

Regional Autonomy and Tax Law: An Analysis of Local Tax Effectiveness in Promoting Regional Development

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ABSTRACT

In the context of Indonesia's decentralization era, regional autonomy was introduced to empower local governments in managing their own resources and finances. However, despite increased authority, many regions remain heavily dependent on central government transfers, and the contribution of local taxes to regional development is often suboptimal. This scientific research focuses on the effectiveness of tax law policies and regional autonomy in improving regional development. The aim is to understand the definitions of regional autonomy and tax law, followed by an analysis of why the role of regional taxes has not been optimal in financing local development, and how these taxes can be leveraged to better support for development objectives. In this research, the author uses a qualitative method with a descriptive-analytical approach to strengthen data validation. The final results of the research, based on a review of several books and scientific journals, show that regional development problems remain an ongoing challenge for the government in managing public tax revenues. The study emphasizes the importance of strengthening bureaucratic integrity and transparency in tax management; increasing public outreach regarding tax compliance and the use of tax funds; and promoting a regional autonomy system that is adaptive to local culture, customs, and geography. These approach is considered suitable and effective in promoting regional development programs.

Keywords: *Tax, Law, Autonomy, Development, Regional*

INTRODUCTION

At the onset of the reform era, Indonesia introduced decentralization policies through the implementation of regional autonomy, granting local governments the authority to manage and to govern their respective regions. One key aspect of this authority is fiscal autonomy, particularly the ability to administer and collect local taxes. Local tax laws provide the legal foundation for regional governments to implement this authority, defining their rights and

responsibilities in collecting and managing public revenue. These local taxes play a vital role in financing regional development by offering a stable and sustainable source of income. The success of development initiatives at the local level often depends on how effectively taxation is managed and how efficiently revenue is allocated. Therefore, enhancement of the local governments capacity to manage their tax systems is essential to achieve equitable and responsive regional development.

However, several persistent challenges continue to hinder the effectiveness of local taxation in supporting regional development. These include weaknesses in tax administration, significant regional disparities, and inconsistencies between central and local regulatory frameworks. According to displayed data from Regional Revenue and Expenditure Budget (*Anggaran Pendapatan dan Belanja Daerah/APBD*), the contribution of local taxes to overall regional income remains marginal when compared to transfers from the central government (DJPK KEMENKEU, 2025). A study by Simamora et al. (2024) highlights structural issues including low taxpayer compliance, poor budget execution, overlapping regulatory authority, and a complex taxation system that often lacks transparency and accountability. Additionally, the Ministry of Finance has noted that many regions still depend heavily on the General Allocation Fund (*Dana Alokasi Umum/DAU*) and Special Allocation Fund (*Dana Alokasi Khusus/DAK*), reflecting a lack of genuine fiscal independence (DJPK KEMENKEU, 2012).

National data from Statistics Indonesia (BPS, 2024) further confirm that local taxes and levies—despite being part of their Local Own-Source Revenue (*Pendapatan Asli Daerah/PAD*)—contribute a relatively small share to regional income compared to central transfers. This situation points to a fundamental gap between the autonomy granted to local governments and their actual capacity to mobilize local financial resources. The persistence of these challenges is often attributed to limited institutional capacity, inconsistent policy enforcement, and a lack of integration between national

and regional fiscal planning. As long as PAD remains underutilized, local governments will struggle to achieve development goals that are responsive, inclusive, and tailored to the community needs.

Based on a legal standpoint, the framework for local taxation in Indonesia is primarily governed by Law No. 1 of 2022 concerning the Financial Relations between the Central Government and Regional Governments. This law replaced the previous fiscal decentralization framework and aims to strengthen regional fiscal capacity, reduce inequality between regions, and promote better alignment between expenditure responsibilities and revenue sources. It introduces new mechanisms for revenue sharing, fiscal transfers, and incentives for regions to enhance their Local Own-Source Revenue. Despite its progressive intent, the implementation of this law still encounters numerous technical and structural challenges, including inadequate institutional capacity, data integration issues, lack of compliance enforcement, and disparities in tax administration among regions.

The relevance of fiscal decentralization theory, as introduced by Oates (1972) , is particularly pertinent in this context. The theory posits that local governments are better positioned to understand and respond to the preferences of their communities, given their proximity and contextual knowledge. In principle, decentralizing fiscal authority should enable more efficient and responsive allocation of public resources. However, this is only effective when local governments have access to a reliable and broad tax base, along with the administrative capability to collect and manage revenues in an accountable manner. In Indonesia's case, while regional autonomy grants such authority, the uneven capacity across regions—combined with dependence on central transfers—creates a gap between the normative ideals of fiscal decentralization and its practical outcomes. Thus, Law No. 1 of 2022 must be evaluated not only in terms of legal reform, but also on how it strengthens the institutional and operational conditions which is needed to realize the promises of regional autonomy.

