trust	TITLE-ABS-KEY(("tax morale" OR "tax compliance" OR "tax fairness") AND (trust OR fairness OR "procedural justice" OR legitimacy))	498
Total		3406

Note: All Scopus strings were combined with AND PUBYEAR > 2000 AND PUBYEAR < 2027 AND DOCTYPE(article) AND LANGUAGE(english). Google Scholar queries used the same terms without field tags.
Source: Developed by the Authors

Screening and Selection

Inclusion criteria required that a study be published in an indexed, peer-reviewed journal and address at least one of the five review domains: progressive taxation and fiscal redistribution; the costs and limits of progressivity; household vulnerability and targeting; protective and productive redistribution; or tax fairness and institutional trust. We prioritised studies directly relevant to Malaysia; we retained international evidence only when it established a theoretical or empirical principle transferable to the Malaysian fiscal context. Working papers, non-peer-reviewed commentary, opinion pieces and studies without a clear conceptual or empirical link to the five domains were excluded from the core review, although selected policy-institute and government sources were subsequently incorporated where they provided verifiable, publicly reported operational detail on Malaysia's redistribution infrastructure, discussed later in the proposed policy application to PADU, STR/SARA and subsidy rationalisation.

We exported, merged, and de-duplicated records in the Mendeley reference manager. Screening proceeded in two stages: titles and abstracts were screened against the inclusion criteria, followed by full-text assessment of potentially eligible studies. After removing 120 duplicates, we screened 3,406 records by title and abstract and excluded 3,286. Of the 3,286 full texts assessed, we excluded 3,243, mainly for lacking a link to the fiscal transmission process, having a non-transferable institutional context, or being superseded by a later study by the same authors. This produced 43 studies from the database search. Because several foundational contributions on fiscal incidence, the elasticity of taxable income, tax morale, and human-capital investment predate the 2013 window, we used backward citation tracking of the included

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studies to retrieve seminal journal articles regardless of publication year, adding 17 studies. The final evidence base comprises 60 substantive journal articles: 43 published within the 2013–2026 window and 17 pre-2013 foundational works, supplemented by four methodological sources and three government and policy-institute documents used only in the policy application. Table 2 summarises each domain's contribution.

Table 2: Contribution of Included Studies by Review Domain

Domain	Studies (n)	Malaysian / regional (n)	Pre-2013 foundational (n)	Representative sources
D1. Progressive taxation and fiscal redistribution	10	2	1	Higgins & Lustig (2016). Lustig (2016); Guillaud et al. (2020); Coady et al. (2022); Goh et al. (2023); Chen (2012)
D2. Costs and limits of progressivity	14	0	6	Feldstein (1995); Saez et al. (2012); Piketty et al. (2014); Kleven et al. (2014); Young et al. (2016); Berg et al. (2018)
D3. Household vulnerability and targeting	11	4	3	Alkire & Foster (2011). Mitra et al. (2017); Brown et al. (2018); Ayyash & Sek (2020); Mansor et al. (2022); Al-shaghdari et al. (2025)
D4. Protective and productive redistribution	9	0	3	Heckman (2006); Gertler et al. (2012); Haushofer & Shapiro (2016); Bastagli et al. (2019); Baird et al. (2019); Egger et al. (2022)
D5. Tax fairness and institutional trust	16	3	4	Kirchler et al. (2008). Doerrenberg & Peichl (2013); Mohd Faizal et al. (2017); Alm (2019); Hayat et al. (2022); Castañeda (2024)
Total	60	9	17	

Note: Each study is counted once, under its primary domain. Methodological sources (Torraco, 2005; Whittemore & Knafl, 2005; Snyder, 2019; Jaakkola, 2020) and government and policy-institute documents are excluded from the counts.
Source: Developed by the Authors

Analytical Stages

The conceptual synthesis followed three analytical stages, applied across the five domains. The first stage identified theoretical relationships between taxation, government revenue and household redistribution, drawing particularly on fiscal redistribution theory and the ability-to-pay principle. The second stage examined empirical evidence on the behavioural costs of progressivity, household vulnerability, tax incidence and the consequences of redistributive expenditure. Within each domain, we recorded supporting and contrary findings separately, and formulated links where the evidence conflicted as conditional rather than unconditional relationships. The third stage incorporated behavioural evidence on tax fairness, institutional trust and voluntary compliance. It cross-referenced the resulting theoretical relationships with publicly available documentation of Malaysia's PADU targeting system and STR/SARA transfer programmes to assess where the conceptual framework already appears in current policy design.

