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Beyond Revenue Mobilization: Assessing the Distributional Justice of Indonesia's Regional Property Tax Reform

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Abstract

Regional property taxation plays an important role in strengthening local fiscal capacity and reducing dependence on intergovernmental transfers. However, revenue-oriented reforms may generate unequal burdens when property taxation does not adequately account for differences in household income, property values, and socioeconomic vulnerability. This study assesses the distributional justice of Indonesia's regional property tax reform by examining whether improvements in local revenue mobilization are accompanied by equitable allocation of tax burdens. Using a policy-oriented qualitative approach, the study analyzes Indonesia's regulatory framework governing regional property taxation and complements the legal analysis with secondary fiscal and socioeconomic evidence. The study applies principles of distributive, procedural, and horizontal equity to evaluate the design and implementation of regional property taxation. Particular attention is given to the relationship between property valuation, taxpayer capacity, local fiscal needs, and the provision of public services. The study argues that fiscal decentralization should not be evaluated exclusively through revenue performance indicators. A more comprehensive assessment requires consideration of who bears the costs of local revenue mobilization and whether those costs are proportionate to taxpayers' economic capacity. The study contributes to debates on fiscal justice by proposing a distribution-sensitive framework for evaluating regional property tax reform in developing and decentralized economies.

[*Pajak properti daerah memainkan peran penting dalam memperkuat kapasitas fiskal lokal dan mengurangi ketergantungan pada transfer antar pemerintah. Namun, reformasi yang berorientasi pada pendapatan dapat menimbulkan beban yang tidak merata ketika pajak properti tidak secara memadai memperhitungkan perbedaan pendapatan rumah tangga, nilai properti, dan kerentanan sosial ekonomi. Studi ini menilai keadilan distribusi reformasi pajak properti daerah di Indonesia dengan memeriksa apakah* *peningkatan mobilisasi pendapatan lokal disertai dengan alokasi beban pajak yang adil. Dengan menggunakan pendekatan kualitatif yang berorientasi pada kebijakan, studi ini menganalisis kerangka peraturan Indonesia yang mengatur pajak properti daerah dan melengkapi analisis hukum dengan bukti fiskal dan sosial ekonomi sekunder. Studi ini menerapkan prinsip-prinsip keadilan distributif, prosedural, dan horizontal untuk mengevaluasi desain dan implementasi pajak properti daerah. Perhatian khusus diberikan pada hubungan antara penilaian properti, kapasitas wajib pajak, kebutuhan fiskal lokal, dan penyediaan layanan publik. Studi ini berpendapat bahwa desentralisasi fiskal tidak boleh dievaluasi secara eksklusif melalui indikator kinerja pendapatan. Penilaian yang lebih komprehensif memerlukan pertimbangan siapa yang menanggung biaya mobilisasi pendapatan lokal dan apakah biaya tersebut proporsional dengan kapasitas ekonomi wajib pajak. Studi ini berkontribusi pada perdebatan tentang keadilan fiskal dengan mengusulkan kerangka kerja yang sensitif terhadap distribusi untuk mengevaluasi reformasi pajak properti regional di negara berkembang dan negara dengan ekonomi yang terdesentralisasi.*]

Keywords: property taxation, fiscal decentralization, distributional justice, tax reform, Indonesia

Introduction

Fiscal decentralization has transformed the relationship between taxation, public authority, and local governance in Indonesia. One of its principal objectives is to provide subnational governments with greater capacity to finance public functions through locally generated revenue rather than relying exclusively on transfers from the central government. Within this institutional transformation, the Rural and Urban Land and Building Tax, or PBB-P2, occupies a strategically important position because immovable property provides a relatively stable tax base and is directly connected to local territory, infrastructure, and public services. The transfer of PBB-P2 administration to local governments through Law No. 28 of 2009 represented a significant shift in Indonesia's fiscal architecture, while Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments subsequently restructured the broader framework of regional taxation and fiscal relations. These reforms reflect the assumption that stronger local taxing authority can improve fiscal capacity, accountability, and local development. Yet the expansion of taxing power necessarily raises a separate normative question: whether the distribution of tax burdens remains fair when local governments increasingly depend on property-based revenue.