Research by Wahyudin et al. (2022) reveals that although the potential for local tax revenue is significant, its collection remains ineffective due to external factors such as disasters and pandemics. The study highlights the need for adaptive planning to optimize the role of local taxes in supporting local development. Other research has shown high effectiveness in local tax collection, yet its growth remains relatively low. This gap points to the importance of strategies focused on improving taxpayer compliance and revenue growth to strengthen the financing of local development (Marka, Nugroho, & Zukhri, 2023). Almayda (2024) notes that tax law enforcement can enhance compliance and local tax revenue. However, weaknesses in law enforcement personnel capacity and public outreach remain significant obstacles to sustained effectiveness. Another study shows that the implementation of regional autonomy is closely tied to the local taxation system and evaluates the effectiveness of local taxes in supporting development. The study identifies barriers that limit the optimal role of local taxes and proposes solutions to enhance their contribution to regional welfare (Tpoi, 2025).

These studies point to a common pattern: while local taxes are increasingly recognized as a critical source of development financing, their effectiveness is consistently undermined by institutional limitations, external disruptions, weak enforcement, and limited public participation. However, most existing literature tends to focus on individual factors in isolation—such as legal enforcement, disaster response, or compliance rates—without offering a comprehensive analysis that links taxation policy, regional autonomy, and developmental outcomes within a single analytical framework. This research addresses this gap by offering an integrative review of how local tax policy, within the legal and institutional framework of regional autonomy, can be strategically improved to enhance local development outcomes in a more sustainable and context-sensitive manner.

Most prior research emphasizes external factors (such as pandemics

and disasters), taxpayer compliance, and legal or institutional enforcement as the main barriers to local tax effectiveness. However, few studies holistically connect the conceptual understanding of regional autonomy and tax law with practical strategies for integrating local fiscal instruments into broader local development agendas. One reason for this gap is that many existing studies tend to treat taxation and governance as separate policy domains, focusing either on administrative performance or regulatory compliance without addressing how these elements intersect within the framework of fiscal decentralization. Additionally, much of the academic discourse in Indonesia remains centered on normative legal frameworks and quantitative assessments of revenue performance, with limited exploration of the institutional dynamics and stakeholder interactions that influence local tax outcomes in real-world contexts.

Furthermore, there is a notable absence of research exploring how the synergy between local tax officers, the quality of regional tax regulations, and community participation can collectively enhance the role of local taxes as instruments for sustainable development. These relational and systemic aspects are often overlooked, despite their potential to improve both policy design and implementation outcomes. Given this research gap, this study addresses the following question: To what extent can the effectiveness of local tax policies—when viewed through the legal and institutional lens of regional autonomy—be enhanced to support inclusive and responsive regional development?. The novelty of this research lies in its integrative approach, which synthesizes legal, institutional, and community-based perspectives to examine how local tax systems can be restructured not merely as revenue mechanisms, but as strategic components of regional development policy. By grounding the analysis in the framework of regional autonomy, this study contributes a multidimensional understanding of local taxation that goes beyond technical administration into the realm of governance innovation.

This article is particularly relevant amid the ongoing evolution of

regional autonomy in Indonesia, especially as the effectiveness of local taxes—as a primary mechanism for financial development—continues to fall short of their full potential. In the pursuit of inclusive and sustainable regional development, there is a growing need to reconceptualize local taxes not merely as revenue tools, but as strategic fiscal instruments that reflect local needs, capacities, and governance dynamics. In response to this challenge, this article seeks to analyze the effectiveness of local tax policies in promoting regional development by examining three key dimensions: the legal framework underpinning local taxation, the institutional capacity of local governments to implement these policies, and the role of public participation in strengthening tax compliance and accountability. Through this discussion, the article aims to offer a more integrated perspective on how local taxation can be optimized within the framework of regional autonomy.

RESEARCH METHOD

This article adopts a qualitative research methodology using a descriptive-analytical approach, which is considered suitable for examining complex legal and policy frameworks without requiring fieldwork. The qualitative method allows for in-depth exploration of the relationship between regional autonomy and the effectiveness of local taxes in promoting regional development. This approach is particularly beneficial when dealing with normative frameworks, institutional dynamics, and the interpretation of policies, where subjective understanding and contextual analysis are essential (Purwanto, 2022).