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The reviewed literature was synthesised thematically to identify recurring mechanisms linking taxation and household welfare. Rather than a statistical meta-analysis, the analysis focuses on conceptual relationships consistently reported across the literature. These relationships are integrated into the Progressive Fiscal Redistribution and B40 Resilience Framework, presented next, from which eight propositions are derived for future empirical testing.

Conceptual Findings and Discussion

The conceptual synthesis of the reviewed literature indicates that the relationship between taxation paid by higher-income groups and socioeconomic support received by lower-income households operates through a multi-stage fiscal transmission process. The evidence does not support a simplistic interpretation in which money collected from T20 taxpayers is directly transferred to B40 households. Instead, higher-income taxation contributes to a broader pool of fiscal resources, which the government subsequently reallocates through transfers, public services, social protection, and development-oriented expenditure. The findings are organised around five interrelated components: progressive tax contribution, government fiscal capacity, redistributive allocation, B40 household outcomes and long-term inclusive development, together with three cross-cutting conditions: targeting efficiency, governance and transparency, and tax fairness and institutional trust.

Progressive Tax Contribution as the Starting Point of Redistribution

Progressive taxation provides the initial fiscal mechanism through which households with greater economic capacity contribute more substantially to collective revenue mobilisation. The redistributive impact of taxation depends not only on how much revenue is collected but also on how the tax burden is distributed across income groups; a progressive system can reduce disposable-income differences while increasing resources available for public expenditure (Guillaud et al., 2020; Jalles & Karras, 2024).

This is particularly relevant to the T20 group, whose contribution is best understood through the ability-to-pay principle rather than as a punitive mechanism: households with stronger financial resources can bear a larger tax burden without generating the hardship an equivalent burden would impose on lower-income households. However, statutory progressivity alone does not guarantee redistribution, since exemptions, deductions, reliefs, opportunities for avoidance, and compliance differences alter effective tax burdens. Evidence from other jurisdictions shows that tax expenditures can weaken the redistributive impact of a formally progressive income-tax system when deductions and reliefs accrue disproportionately to higher-income taxpayers (Riedel & Zinke, 2026). The redistributive contribution of the T20 group therefore depends on effective, not merely nominal, progressivity, and on the overall design and administration of the tax system. The behavioural evidence reviewed earlier adds a further condition: because the taxable incomes of top earners respond more strongly to marginal rates than those of other groups, through avoidance, timing and, at the margin, mobility (Saez et al., 2012; Kleven et al., 2014), the revenue yielded by higher statutory rates is not proportional to the rate increase. Effective T20 contribution is therefore more likely to rise by broadening the base, rationalising reliefs, and extending third-party reporting than by raising headline rates.

Government Fiscal Capacity as the Transmission Mechanism

Progressive tax collection supports B40 welfare indirectly, by expanding government fiscal capacity. Tax revenue collected from higher-income taxpayers does not, in itself, improve household well-being; the socioeconomic effect depends on how the government converts

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revenue into programmes, services and transfers. Countries with similar tax levels can produce very different distributive outcomes depending on how they allocate collected revenue, so the interaction between taxation and transfers better determines the final redistributive effect than either component alone (Guillaud et al., 2020; Coady et al., 2022).