Property taxation has long been regarded as an important source of local revenue because the tax base is geographically identifiable and comparatively difficult to relocate. Bird and Slack (2002) argue that property taxes are particularly compatible with local government finance because property values are closely associated with the benefits and costs generated by local public decisions. Nevertheless, the suitability of a tax for local administration does not automatically establish its fairness. The central issue is not simply whether property can be taxed efficiently, but how the burden of taxation is distributed among taxpayers with substantially different economic capacities. A household may own property with a relatively high assessed value while possessing limited current income, particularly in areas undergoing rapid urbanization, tourism expansion, or infrastructure development. Conversely, owners of commercially productive property may possess greater capacity to absorb higher tax liabilities. Consequently, a uniform focus on assessed property value may produce inequitable outcomes when it is not accompanied by mechanisms that recognize differences in ability to pay, liquidity, and socioeconomic vulnerability.

Previous studies have extensively examined property taxation in relation to local revenue generation, administrative capacity, valuation, compliance, and fiscal decentralization. The broader fiscal decentralization literature also emphasizes the relationship between revenue authority and governmental accountability. Oates (1999) explains that decentralized governance can improve efficiency when local governments are better positioned to respond to territorial preferences and conditions. Similarly, Faguet (2014) demonstrates that decentralization can improve public governance when institutional arrangements create meaningful incentives for local responsiveness. However, these perspectives do not eliminate the problem of fiscal inequality. Local governments possess different administrative capacities, economic structures, property markets, and revenue needs. As a result, decentralization may produce variation not only in service delivery but also in the practical burden imposed on taxpayers. Existing discussions therefore provide valuable explanations of how property taxation can strengthen local finance, but a more explicit assessment is needed regarding whether revenue-oriented reforms distribute tax obligations consistently with principles of distributive and procedural justice.

The research gap addressed in this article lies in the limited integration between the legal analysis of Indonesia's regional property tax framework and theories of fiscal justice. Analyses of local taxation frequently focus on statutory authority, revenue performance, or administrative effectiveness, whereas the question of who bears the consequences of tax reform requires a broader evaluative framework. Musgrave (1959) identified equity as one of the fundamental dimensions of public finance, alongside allocation and stabilization. This perspective remains important because fiscal institutions cannot be assessed exclusively through the quantity of revenue they produce. A tax system also creates distributive consequences by allocating compulsory financial obligations among individuals and groups. Horizontal equity requires similarly situated taxpayers to receive similar treatment, while vertical or distributive equity requires that relevant economic differences be reflected in the allocation of burdens (Musgrave 1959;

Boadway 2004). Applied to PBB-P2, these principles require attention to whether property valuation accurately captures relevant differences, whether tax policy disproportionately affects economically vulnerable owners, and whether taxpayers possess adequate procedural mechanisms for contesting erroneous or excessive assessments.

This article uses a normative juridical and policy-oriented qualitative method. The primary analysis examines Indonesia's legal framework for regional taxation, particularly the constitutional foundation of taxation, Law No. 28 of 2009, Law No. 1 of 2022, and the regulatory structure governing local taxing authority and property taxation. These materials are assessed together with academic literature on fiscal decentralization, property taxation, tax equity, local governance, and distributive justice. The analysis does not attempt to measure the tax burden of a single locality statistically. Instead, it evaluates the legal and institutional design of Indonesia's regional property tax system by asking whether its principal mechanisms are capable of reconciling revenue mobilization with equitable burden allocation. The findings are developed through an analytical examination of the relationship between decentralization and local taxing discretion, the justice implications of property valuation and ability to pay, the procedural legitimacy of assessment and taxpayer remedies, and the need to reconnect local taxation with accountable public benefit.