The descriptive-analytical approach in this study involves a combination of content analysis and policy evaluation frameworks. Content analysis is used to interpret key themes, narratives, and regulatory elements within academic literature and government policy documents. Meanwhile, the policy evaluation lens enables the author to assess how legal and fiscal instruments—specifically local tax laws—align with the goals of regional

autonomy and public service delivery.

Data for this research are obtained from a comprehensive review of secondary sources, including:

1. Academic literature on regional autonomy, tax law, and fiscal decentralization (both national and international peer-reviewed journals);
2. Legislative and regulatory documents, such as Law No. 1 of 2022 on the Financial Relationship between the Central and Regional Governments, Law No. 28 of 2009 on Regional Taxes and Levies, and related ministerial regulations;
3. Policy reports and statistical publications from official institutions such as the Ministry of Finance (DJP), Statistics Indonesia (BPS), and the Supreme Audit Agency (BPK);
4. Media analysis, particularly from reputable news outlets, to capture recent developments, expert commentary, and public discourse related to local tax performance and reform efforts.

These sources are accessed through academic databases, government portals, and archival research. The collected data are analyzed thematically by categorizing findings into key dimensions: legal structure, institutional capacity, tax compliance, and fiscal autonomy. This thematic framework is then used to assess how local taxes function as a development instrument under the current decentralization regime.

RESULT AND DISCUSSION

Regional Autonomy

Historically, during the New Order period, Indonesia adopted a developmentalist approach with a centralized model of governance centered in Jakarta. However, following the Reform Era, regional autonomy was introduced, granting local governments the authority to manage their own affairs through decentralization. This shift enabled regions to make decisions more swiftly and efficiently, as they possessed better knowledge of their local

needs and resources. Regional communities also experienced a greater sense of equity, as they could directly benefit from the utilization of their own natural and economic resources, thereby fostering greater regional independence.

Although Indonesia is a unitary state, the central government has delegated certain authorities to local governments under the framework of regional autonomy to ensure equitable development across all regions. Nevertheless, local governments remain subject to national regulations. The government acts as a bridge between the people's aspirations and national policies, and must also adapt to global changes (Guntoro, 2021). Regional autonomy further supports the development of regions according to their specific capabilities, enabling the provision of better public services. Local governments can determine the most effective ways to improve the welfare of their communities. The primary objectives of regional autonomy include: 1) enabling local governments to provide improved services to the public, 2) encouraging citizen participation in decision-making processes, 3) promoting honesty, transparency, and accountability among local governments, and 4) advancing regional economies to enhance community welfare.

Through regional autonomy, local governments can manage their natural resources independently, create employment opportunities, facilitate business development, build public infrastructure such as roads, schools, and hospitals, and support the implementation of national economic policies. From a cultural and social perspective, regional autonomy plays a vital role in preserving local traditions, fostering social harmony, promoting respect for human rights, and upholding shared legal norms. From the perspective of regional development, autonomy encourages sustainable and self-reliant growth, characterized by collaboration among local stakeholders. Local governments are equipped with the tools and training needed to better understand and manage their human and natural resources, and they receive support in attracting investors to establish and grow local enterprises.

There are also philosophical justifications for decentralization within the Unitary State of the Republic of Indonesia (NKRI), including: 1) Indonesia is a state governed by law, where authority can be distributed—autonomy being one form of power delegation; 2) Indonesia is a democratic nation, where citizen involvement is essential; 3) Indonesia is a pluralistic society, in which regional autonomy reflects an acknowledgment of this diversity; 4) Indonesia is a welfare state, where regional autonomy helps improve public welfare by enabling better utilization of local human and natural resources (Guntoro, 2021).

Tax Law

According to Sutedi (2022), from an economic perspective, taxes are seen as a means of transferring a portion of money or resources from individuals or private entities to the state or government. The economic impact of taxation is that individuals have less disposable income to spend on goods or services; however, the state gains financial capacity to provide public services such as roads, schools, hospitals, and others. As cited by Sutedi (2022), Soemitro defines taxes as a citizen's obligation as determined by law. The government has the authority to compel citizens to pay taxes, and the funds must be used for state purposes, not arbitrarily. Because taxes are legally mandated, there is legal certainty regarding who must pay, how much must be paid, and the intended use of the tax revenue— all of which are defined by law.

The essential elements of taxation include 1) a mandatory levy whereby a portion of an individual's wealth or income is transferred to the state; 2) taxes are collected based on legislation—laws created by the government that are general; in the absence of a legal basis, tax collection would constitute a violation of individual rights; 3) taxes are enforceable by law; 4) taxpayers do not receive direct or proportional compensation from the government; 5) taxes are used to finance public expenditures, such as

infrastructure development, healthcare, and other public facilities that benefit the populace.