Within the proposed framework, government fiscal capacity bridges T20 tax contribution and B40 welfare. Higher tax revenue broadens the scope for redistribution. However, fiscal capacity must translate into effective expenditure, competing with infrastructure, administration, debt obligations, security, education, and healthcare, before household outcomes improve. This reinforces the conceptualisation of T20 taxation as contributing to a broad fiscal social contract rather than to a direct transfer mechanism.

Redistributive Allocation as the Core Policy Mechanism

Government fiscal resources translate into benefits for B40 households through at least four broad channels: direct cash transfers, subsidised essential services, social protection, and productive social investment. The combination of these mechanisms matters more than any single intervention considered in isolation.

Direct cash transfers are the most visible form of redistribution, giving households an immediate increase in disposable resources that they can direct towards their own priorities, food, utilities, transportation or short-term debt. However, cash transfers alone are unlikely to generate sustainable improvements in economic mobility, since they may not alter the structural causes of vulnerability. This underlies the distinction between protective redistribution, cash assistance, emergency support, healthcare subsidies, housing assistance and food-related support intended to prevent households from falling into severe hardship, and productive redistribution, comprising education, skills development, healthcare, childcare, employment support, digital inclusion and entrepreneurship programmes intended to strengthen future economic capacity. An effective fiscal system should redistribute both income and opportunity, combining protective support that maintains minimum living standards with productive support that builds a pathway towards financial independence.

Net Fiscal Benefit as the Appropriate Measure of B40 Welfare

B40 household outcomes should be evaluated according to net fiscal benefit rather than gross assistance. Lower-income households may receive government benefits while also bearing substantial indirect tax burdens, so measuring only the assistance received can overstate the true redistributive effect. The concept of fiscal impoverishment is directly relevant here: a fiscal system may reduce aggregate poverty while still leaving some low-income households worse off after taxation, particularly where indirect taxes consume a significant share of disposable resources (Higgins & Lustig, 2016).

A more meaningful measure of household welfare would incorporate cash transfers, subsidised services, and other government benefits, while deducting direct and indirect fiscal burdens, thereby shifting policy focus from how much government spends to how much households actually gain. A household receiving relatively modest cash assistance may still gain substantially if it also enjoys heavily subsidised healthcare, education, and housing support, while a household receiving larger nominal assistance may see much of it offset by consumption taxes, transportation costs, or other charges. This reinforces the importance of fiscal incidence analysis: measure redistributive success by the net change in household resources after the intervention, not by gross expenditure levels.

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B40 Household Outcomes Extend Beyond Income

Evaluate successful redistribution through multidimensional household outcomes rather than income alone. Household resilience depends on consumption capacity, savings, debt, access to healthcare, education, employment and the ability to withstand shocks, in addition to disposable income. Malaysian evidence on household consumption inequality supports this broader interpretation: differences in socioeconomic characteristics contribute significantly to variation in household expenditure patterns, indicating that income is only one dimension of material wellbeing (Ayyash & Sek, 2020).

Relevant outcome dimensions therefore include improvements in disposable resources, the ability to maintain essential consumption, emergency savings, reduced reliance on high-cost debt, healthcare access, educational opportunity, employability, and the capacity to withstand economic shocks. This matters because two households with similar income may face very different levels of vulnerability depending on household size, disability, caregiving responsibilities, geographic location and housing costs, a point developed further below in relation to targeting.

Targeting Efficiency as a Determinant of Redistributive Effectiveness

Greater public expenditure does not necessarily produce proportionately better outcomes if assistance fails to reach households experiencing genuine vulnerability. Targeting errors take two forms: exclusion errors, where vulnerable households are not included in assistance programmes, and inclusion errors, where benefits reach households with comparatively low levels of need. Both reduce redistributive efficiency, and B40 income classification alone is not a sufficient targeting criterion, since factors such as disability, significant healthcare expenses or a large number of dependants can create considerably greater financial pressure than income alone would suggest.

A multidimensional targeting approach that incorporates income alongside household composition, disability, caregiving responsibilities, employment security, health expenditure, housing costs, and geographic differences can strengthen redistributive effectiveness without necessarily increasing public expenditure by reducing leakage and directing resources to households with the greatest marginal need.

