Indonesian Tax Justice Review
ISSN: XXXX-XXXXX (Online)
Vol. 3, No. 1, 2026, pp. 35-54
Published online since February 13, 2026

Property Tax and Tourism Development in Bali: Assessing Tax Justice between Hotel Investors and Local Landowners

Ganesha Putra Mahendra*
Universitas Udayana, Denpasar, Bali, Indonesia
ganeshaputra@gmail.com

DOI: https://doi.org/10.65815/718fka53

Submitted: 22-08-2025	Revised: 27-11-2025; 05-01-2026	Accepted: 03-02-2026

*Corresponding Author

Abstract

Rapid tourism development in Bali has significantly increased the economic value of land and property in major tourism areas. This transformation creates important questions concerning the distribution of property-related tax burdens between large tourism investors and local landowners. This article examines property taxation in Bali from the perspective of tax justice. Using normative juridical and policy analysis, the study evaluates land and building taxation, property valuation, tourism development, and local government revenue mechanisms. The article argues that rising property values associated with tourism development may generate fiscal benefits for local governments while simultaneously increasing tax burdens for residents whose incomes have not increased proportionately. Conversely, large tourism enterprises may possess greater economic capacity and administrative resources to manage their tax obligations. The study proposes a property tax justice framework based on ability to pay, progressive valuation, transparency in assessment, protection of vulnerable landowners, and appropriate taxation of high-value tourism properties. Particular attention is given to the relationship between tourism-driven land appreciation and local residents' capacity to meet property tax obligations. The article concludes that Bali's property tax system should account for the unequal distribution of economic benefits arising from tourism development and protect local residents from disproportionate fiscal pressure.

[*Perkembangan pariwisata yang pesat di Bali telah secara signifikan meningkatkan nilai ekonomi tanah dan properti di daerah-daerah wisata utama. Transformasi ini menimbulkan pertanyaan penting mengenai distribusi beban pajak terkait properti antara investor pariwisata besar dan pemilik tanah lokal. Artikel ini mengkaji perpajakan properti di Bali dari perspektif keadilan pajak. Dengan menggunakan analisis yuridis dan kebijakan normatif, studi ini mengevaluasi perpajakan tanah dan bangunan, penilaian properti, pengembangan pariwisata, dan mekanisme pendapatan pemerintah daerah. Artikel ini berpendapat bahwa kenaikan nilai properti yang terkait dengan pengembangan pariwisata dapat menghasilkan manfaat* *fiskal bagi pemerintah daerah sekaligus meningkatkan beban pajak bagi penduduk yang pendapatannya tidak meningkat secara proporsional. Sebaliknya, perusahaan pariwisata besar mungkin memiliki kapasitas ekonomi dan sumber daya administratif yang lebih besar untuk mengelola kewajiban pajak mereka. Studi ini mengusulkan kerangka kerja keadilan pajak properti berdasarkan kemampuan membayar, penilaian progresif, transparansi dalam penilaian, perlindungan pemilik tanah yang rentan, dan perpajakan yang tepat untuk properti pariwisata bernilai tinggi. Perhatian khusus diberikan pada hubungan antara apresiasi tanah yang didorong oleh pariwisata dan kemampuan penduduk lokal untuk memenuhi kewajiban pajak properti. Artikel ini menyimpulkan bahwa sistem pajak properti di Bali harus memperhitungkan distribusi manfaat ekonomi yang tidak merata yang timbul dari pengembangan pariwisata dan melindungi penduduk lokal dari tekanan fiskal yang tidak proporsional.*]

Keywords: Bali, property tax, tourism, landowners, tax justice

Introduction

Bali's tourism economy has fundamentally altered the economic meaning of land. Land that historically functioned as agricultural space, family housing, customary property, or community infrastructure has increasingly become an asset capable of generating substantial rental, hospitality, and investment returns. The expansion of tourism has consequently produced a spatial transformation in which property values are increasingly determined by proximity to beaches, cultural attractions, transportation networks, hospitality clusters, and international tourism demand. Statistics Indonesia recorded 551,100 direct foreign tourist visits to Bali in December 2024 alone, while the occupancy rate of star-rated hotels reached 63.71 percent during the same month (BPS-Statistics Indonesia Bali Province 2025). These figures demonstrate the continuing economic significance of tourism after the pandemic recovery. However, tourism-led increases in land value create a distributive question that conventional tourism statistics do not answer: who captures the additional value created by tourism, and who bears the fiscal and social costs associated with that appreciation? Badan Pusat Statistik Provinsi Bali