In his book, Sutedi (2022) describes tax law as "the entirety of regulations governing the government's authority to take a portion of a person's wealth and redistribute it to the public through the state treasury. Tax law, therefore, constitutes public law that governs the relationship between the state and individuals or legal entities obligated to pay taxes." Tax law is divided into material tax law, which contains provisions concerning who is subject to taxation, who is exempt, and the amount of tax to be paid, and formal tax law, which governs how material tax law is implemented in practice.

Tax law is categorized as a branch of public law because it deals with the state's authority to regulate and collect taxes from its citizens. More specifically, it falls under fiscal law, which encompasses all legal rules concerning the state's right to extract a portion of an individual's or entity's wealth and reallocate it to the public through state expenditures. Accordingly, tax law occupies a position within the public law framework of the national legal system, as it regulates a vertical legal relationship between the state as the authority and individuals or entities as taxpayers who have obligations under tax legislation. Moreover, tax law plays a crucial role in clarifying both technical and substantive aspects of tax obligations. These include rules regarding who qualifies as a taxpayer, their obligations to the state, the types of taxable objects, and the procedures for tax collection. Tax law also outlines the legal avenues available to taxpayers who wish to file objections or appeals against tax assessments, including both administrative and judicial remedies.

Material tax law is a branch of tax law that specifically sets forth legal provisions and norms explaining the key aspects of taxation. It identifies conditions, actions, or legal events that, under statutory regulations, are subject to taxation. It also determines the categories of tax subjects—individuals or legal entities that are obligated to pay taxes to the state.

Additionally, material tax law regulates the amount of tax due, how tax liabilities arise, how the amounts are calculated, and when and how those liabilities are discharged. In general, material tax law governs the legal relationship between the state as the tax-collecting authority and the taxpayer as the obligated party. In Indonesia, legislation within the scope of material tax law includes the following:

- Law No. 7 of 1983 on Income Tax, regulating taxes on income received or earned by taxpayers;
- Law No. 8 of 1983 on Value-Added Tax on Goods and Services and Sales Tax on Luxury Goods, governing consumption-based taxes;
- Law No. 12 of 1985 on Land and Building Tax, concerning taxes on the ownership or utilization of land and buildings;
- Law No. 13 of 1985 on Stamp Duty, which applies to certain documents with legal or economic value.

Formal tax law refers to the segment of tax law that governs the procedures for implementing material tax law. It covers administrative processes such as taxpayer registration (e.g., obtaining a Taxpayer Identification Number/NPWP), bookkeeping, audits, collections, investigations, as well as the rights and obligations of taxpayers. Formal tax law also regulates penalties for non-compliance with tax obligations. Key pieces of legislation within this domain include:

- Law No. 6 of 1983 on General Provisions and Tax Procedures, which has undergone several amendments, most recently through Law No. 16 of 2009;
- Law No. 19 of 1997 on Tax Collection by Distress Warrant, subsequently amended by Law No. 19 of 2000 (Sutedi, 2022).

Tax Law And Civil Law

Tax law has a close relationship with civil law because many of the legal bases for tax imposition originate from events, conditions, or actions regulated under civil law, such as death, birth, ownership of property, sales and purchases, and lease agreements. This connection arises not only from the similarity of legal objects but also because of the legal principle of *lex specialis derogat legi generali*, whereby specific provisions in tax law may override the more general provisions of civil law. This was affirmed by Prof. W.F. Prins, who stated that many terms used in tax law are derived from civil law, although their meanings and applications may not always be the same.

For example, the concept of domicile appears in both the Indonesian Civil Code (KUH Perdata) and tax legislation; however, in practice, the definition of domicile in tax law follows specific provisions, such as those stipulated in Article 2 of Law No. 7 of 1983 on Income Tax (PPh). Another example is the employer's right to withhold tax from an employee's salary. While under the Civil Code (Burgerlijk Wetboek/BW), an employer is obligated to pay the employee's full salary, tax law grants employers the authority to withhold taxes prior to salary disbursement. This illustrates that in the practice of taxation, the provisions of tax law as *lex specialis* take precedence over those found in civil law (Sutedi, 2022).