Governance and Transparency as Institutional Conditions

Governance and transparency are critical conditions linking fiscal expenditure to household outcomes. Redistribution can fail even when tax revenue is adequate if public resources are poorly administered: governance affects how efficiently programmes are implemented, how beneficiaries are identified, whether expenditure is monitored, and whether funds reach their intended purposes; weak governance can create administrative leakage, duplication, corruption, or ineffective delivery.

Transparency matters because taxpayers need to understand how public revenue is used. Trust in government and perceptions of institutional fairness shape tax morale and compliance (Alm, 2019; Ciziceno & Pizzuto, 2022), so weak transparency can undermine redistributive legitimacy even when programmes are economically justified. Fiscal reporting should therefore move beyond expenditure totals to communicate outcomes achieved, programme effectiveness, beneficiary graduation, employment outcomes and changes in household resilience, as stronger evidence that taxpayer contributions are being converted into public value.

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Tax Fairness and Institutional Trust as Sustainability Factors

Tax fairness and institutional trust shape the sustainability of the entire redistributive system, since voluntary compliance depends partly on whether taxpayers view the tax system as fair and government institutions as trustworthy. Perceived tax fairness is associated with stronger tax morale, while institutional trust increases taxpayers' willingness to comply with fiscal obligations (Doerrenberg & Peichl, 2013; Castañeda, 2024), a pattern corroborated by cross-country evidence on trust and perceived authority in shaping compliance behaviour (Batrancea et al., 2022; Kouamé, 2021).

Malaysian evidence points in the same direction: procedural justice and institutional trust influence tax-compliance behaviour, and perceptions of fairness contribute to compliance intentions among Malaysian taxpayers (Mohd Faizal et al., 2017; Hayat et al., 2022). Redistribution therefore cannot be sustained through enforcement alone. Higher-income taxpayers may be more willing to accept relatively greater fiscal contributions when they believe the system is fair, transparent and effective. At the same time, perceptions of waste, corruption, or poor targeting can weaken voluntary compliance, a point of particular relevance to the T20 group, which bears a relatively greater share of direct tax liabilities and whose continued willingness to contribute depends in part on the credibility of the outcomes of their contributions.

Long-Term Outcome: From Protection to Socioeconomic Mobility

The long-term objective of redistribution should be judged by whether households become more resilient and, where possible, more economically independent, rather than by the permanence of assistance. The proposed pathway begins with protection against immediate hardship; once household stability improves, policy can focus more strongly on capability development through education, healthcare, skills, and employment, thereby improving earnings, savings capacity, and asset accumulation over time.

Redistribution is therefore better understood as a dynamic process than a permanent transfer. Some households will remain long-term recipients because of age, disability, or other structural constraints. However, households with greater labour-market capacity can move from vulnerability toward resilience and, eventually, reduced reliance on public assistance. This also creates a fiscal feedback effect: as lower-income households increase their earnings and participation, some may move into higher-income categories and become taxpayers in their own right, so productive redistribution can broaden the future tax base and strengthen long-term fiscal sustainability.

Integrated Conceptual Result and Testable Propositions

Taken together, the findings support the proposed Progressive Fiscal Redistribution and B40 Resilience Framework (Figure 1). The framework begins with progressive tax contributions from higher-income taxpayers, followed by increased government fiscal capacity and redistributive allocation through transfers, services, and productive investment, which in turn shape B40 household well-being by improving disposable resources, resilience, education, health, and employability. Efficiency, governance quality, transparency, tax fairness, and institutional trust moderate this relationship, jointly determining whether fiscal resources translate effectively into household outcomes and whether taxpayers continue to regard redistribution as legitimate.