Fiscal Decentralization and the Transformation of Property Tax Authority

The decentralization of PBB-P2 fundamentally altered the institutional character of property taxation in Indonesia. Before the transfer of authority, property taxation was more directly associated with the central fiscal system, whereas decentralization enabled regional governments to assume a substantially greater role in determining tax administration and benefiting from the revenue generated within their territories. This reform corresponds with the broader rationale of fiscal decentralization: local governments should possess sufficient revenue instruments to finance responsibilities assigned to them. Oates (1999) argues that decentralization can produce welfare gains where local authorities are better able to respond to geographically differentiated preferences. From this perspective, locally administered property taxation appears institutionally appropriate because property values, infrastructure conditions, development pressures, and service demands vary significantly across regions. Greater local authority may therefore permit tax policy to become more responsive to territorial conditions.

However, responsiveness and justice are not identical. The legal capacity of a local government to determine tax rates, exemptions, or assessment practices may improve administrative flexibility while simultaneously creating differences in taxpayer treatment across regions. Fiscal decentralization thus introduces a tension between local autonomy and equality. Taxpayers with similar economic circumstances may encounter substantially different burdens depending on the valuation practices, local policy choices, and administrative capacities of their respective governments. This issue is particularly significant because regional autonomy operates within a unitary constitutional order that also recognizes equality and social justice as foundational principles. Article 23A of the 1945 Constitution provides that taxes and other compulsory levies for state purposes shall be regulated by law. The constitutional requirement of legality is therefore essential, but legality alone does not answer whether a legally authorized tax burden is substantively fair.

The transition from Law No. 28 of 2009 to Law No. 1 of 2022 reflects an effort to improve coordination between central and regional fiscal policy. Nevertheless, the challenge of balancing local discretion with national principles of fairness remains. Bird and Slack (2002) observe that effective property taxation depends heavily on administrative capacity, especially valuation, taxpayer information, and collection systems. Decentralization may therefore generate unequal outcomes where some regions possess sophisticated cadastral data and administrative systems while others rely on outdated property information or less developed assessment procedures. The consequence is that formally identical legal authority can produce materially different fiscal treatment. A justice-oriented analysis must consequently examine not merely the distribution of legal powers but also the institutional capacity through which those powers are exercised.

This problem becomes more visible when regional governments face strong incentives to increase own-source revenue. Revenue targets can encourage governments to expand tax collection, revise property values, or reduce exemptions without necessarily conducting a parallel assessment of household capacity. Such policies may be legally permissible and fiscally rational, but fiscal rationality measured by revenue growth is not sufficient to establish distributive legitimacy. Faguet (2014) emphasizes that the benefits of decentralization depend substantially on accountability and institutional responsiveness. Applied to regional property taxation, this suggests that local taxing authority should be evaluated according to whether citizens can understand, question, and influence decisions that directly affect them. A local tax system becomes more legitimate when fiscal autonomy is accompanied by transparent justification and institutional mechanisms capable of correcting inequitable outcomes.

The principal implication is that Indonesia's property tax reform should not be framed as a simple transfer of taxing authority from one level of government to another. It is more accurately understood as a redistribution of fiscal power that creates new responsibilities concerning equality, transparency, and taxpayer protection. Local governments require adequate revenue to provide public services, but they also exercise coercive authority over residents whose economic circumstances may differ substantially. The justice of regional taxation therefore depends on the institutional conditions under which fiscal autonomy is implemented. A system that measures reform only through increased local revenue risks overlooking whether the costs of decentralization are disproportionately borne by particular groups.

Property Valuation, Ability to Pay, and the Distribution of Fiscal Burdens

The most significant distributional issue in property taxation concerns the relationship between the assessed value of property and the actual economic capacity of its owner. Property tax systems commonly rely on property value because land and buildings represent identifiable and relatively stable assets. This approach has important administrative advantages, but ownership of a valuable asset does not necessarily correspond with high disposable income. The distinction is particularly important in areas experiencing rapid economic transformation. Infrastructure development, urban expansion, tourism growth, or commercial investment can increase land values without producing a corresponding increase in the income of long-established residents. Consequently, taxpayers may become asset-rich but income-poor, creating what fiscal policy literature often describes as a liquidity problem associated with property taxation (Slack and Bird 2014).