Tax Law and Criminal Law

Criminal sanctions are not only regulated in the Indonesian Penal Code (KUHP) but are also dispersed across various laws outside the KUHP, such as the Anti-Corruption Law, Taxation Law, and others. This is due to rapid social changes, the complexity of modern life, and the increasing need for stronger oversight within administrative law through the use of criminal sanctions. Although these offenses are regulated outside the KUHP, they remain linked to the general provisions of the Penal Code, as stipulated in Article 103, which

states that the provisions of Book I of the KUHP shall apply unless specifically regulated otherwise in special laws.

In the context of tax law, several violations associated with general criminal acts, such as disclosure of confidential information, document forgery, bribery, and gratification, are regulated under specific provisions. For example, Article 41 of the Law on General Provisions and Tax Procedures (UU KUP) stipulates sanctions for tax officials who disclose confidential information; Article 39 of the same law addresses document forgery that causes financial losses to the state; and Articles 12B and 12C of the Anti-Corruption Law regulate the prohibition and mandatory reporting of gratification. Gratification is considered a form of bribery when related to official duties, and if it is not reported to the Corruption Eradication Commission (KPK) within 30 days, the recipient may be subject to strict criminal penalties, including a reversal of the burden of proof in court. This underscores the importance of integrity and transparency in the performance of duties by civil servants and state officials (Sutedi, 2022).

Principle or Basis of Tax Collection

1. Source Principle

A country imposes taxes on income originating from sources within its territory, regardless of the taxpayer's domicile or nationality. For example, a foreign worker employed in Indonesia is still subject to tax on the income earned in Indonesia.

2. Domicile Principle

A country imposes taxes on individuals or entities domiciled within its territory on their total income, both domestic and foreign (worldwide income). For instance, a Japanese resident is required to pay taxes on income earned anywhere in the world.

3. Nationality Principle

Taxes are imposed based on citizenship status, regardless of where the income is earned. Like the domicile principle, it covers worldwide income, but the distinction lies in the basis—domicile refers to place of residence, while nationality refers to citizenship.

4. Legal Principle

Taxes must be levied based on statutory law (Article 23 of the 1945 Constitution of Indonesia). This ensures justice for both the state and its citizens and prevents abuse of power. Taxpayers also have legal rights, such as the ability to file objections and appeals.

5. Economic Principle

Tax collection should not hinder economic activities, production, or the welfare of the people. Taxes should support economic growth, rather than become a burden.

6. Financial Principle

The cost of tax collection must be lower than the revenue it generates. Collection should also be timely to ensure efficiency and minimize the burden on taxpayers. If a tax is to be abolished, the financial condition of the state must be considered first (Sutedi, 2022).

Relation Between Regional Autonomy and Tax Law

Regional autonomy and tax law are closely interrelated, particularly following the reform era and the implementation of fiscal decentralization policies in Indonesia. Regional autonomy refers to the rights and responsibilities of regional governments to manage their administrative affairs and the interests of their communities under statutory regulations. In the context of taxation, this autonomy grants regional governments the authority to manage their own sources of local revenue (*Pendapatan Asli Daerah/PAD*), one of which is through the collection of regional taxes. Regional

governments have the right to formulate tax policies through regional regulations (Perda), which serve as the legal basis for tax collection within their respective jurisdictions (Ismawati & Kadarsih, 2023).

Over time, the principle of regional autonomy has encouraged regulatory changes in the field of taxation, such as the transition from Law No. 34 of 2000 to Law No. 28 of 2009 on Regional Taxes and Regional Levies. These changes aim to broaden regional authority in managing taxes and levies, thereby enhancing regional fiscal independence. Consequently, the role of regional governments in development becomes stronger and is aligned with the principles of democracy, justice, equity, and accountability (Suryanti, Nida, & Furqon, 2024).

Although regions possess tax authority, the relationship between regional autonomy and tax law remains dynamic within the framework of a unitary state. This indicates that the central government still plays a role in setting boundaries, conducting oversight, and ensuring policy harmonization so that regional tax regulations do not conflict with national interests. For instance, although tax rates are determined through Perda, they must still comply with central government provisions, especially following the enactment of Law No. 11 of 2020 on Job Creation. Furthermore, if a Perda is found to contradict national regulations, it may be subject to judicial review by the Supreme Court or executive review by the Ministry of Home Affairs (Fauziyah, 2020).

Logically, regional autonomy aims to enable regional governments to finance governmental functions within their authority. This autonomy is also expected to foster public participation and strengthen democracy at the local level. However, the success of regional autonomy greatly depends on the extent to which regional governments can explore and manage their tax potential as a primary source of PAD, which will ultimately affect local development and community welfare (Ismawati & Kadarsih, 2023). Overall,

the relationship between regional autonomy and tax law is mutually reinforcing. Autonomy provides the legal foundation for regions to manage their own tax systems, while tax law serves as a practical tool for implementing fiscal autonomy. Nonetheless, fiscal autonomy is carried out within the framework of a unitary state, under central supervision, to ensure the coherence and sustainability of the national tax system.