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The conceptual results suggest a circular rather than purely linear relationship: progressive taxation strengthens fiscal capacity; effective redistribution improves B40 household outcomes; successful outcomes enhance perceptions of government effectiveness; improved institutional trust strengthens tax morale and compliance; and stronger compliance contributes to future fiscal capacity. The central conceptual result is that T20 taxation's capacity to support B40 households depends not only on the amount collected from higher-income taxpayers but also on the quality of the entire fiscal transmission process, from revenue mobilisation to expenditure design, targeting, governance, household outcomes, and taxpayer legitimacy.

To support future empirical testing, the following propositions are derived from the framework:

P1: Greater effective (not merely statutory) progressivity of the personal income tax system is positively associated with government fiscal capacity available for redistribution.
P2: Government fiscal capacity is positively associated with the scale and scope of redistributive allocation directed towards B40 households.
P3: The combination of protective and productive redistributive instruments produces greater improvement in B40 household resilience than protective instruments alone.
P4: Multidimensional targeting (incorporating household composition, disability and health expenditure alongside income) is associated with lower exclusion and inclusion errors than income-based targeting alone.
P5: The net fiscal benefit to B40 households (transfers and subsidised services less direct and indirect tax burdens) is a stronger predictor of household welfare improvement than gross assistance received.
P6: Governance quality and fiscal transparency positively moderate the relationship between redistributive allocation and B40 household outcomes.
P7: Perceived tax fairness and institutional trust are positively associated with T20 taxpayers' voluntary tax compliance.
P8: Improvement in B40 household resilience and labour-market participation is positively associated with future expansion of the taxpayer base (the redistribution-to-tax-base feedback loop).

Table 3: Summary of Testable Propositions

#	Proposition	Relationship	Framework Component(s) Linked	Suggested Proxies / Variables
P1	Effective (non-statutory) tax progressivity is positively associated with the government's fiscal capacity available for redistribution.	Positive	Progressive tax contribution → Fiscal capacity	Effective average tax rate by income decile; tax-expenditure ratio; revenue-to-GDP trend
P2	Government fiscal capacity is positively associated with the scale and scope of redistributive allocation directed	Positive	Fiscal capacity → Redistributive allocation	Social protection expenditure as % of budget; STR/SARA allocation trend; per-capita transfer value

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	towards B40 households.			
P3	Combining protective and productive redistributive instruments improves B40 household resilience more than protective instruments alone.	Positive (combined > protective-only)	Redistributive allocation → B40 household outcomes	Household resilience index; savings/emergency-fund capacity; comparison across households receiving cash-only vs cash + skills/education support
P4	Multidimensional targeting is associated with lower exclusion and inclusion errors than income-based targeting alone.	Positive	Targeting efficiency (moderator)	Exclusion/inclusion error rates; PADU-referenced eligibility outcomes vs income-band-only benchmark
P5	The net fiscal benefit to B40 households is a stronger predictor of improvements in household welfare than the gross assistance received.	Positive; net > gross	B40 household outcomes	Net fiscal incidence per household; disposable income after direct/indirect tax and transfer netting
P6	Governance quality and fiscal transparency positively moderate the relationship between redistributive allocation and B40 household outcomes.	Positive moderation	Governance and transparency (moderator)	Public expenditure audit findings; leakage/administrative-cost ratio; beneficiary satisfaction/trust surveys
P7	Perceived tax fairness and institutional trust are positively associated with T20 taxpayers' voluntary tax compliance.	Positive	Tax fairness and institutional trust (moderator)	Tax morale scales; compliance intention surveys; self-reported vs audited compliance gap
P8	Improvements in B40 household resilience and labour-market participation are positively associated with the future expansion of the taxpayer base (the redistribution-to-tax-base feedback loop).	Positive	Long-term inclusive development → Progressive tax contribution (loop closure)	B40-to-M40 income mobility rate; new taxpayer registrations from formerly B40 households; labour-force participation rate

Note: Proxies/variables are proposed for future empirical testing and are not drawn from primary data collected for this conceptual paper.
Source: Developed By Authors

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Proposed Application: PADU, STR/SARA and Subsidy Rationalisation

The authors developed the proposed conceptual framework by applying it to Malaysia's current redistribution infrastructure. Three developments are particularly relevant to the framework's components on redistributive allocation, targeting efficiency, and governance and transparency, discussed above.