This issue demonstrates why assessed value should not be treated as a complete measure of ability to pay. The principle of ability to pay has historically occupied a central position in theories of tax equity because compulsory contributions should, as far as possible, reflect differences in taxpayers' economic resources (Musgrave 1959). Boadway (2004) similarly emphasizes that equity analysis requires attention to the actual distributional consequences of public finance rather than merely formal equality in the application of tax rules. If two property owners are subjected to the same assessment increase despite significant differences in income, household dependency, age, or vulnerability, formally uniform treatment may generate substantively unequal consequences. Horizontal equity is therefore not satisfied merely because identical rates are applied; the underlying comparability of taxpayers must also be considered.

The problem is compounded when property valuation systems fail to reflect accurate and current market conditions. Underassessment can create advantages for certain owners and reduce local revenue, whereas abrupt reassessment can generate substantial increases for others. Both outcomes have implications for fairness. Bird and Slack (2002) identify accurate valuation as one of the central institutional requirements for effective property taxation. From a justice perspective, however, valuation accuracy must be accompanied by procedural transparency. Taxpayers should be able to understand how the assessed value was determined, what data were used, and how errors can be challenged. Without accessible information, the technical complexity of property assessment can produce an imbalance between fiscal authorities and individual taxpayers. A taxpayer who cannot examine or contest the basis of an assessment may formally possess legal rights while lacking the practical capacity to exercise them.

Indonesia's legal framework provides regional governments with significant authority over aspects of local taxation, making the design of local safeguards particularly important. A distribution-sensitive approach should therefore distinguish between the objective of maintaining an adequate tax base and the objective of preventing disproportionate hardship. Exemptions, reductions, installment arrangements, or targeted relief can serve this purpose when designed according to clear and reviewable criteria. Such mechanisms should not be interpreted as obstacles to revenue mobilization. Rather, they represent instruments for aligning taxation with the constitutional and social principle that public policy should not impose avoidable and disproportionate burdens on economically vulnerable groups.

The relevance of this approach is reinforced by the territorial effects of property-market change. Communities located near expanding urban centers or strategic development zones may experience significant increases in land values even when residents do not participate equally in the economic gains associated with those developments. Tax reform may therefore create a secondary form of displacement pressure when rising assessments make it increasingly difficult for low-income residents to remain in their communities. The issue extends beyond individual taxation because property tax policy can influence patterns of residence, land retention, and social continuity. A justice-oriented regional tax system must consequently recognize that property value reflects market conditions, whereas fiscal capacity depends on a broader combination of income, assets, liquidity, and household circumstances.

The appropriate response is not necessarily to abandon market-based valuation. Such a policy could undermine horizontal equity and weaken the fiscal base. The stronger approach is to combine accurate valuation with targeted protections for demonstrably vulnerable taxpayers. This would preserve the integrity of the tax system while recognizing that equal treatment sometimes requires differentiated policy responses. Distributional justice therefore does not demand that every taxpayer pay the same amount or receive identical treatment. It requires that differences in tax burdens have a reasonable relationship to relevant differences in economic circumstances and that those differences can be justified through transparent legal criteria.

Procedural Justice, Local Accountability, and Taxpayer Protection

The justice of taxation depends not only on the amount collected but also on the procedures through which tax liabilities are established and enforced. Procedural justice is particularly important in decentralized taxation because taxpayers interact more directly with local authorities responsible for assessment, collection, and dispute resolution. Tyler (2006) argues that perceptions of procedural fairness influence institutional legitimacy and voluntary compliance. Although tax obligations are compulsory, compliance is affected by whether citizens believe authorities act consistently, transparently, and with adequate opportunities for participation and correction. A property tax increase that is economically defensible may still generate substantial resistance if taxpayers receive insufficient explanation or lack meaningful avenues to challenge the assessment.