Regional tax refers to taxes imposed by regional governments through the enactment of regional regulations (Perda), whereby regional authorities have full authority to collect such taxes. This collection is part of the region's efforts to generate its own revenue (PAD). The entire revenue generated from regional taxes is utilized to fund various regional government expenditures, particularly in fulfilling governmental functions and supporting development and public services within the region (Widodo, Widodo, & Prihadyatama, 2024).

The Role of Regional Taxes Has Yet to be Optimally Realized in Funding Local Development

Infrastructure development based on standardized planning is a key factor in boosting local economic growth and enhancing community welfare at the regional level. Adequate infrastructure and facilities can strengthen regional connectivity and distribution with other areas, support the mobility of goods and services, reduce unemployment, attract investment, and create new jobs (Simamora et al., 2024). Therefore, the importance of localized development in certain regions to meet the needs of the local community must be well-organized and planned by local governments, accompanied by public awareness and participation.

In reality, over the past several years, many regions still have not experienced comprehensive infrastructure development across various sectors at the local level. Several factors contribute to the stagnation of local

development due to the suboptimal performance of regional tax revenue including:

1. **Low Tax Compliance:** Many people lack full understanding of how their tax payments impact government services (Simamora et al., 2024). A negative perception persists that taxes are used solely for personal interests, which leads to tax non-compliance. Additionally, there is a lack of awareness about the direct benefits of taxes in improving access to public services and developing public infrastructure.
2. **Inefficient Budget Management:** Ineffective budget management can hinder local development and lead to suboptimal outcomes, such as project delays, budget waste due to misallocation, and lack of transparency, which in turn causes local communities to be unaware of how their taxes are actually used.
3. **Complex Tax System:** A complicated and opaque tax system discourages tax compliance. Bureaucratic procedures that are overly complex make both individuals and businesses reluctant to pay taxes (Salanié, 2011). Time inefficiency often becomes a major obstacle in the tax payment process, causing frustration. When administrative services are too burdensome, many opt not to pay taxes again in the following year.
4. **Corruption and Misuse of Funds:** Acts of corruption and abuse of authority by certain officials can severely obstruct local development (Smoke, 2015). The impact is evident when essential infrastructure and facilities needed by the public cannot be delivered effectively. This affects the economy and disrupts community mobility. Therefore, integrity is fundamental in public service, especially in underdeveloped regions where governance still faces various challenges. Tax funds that should be allocated for the benefit of the people are instead misappropriated due to irresponsible officials engaging in corrupt practices.

Local Taxes Encourage Local Development

Since the implementation of the regional autonomy policy through Law No. 22 of 1999, which was later refined by Law No. 23 of 2014, local governments have gained broader authority to regulate and manage the interests of their respective communities. This decentralization aims to accelerate development at the local level through policy-making that is more responsive to the unique conditions, potentials, and needs of each region. Local development has become a strategic instrument in realizing the goals of autonomy, namely promoting equitable development, enhancing public welfare, and strengthening public participation in the planning and implementation of development programs. By leveraging local strengths, regional governments are expected to address specific issues and sustainably improve the region's social, economic, and institutional capacities (Republik Indonesia, 2014).

Within the framework of fiscal autonomy, regions are required to increase their financial independence through the optimization of Regional Own-Source Revenue (Mardiasmo, 2016). One of the main sources of PAD with significant contributions is local taxation. Local taxes, including motor vehicle tax, hotel and restaurant tax, advertisement tax, and rural and urban land and building tax (PBB-P2), serve as vital instruments in financing regional development. The effectiveness and efficiency of local tax collection reflect a region's fiscal capability in managing its finances independently. Additionally, regions also receive funding from central government transfers, such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH), which are intended to support fiscal capacity equalization among regions and the implementation of national priority programs at the local level (Mardiasmo, 2016).

Besides PAD and central government transfers, local governments may also utilize other financing sources, such as regional revenues, returns from

separated regional assets, regional loans, public-private partnerships (PPP), and other lawful revenues (Kementrian Dalam Negeri, 2022). Proper diversification and management of these funding sources are key to the success of sustainable and competitive development. Therefore, within the context of regional autonomy, the strategic role of local taxes as a principal component in local development financing must be continuously strengthened through adaptive fiscal policies, efficient tax administration systems, and transparent and accountable oversight mechanisms (Prasetyo, 2020). These efforts will not only enhance regional fiscal capacity but also drive local economic growth and improve the quality of public services (Suparmoko, 2019).