First, the Central Database Hub (Pangkalan Data Utama, PADU), launched in January 2024, consolidates demographic, income, employment, education, vehicle-ownership and existing-assistance data on more than 30 million individual profiles across over 200 government agencies, and is being used from 2025 as the primary reference for identifying eligible recipients of the targeted RON95 fuel subsidy (Government of Malaysia, 2025). PADU represents a concrete institutional attempt to operationalise the multidimensional targeting that this paper's framework identifies as necessary to reduce exclusion and inclusion errors. At the same time, independent policy analysis has raised governance concerns regarding data security, verification reliability and the risk that manual self-reporting introduces bias and leakage into the database (Ong & Liew, 2024), reinforcing this paper's argument that targeting infrastructure alone does not guarantee redistributive effectiveness without accompanying governance safeguards.

Second, the Sumbangan Tunai Rahmah (STR) cash-transfer programme, together with the complementary Sumbangan Asas Rahmah (SARA) food-assistance credit, exemplifies protective redistribution in operation. Budget 2025 raised the combined STR/SARA allocation to a record RM13 billion, reaching close to nine million recipients, the great majority drawn from B40 and lower-M40 households, with benefit amounts differentiated by household income band and number of dependants (Government of Malaysia, 2024). This differentiation is consistent with the multidimensional targeting logic set out earlier. However, the programme remains predominantly protective, underscoring this paper's earlier argument that a sustainable strategy also requires a parallel, adequately resourced productive-redistribution track.

Third, the government's phased shift from broad, universal fuel subsidies towards targeted subsidy rationalisation reflects the fiscal-capacity mechanism described earlier: resources previously dispersed as untargeted price subsidies (which disproportionately benefit higher-consumption, higher-income households in absolute terms) are being redirected towards the PADU-referenced targeted mechanism and STR/SARA transfers. This reallocation is precisely the kind of expenditure-composition change the literature identifies as more consequential for redistributive outcomes than expenditure levels alone (Guillaud et al., 2020; Coady et al., 2022).

These applications are proposed narratively as evidence that the conceptual framework is already visible in Malaysian policy design, rather than as a fiscal-incidence evaluation of PADU or STR/SARA; such an evaluation would require household-level administrative or survey data and falls outside the scope of a conceptual paper. Nonetheless, the governance and data-security concerns raised about PADU (Ong & Liew, 2024) map directly onto the governance-and-transparency condition this paper's literature review identifies as a determinant of taxpayer trust and, in turn, the sustainability of T20 tax compliance discussed earlier.