This principle has particular relevance where valuation decisions are technical and administrative rather than directly negotiated with taxpayers. The asymmetry of information between government agencies and property owners can be substantial. Local authorities may possess access to valuation data, cadastral information, and administrative expertise that ordinary taxpayers do not. A fair procedure should therefore reduce, rather than intensify, this imbalance. Assessment notices should communicate the legal basis, valuation methodology, applicable rate, and available remedies in language accessible to affected taxpayers. The right to object should also be practically available rather than merely formally recognized. Excessively complex procedures, short deadlines, high costs, or inadequate administrative assistance may convert a legal remedy into an inaccessible mechanism.

Procedural fairness also requires reasoned decision-making. When taxpayers challenge an assessment, authorities should provide a substantive response rather than relying on generalized administrative formulas. This requirement is important because individualized circumstances may reveal errors in property classification, valuation data, ownership records, or eligibility for relief. A system that prioritizes rapid collection without effective review may increase short-term revenue but weaken institutional trust. OECD research on tax administration has repeatedly emphasized that transparency, taxpayer service, and accessible dispute-resolution mechanisms are important components of effective and legitimate tax systems (OECD 2020). Although national tax administration and local property taxation differ institutionally, the underlying principle remains relevant: enforcement is more sustainable when taxpayers understand their obligations and perceive administrative processes as impartial.

Local accountability also concerns the relationship between taxation and public participation in fiscal policy. Governments possess discretion to pursue development priorities, but major changes in local tax policy can affect households across a community. Meaningful consultation can therefore improve both policy quality and legitimacy, particularly where tax increases are likely to produce significant distributive effects. Public participation does not mean that every fiscal decision requires direct voter approval. Rather, it requires adequate disclosure, opportunities for affected groups to provide information, and institutional willingness to consider foreseeable consequences. Participatory budgeting and fiscal transparency may complement this process by allowing taxpayers to understand how additional revenue is expected to support public purposes.

This connection between procedural justice and fiscal legitimacy is particularly important when governments seek to increase property-based revenue. Citizens are more likely to regard compulsory contributions as legitimate when decision-making procedures are predictable and when public authorities can demonstrate how fiscal policy relates to identifiable public benefits. Levi and Sacks (2009) argue that trust in government is connected to perceptions of government performance and fairness. In the context of local taxation, taxpayers may therefore evaluate not only the amount demanded but also whether the authority imposing the burden acts transparently and uses public resources responsibly.

An adequate property tax framework should consequently include several integrated safeguards. Tax assessments should be accompanied by clear explanations; valuation information should be reasonably accessible; objection and appeal procedures should be independent or sufficiently impartial; and local governments should monitor the distributional effects of significant policy changes. These safeguards transform taxpayer protection from a reactive mechanism into a component of fiscal governance. The objective is not to prevent governments from collecting necessary revenue, but to ensure that coercive fiscal authority remains subject to standards of justification and accountability.

From Revenue Performance to a Distribution-Sensitive Model of Regional Tax Justice

The principal weakness of a purely revenue-oriented assessment of regional property tax reform is that it treats increased collection as evidence of policy success without asking how that revenue was obtained. Higher revenue can result from improved administration and expanded compliance, but it can also result from increased burdens concentrated on groups with limited capacity to pay. These outcomes should not be treated as equivalent. A tax reform capable of producing significant revenue while creating disproportionate hardship cannot be evaluated solely through aggregate fiscal indicators. Public finance analysis must therefore incorporate distributional outcomes alongside efficiency and administrative performance.

A distribution-sensitive framework begins with the recognition that property taxation serves legitimate public objectives. Local governments require predictable resources to finance infrastructure, environmental services, education, public facilities, and other responsibilities. The problem is not taxation itself but the absence of sufficient mechanisms for determining whether the burden is allocated fairly. Musgrave (1959) conceptualized public finance as involving the allocation of resources as well as questions of equity. This distinction is important because efficient revenue mobilization and fair burden distribution may occasionally point toward different policy choices. Governments must therefore make those trade-offs explicit rather than assuming that fiscal capacity automatically represents social welfare.