In a governance system that adheres to the principle of fiscal decentralization, one crucial factor determining the success of regional autonomy is the ability of regions to manage lawful revenue sources, particularly PAD (Bappenas, 2021). Among the PAD components, local taxes play a central role as a regular and independently expandable revenue source. Conceptually, local tax can be defined as a mandatory contribution paid by individuals or entities to the regional government under the law, without direct compensation, and used to finance regional administration and development for the greatest possible benefit of the local population (Mardiasmo, 2016).

Regency/municipal taxes are administered by the regency or municipal governments, with a local collection scope directly related to regional economic activities. Types of regency/municipal taxes include:

- Rural and Urban Land and Building Tax (PBB-P2): Levied on the ownership or utilization of land and buildings.
- Acquisition Duty of Right on Land and Buildings (BPHTB): Imposed on the acquisition of rights to land and/or buildings.
- Hotel Tax: Charged for accommodation services provided by hotels.

- Restaurant Tax: Levied on food and beverage services provided by restaurants.
- Entertainment Tax: Applied to organizing entertainment activities such as performances, concerts, or cinemas.
- Advertisement Tax: Charged for the display of advertisements in the form of billboards, banners, or other media.
- Street Lighting Tax: Applied to electricity usage, whether supplied by the state utility company (PLN) or other providers.
- Parking Tax: Levied on the operation of parking facilities outside public roads by private or public operators.

Legally, local tax collection is firmly grounded in law. Its constitutional foundation is found in Article 23A of the 1945 Constitution of the Republic of Indonesia, which states that “taxes and other compulsory levies for state purposes shall be regulated by law.” This mandate is implemented through various laws and regulations, including Law No. 1 of 2022, which currently serves as the main legal reference for managing regional taxes and levies. Additionally, technical implementation is further regulated through Government Regulations, Minister of Finance Regulations, and Regional Regulations (Perda), allowing regional governments flexibility in determining tax rates, collection mechanisms, and oversight processes.

Local development can be defined as a series of systematic and sustainable efforts undertaken by local governments, in collaboration with communities and other stakeholders, to improve the quality of life, social welfare, and economic growth at the local level. This development encompasses not only economic dimensions but also integrated social, environmental, and institutional aspects. Within the context of regional autonomy, local development represents a tangible manifestation of a region’s responsibility to manage resources, formulate policies, and deliver public

services tailored to the unique characteristics and needs of its population. The goal is to empower local potential, reduce regional disparities, and achieve regional self-reliance both economically and institutionally (Kementerian Dalam Negeri, 2022).

To assess the success of local development, various indicators are used to reflect its broad dimensions. Generally, these include economic indicators such as Gross Regional Domestic Product (GRDP) per capita, regional economic growth, local investment levels, and the availability of economic infrastructure. Social indicators include life expectancy, education levels, poverty rates, unemployment rates, and the Human Development Index (HDI). Environmental indicators encompass air and water quality, waste management, green open spaces, and natural resource conservation efforts. Furthermore, governance indicators—such as transparency, accountability, and public participation—are also crucial in evaluating whether local development is equitable and sustainable.

Although local taxes are a critical funding source for development and fiscal independence, their administration faces various structural and administrative challenges. A key issue is the low level of taxpayer compliance, both among individuals and businesses. Many taxpayers lack awareness about the importance of taxes, particularly in areas with low fiscal literacy. This issue is compounded by weak enforcement and oversight of tax obligations at the local level. Non-compliance is also frequently driven by complex administrative procedures, insufficient public outreach, and a lack of incentives for voluntary tax compliance.

Moreover, the varying fiscal capacities among regions present a challenge in achieving equitable development (Suparmoko, 2019). Regions with strong economic potential, such as large cities, tend to have better fiscal capabilities than remote or underdeveloped areas. This disparity leads to unequal public services and infrastructure development. Limited fiscal

capacity also hinders regions from developing efficient taxation systems, particularly in terms of information technology, human resources, and tax administration institutions. This results in high dependency on central government transfers, thereby undermining the ideal of fiscal autonomy within the decentralization framework (Suparmoko, 2019).

A tangible impact of optimizing local taxes is the improvement of infrastructure quality. For example, village roads that were previously damaged or inadequate can now be repaired using local tax revenues, facilitating mobility, enhancing the flow of goods and services, and opening access to markets for small and medium enterprises (SMEs). Over time, this drives local economic growth and reduces regional disparities. Local taxes also provide incentives for local governments to be more responsive to public aspirations, as successful tax collection is heavily reliant on public trust and participation. Local governments that are transparent in financial management and can demonstrate tangible results from tax usage tend to receive greater support from citizens, both in terms of compliance and involvement in development planning (Prasetyo, 2020).