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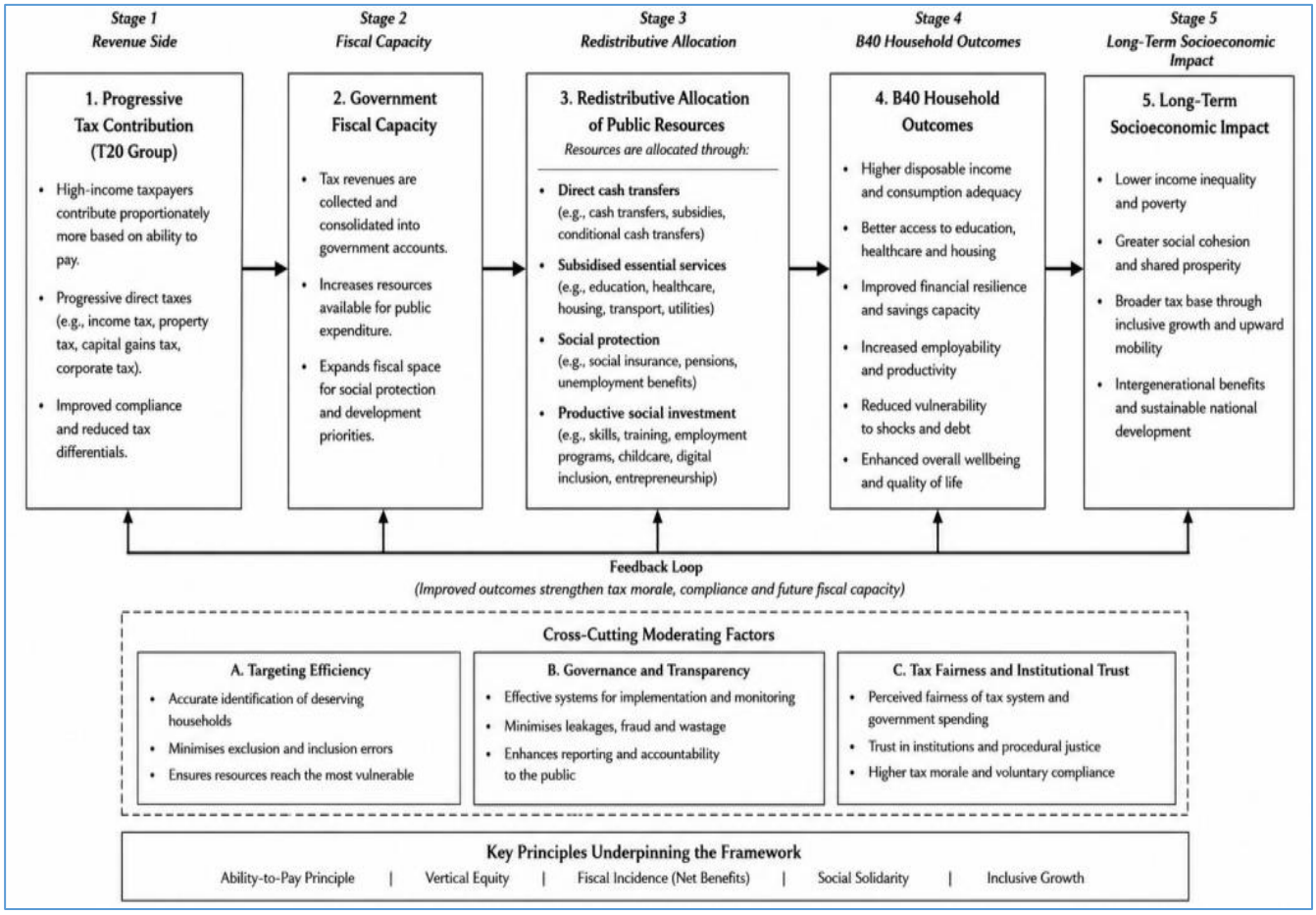


Figure 1: Progressive Fiscal Redistribution and B40 Resilience Framework
Source: Developed by the Authors Based on Conceptual Synthesis

Limitations

This paper is conceptual rather than empirical. The literature synthesis follows a documented integrative review procedure but is not a systematic review: it does not appraise study quality with a formal instrument or pool effect sizes, the Google Scholar supplement is relevance-ranked rather than exhaustive, and the restriction to English-language journal articles may under-represent Malaysian evidence published in Bahasa Melayu or in policy reports. The Progressive Fiscal Redistribution and B40 Resilience Framework and its eight propositions have not been empirically tested with primary taxpayer or household data, and the discussion of PADU, STR and SARA above is applied and descriptive rather than a fiscal-incidence evaluation; it draws on publicly reported programme information rather than administrative microdata, and programme parameters (coverage, allocation and eligibility bands) are subject to change in subsequent budget cycles. Future research testing the propositions set out above against taxpayer and household-level data would substantially strengthen the evidentiary basis of the framework proposed here.

