



A Theoretical Study on the Application of the “Vertical Tax Equity”

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Abstract

This paper focuses on discussing the principle of "Vertical Tax Equity", theoretically and mathematically, by comparing between three rules: absolute sacrifice, proportional sacrifice, and marginal sacrifice. Vertical tax equity is based essentially on two principles: "Ability to pay" and "The amount of sacrifice" or "Loss of welfare" for every taxpayer. The study showed and illustrated how to make a comparison between the three rules above which may contribute to the design of the optimal tax system, and how governments may determine the "fair share" for taxpayers' contributions in its spending. Graphs and mathematical equations were used to illustrate how to find the optimal tax rate based on the loss of the welfare of taxpayers.

Keywords: Vertical Tax Equity, absolute sacrifice, proportional sacrifice, marginal sacrifice