The first element of reform should be the strengthening of valuation governance. Accurate, periodically updated, and transparent valuation systems are necessary to prevent arbitrary or systematically unequal assessments. Yet regular reassessment should also be accompanied by procedures that identify unusually severe increases affecting vulnerable households. A sudden increase in assessed value should not automatically translate into an identical increase in immediate tax liability when exceptional hardship can be demonstrated. Targeted deferrals, installment arrangements, or relief mechanisms may provide a more proportionate response. Such instruments can preserve the tax base while reducing the risk that residents with limited income are penalized by market changes from which they have not equally benefited.

The second element concerns the relationship between local discretion and national minimum standards. Fiscal decentralization appropriately recognizes regional diversity, but taxpayer protection should not depend entirely on the administrative sophistication or political preferences of individual local governments. National legislation and implementing policy should establish minimum principles concerning transparency, access to information, valuation review, and remedies. Local governments could retain discretion over rates and policy design within this framework. Such an arrangement would preserve autonomy while reducing the possibility that similarly situated citizens receive radically different procedural protection because of their place of residence.

The third element is the integration of socioeconomic impact assessment into significant local tax reforms. Before implementing substantial increases in rates or valuation-based liabilities, regional governments should evaluate the probable effects on different household groups. This assessment need not replicate a national social-security program. It should instead identify whether proposed changes are likely to disproportionately affect pensioners, low-income households, small farmers, informal workers, or communities experiencing rapid land-value inflation. Fiscal policy is often presented as technically neutral, yet tax design inevitably produces social consequences. Incorporating distributional analysis would enable governments to identify these effects before they become sources of conflict.

Finally, regional tax justice requires a clearer connection between taxation and visible public benefit. The legitimacy of property taxation is strengthened when taxpayers can observe reasonable relationships between fiscal contributions and improvements in the public environment. Bird and Slack (2002) emphasize the local character of property taxation, which creates a potential connection between immovable property and local service provision. Governments should therefore improve transparency concerning the use of local revenue without creating an unrealistic expectation that every tax payment generates an individually identifiable service. The relevant principle is collective accountability: communities should be able to evaluate whether increased fiscal capacity contributes to public goods distributed according to lawful and equitable priorities.

A justice-based reform model would consequently evaluate PBB-P2 through multiple indicators. Revenue growth would remain relevant, but it would be assessed together with valuation accuracy, burden distribution, the availability of taxpayer relief, procedural accessibility, objection outcomes, and public accountability. Such an approach would provide a more complete understanding of fiscal decentralization. The success of regional property tax reform should not be defined by how much local governments can collect, but by whether they can mobilize necessary resources while maintaining fair treatment, protecting vulnerable taxpayers, and strengthening confidence in public institutions.

Conclusion

Indonesia's regional property tax reform has strengthened the role of local governments in fiscal governance and provided an important instrument for increasing own-source revenue. The decentralization of PBB-P2 is consistent with the broader objective of improving local fiscal capacity, but this institutional achievement does not resolve questions concerning the fairness of tax burdens. The analysis demonstrates that revenue performance is an incomplete measure of reform success because property taxation can generate unequal consequences when assessed values are disconnected from household liquidity, income, and socioeconomic vulnerability. Differences in local administrative capacity and policy discretion may further produce territorial variation in taxpayer treatment. A legally authorized tax increase may therefore remain vulnerable to criticism when valuation procedures are opaque, relief mechanisms are inadequate, or affected taxpayers cannot effectively challenge assessments.

A distribution-sensitive approach is required to reconcile revenue mobilization with fiscal justice. Such an approach should combine accurate and transparent property valuation with targeted protection for vulnerable taxpayers, accessible objections and appeals, clear minimum standards for taxpayer rights, and greater assessment of the socioeconomic consequences of significant tax reforms. Local autonomy should remain an important feature of Indonesia's decentralized fiscal system, but it should operate within a framework that recognizes distributive, horizontal, and procedural equity. Regional property taxation should ultimately be understood not merely as a mechanism for extracting revenue from locally situated assets, but as an exercise of public authority whose legitimacy depends on proportionality, transparency, and accountability. Moving beyond a narrow focus on revenue would allow Indonesia's regional tax reform to contribute more effectively to both fiscal sustainability and the constitutional aspiration of social justice.

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