Conclusions

This conceptual paper examines how tax contributions from relatively higher-income taxpayers can support B40 households through Malaysia's fiscal redistribution system. The analysis demonstrates that the relationship is not a simple direct transfer between two socioeconomic groups. Instead, higher-income tax contributions increase government fiscal capacity, which can then be converted into direct transfers, public services, social protection, and productive

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social investment, a transmission process already partly evident in Malaysia's PADU-referenced targeting mechanism and STR/SARA transfer programme.

The conceptual synthesis shows that successful redistribution depends on the entire fiscal transmission process. Progressive taxation must be combined with effective government allocation, accurate targeting and credible governance, and B40 household outcomes should be evaluated from a net fiscal perspective that considers the benefits households receive alongside the taxes and fiscal burdens they bear.

The proposed Progressive Fiscal Redistribution and B40 Resilience Framework identifies progressive tax contribution, government fiscal capacity, redistributive allocation, B40 household outcomes and long-term inclusive development as interconnected components of the redistribution process, moderated by targeting efficiency, governance and transparency, and tax fairness and institutional trust. The study concludes that redistribution should not be designed merely to keep B40 households as long-term recipients of government assistance; a more sustainable objective is to protect economically vulnerable households during periods of hardship while strengthening their education, health, employability, financial resilience, and capacity for upward mobility. When progressive taxation and redistributive expenditure operate within a transparent, trusted institutional environment, they can reduce inequality and broaden economic participation and inclusive national development.

Recommendations

Malaysia should continue strengthening the progressivity and efficiency of its fiscal system while ensuring the tax burden remains consistent with taxpayers' ability to pay. This does not necessarily require continuous increases in marginal income-tax rates; greater revenue can also be achieved through stronger compliance, reduced evasion, improved administrative efficiency and appropriate expansion of the effective tax base, supporting fiscal capacity without imposing excessive burdens on compliant taxpayers. This sequencing aligns with evidence that the revenue cost of progressivity depends more on base breadth and avoidance opportunities than on rates alone (Saez et al., 2012).

Redistributive policy should increasingly be assessed by net household fiscal outcomes rather than by the nominal amount of government assistance. Policymakers should assess the value of transfers and subsidised services received by B40 households alongside the direct and indirect taxes they bear, to better indicate whether fiscal intervention genuinely improves household wellbeing.

Targeting should continue to evolve beyond reliance on household income alone. Income remains an important indicator, but household vulnerability is multidimensional: family size, disability, caregiving responsibilities, employment security, health expenditure, location and housing costs can substantially influence economic wellbeing, and incorporating these factors, as PADU is intended to do, could reduce exclusion errors and ensure assistance reaches households experiencing genuine vulnerability. This expansion of targeting capability should, however, be matched by stronger data-governance safeguards; the concerns already raised about verification reliability and data security in PADU (Ong & Liew, 2024) should be treated as a priority for independent audit and public reporting, not as a peripheral implementation issue, given how directly they bear on taxpayer trust in the redistributive system.

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Government support should balance protective and productive redistribution. Cash transfers and essential subsidies remain necessary for households experiencing immediate hardship. However, a greater share of long-term redistributive expenditure should strengthen education, health, skills development, employment participation, and income-generating capacity, reducing long-term dependency and improving opportunities for upward socioeconomic mobility.

Fiscal transparency should be strengthened further, since taxpayer trust directly supports the sustainability of redistribution. Government agencies could communicate more clearly how they allocate tax revenue and what measurable outcomes B40 programmes achieve, extending reporting beyond expenditure totals and beneficiary numbers to indicators such as employment outcomes, income progression, financial resilience, and movement out of persistent economic vulnerability.

Finally, future empirical research should test the propositions set out above using both taxpayer and household data. Research involving T20 taxpayers could examine the relationships among perceived tax fairness, institutional trust, redistribution effectiveness and tax compliance; studies involving B40 households could investigate how different forms of government support, including PADU-referenced targeted subsidies and STR/SARA transfers specifically, influence household resilience and mobility. Such evidence would enable policymakers to identify which fiscal interventions generate the greatest long-term socioeconomic returns.

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