Furthermore, local taxes can serve as instruments to promote sustainable, locally based development policies. For instance, regions with tourism potential can strategically develop hotel and restaurant taxes, while allocating those revenues to improve tourism facilities, maintain environmental cleanliness, and enhance regional promotion. In this way, taxes act not only as fiscal tools but also as engines for boosting priority sectors that support the local economy. On the other hand, appropriate local tax policies can aid in restructuring urban and rural areas, improving zoning, and addressing environmental challenges such as flooding, pollution, or uncontrolled land-use conversion. In other words, well-designed tax policies offer dual benefits: enhancing regional revenues and improving spatial and developmental governance (Bappenas, 2021).

Nevertheless, the effectiveness of local taxes in driving development depends on several factors, including institutional capacity, human resource quality, efficient tax administration systems, and financial management integrity. Regions that successfully build transparent and accountable tax systems generally perform better in development outcomes. For example, the digitalization of tax services that allows online payments can enhance compliance and reduce leakages. Similarly, training local tax officers to enhance professionalism and better align with to the regional economic context can boost tax potential. The central government also plays an essential role in supporting local authorities through regulations that provide fiscal flexibility while upholding equity and interregional balance.

In the context of sustainable development, it is also essential to ensure that local tax policies are not exploitative or burdensome to small economic actors. Thus, tax rates and incentives should be carefully structured to maintain the competitiveness of local businesses while contributing to PAD. Local governments can adopt principles of tax justice by offering relief to sectors affected by crises, such as during pandemics or natural disasters, while still ensuring development continues. Collaboration between the public sector, private entities, and civil society in designing and monitoring tax policies is key to ensuring that taxes genuinely serve as instruments for development rather than merely administrative obligations.

Local taxes are not merely funding sources but strategic instruments capable of driving inclusive, sustainable, and locally driven development. Effective local tax management yields long-term benefits for public welfare, strengthens regional fiscal independence, and ultimately supports the comprehensive achievement of national development goals.

CONCLUSION

Regional autonomy, as a manifestation of Indonesia's fiscal decentralization policy, grants local governments the authority to manage

their own governance and finances, including the collection of local taxes as a vital component of Regional Own-Source Revenue (PAD). Within a fiscal decentralization system, tax law provides the legal foundation for tax collection conducted by both central and local governments, as regulated through national legislation and regional regulations. Taxes themselves are mandatory contributions from citizens to the state in accordance with the law, which are coercive and do not provide direct compensation, and are used to finance public expenditures. The principles of taxation—such as legal, economic, and financial principles—ensure that tax collection is conducted fairly, efficiently, and without placing an undue burden on the public. The relationship between regional autonomy and tax law is complementary: autonomy grants regions the space to manage their taxes, while tax law ensures that implementation aligns with national regulations, maintaining harmony between central and local policies within the framework of a unitary state.

Properly standardized infrastructure development is a crucial factor in driving local economic growth and improving community welfare, as quality infrastructure enhances connectivity, facilitates the distribution of goods and services, reduces unemployment, attracts investment, and creates job opportunities. Therefore, local development should be strategically planned by local governments with active community participation. However, many regions have yet to experience equitable development due to the suboptimal utilization of local taxes. This underperformance stems from several factors: low tax compliance driven by limited public understanding and negative perceptions of tax usage; inefficient budget management causing project delays and reduced transparency; complex tax systems that discourage compliance; and corruption or misappropriation of tax funds by certain officials, which hampers the realization of infrastructure and public services. For this reason, bureaucratic integrity and transparency in tax management are key to supporting sustainable local development.

Local taxes are a primary source of Regional Own-Source Revenue (PAD) and play a strategic role in supporting local development. Through the authority granted under regional autonomy, local governments can utilize local taxes to finance infrastructure, improve public services, and empower local economic potential. Effective tax collection and management will strengthen regional fiscal independence, stimulate economic growth, and promote inclusive and sustainable development.

In conclusion, achieving inclusive and equitable local development under regional autonomy requires more than just fiscal decentralization; it demands the reform of local tax governance, grounded in law, responsive to local contexts, and supported by transparent and accountable institutions. By framing local taxation not only as a funding mechanism but also as a strategic policy tool, this study provides a foundation for future reforms and scholarly exploration in the intersection of public finance, law, and democratic local governance.

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