Property taxation is particularly important in this context because immovable property cannot easily be relocated in response to taxation. Recurrent taxes on land and buildings are therefore commonly regarded as relatively efficient sources of local revenue, while also providing governments with a mechanism to capture part of the economic value associated with public infrastructure and local development (Brys et al. 2016; OECD 2022). In Indonesia, the Land and Building Tax for Rural and Urban Areas, or PBB-P2, constitutes a local tax under the post-decentralisation framework strengthened by Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments. The law places PBB-P2 within the local tax architecture and provides regional governments with greater responsibility for determining its implementation within national parameters (Government of Indonesia 2022). The policy rationale is clear: property appreciation associated with local economic development can provide a stable and relatively immobile tax base for financing local public services.

Yet the efficiency argument does not automatically establish distributive justice. A property owner may possess a highly valuable parcel while having limited current income because the land is inherited, used as a residence, or retained as agricultural property. The property's market or assessed value can therefore rise substantially without a corresponding increase in cash flow. This creates what may be described as a liquidity-based injustice: taxation based on wealth appreciation can become burdensome when the taxpayer is asset-rich but income-poor. OECD analysis recognises that recurrent property taxes can have different distributional effects depending on valuation, tax rates, exemptions, and the distribution of property ownership across income groups (OECD 2015; OECD 2022). The problem becomes particularly significant in tourism regions because tourism can increase the value of land independently of the owner's productive activity. A local family may own land that becomes expensive because investors, hotels, airports, roads, and tourism infrastructure increase surrounding demand, even though the family has not itself received comparable increases in income.

The Bali context adds another dimension because land is embedded within customary, social, and cultural institutions. Balinese land relations cannot always be understood solely through the market model of an individual owner selling a commodity to the highest bidder. Customary institutions, village structures, agricultural systems, family inheritance, and cultural obligations continue to influence how land is held and used. Research on Bali's tourism gentrification demonstrates that tourism investment has increased land and property rental values while transforming the spatial and economic structure of communities in locations such as Sanur, Kuta, and Ubud (Suyadnya 2021). More recent research on tourism-driven land conversion similarly demonstrates that productive agricultural land can be converted into villas and tourism-supporting facilities as investment pressure increases (Ristiawan 2024). The tax system therefore operates within a broader transformation in which local landowners may gain from appreciation through potential sales but may simultaneously experience rising tax liabilities, housing costs, and pressure to change land use.

The distinction between hotel investors and local landowners is especially important. A hotel investor typically acquires or leases property because its value can be converted into an income-generating enterprise. The property is part of a business model involving room revenue, restaurants, events, tourism services, and capital appreciation. Local landowners, by contrast, may hold property primarily for residence, agriculture, inheritance, or community purposes. Although both categories may possess valuable land, their economic capacity to absorb property taxation can differ substantially. Treating them identically may therefore produce formal equality without substantive equity. At the same time, it would be equally problematic to assume that all local owners are economically vulnerable or that all investors are wealthy. Tax justice requires an administratively workable mechanism that identifies economically meaningful differences without creating arbitrary classifications. The relevant question is not whether investors should automatically pay more, but whether taxpayers who derive greater economic benefit from tourism-generated property value should contribute proportionately more to the public infrastructure and services that sustain that value.

This question is increasingly relevant in Badung, Bali's most commercially intensive tourism region. Local government data show that PBB-P2 remained a significant component of Badung's tax revenue, while revenue from hotel-related services also represented a major source of regional revenue. Badung's 2024 financial statements recorded PBB-P2 revenue of approximately IDR 287.84 billion and PBJT revenue from hotel services of approximately IDR 3.61 trillion (Government of Badung 2025). The figures demonstrate that tourism and property taxation are not isolated fiscal categories. They form part of an interconnected local revenue system in which tourism enterprises generate substantial economic activity while land and buildings constitute an important underlying tax base. The policy challenge is consequently to determine whether the existing allocation of tax burdens adequately reflects the distribution of benefits produced by tourism development.

The central argument of this article is that Bali's property tax system should capture tourism-generated land value without converting tourism-induced appreciation into an automatic fiscal burden for income-constrained local landowners. This requires a distinction between the capacity to pay created by actual economic returns and property value that exists only as an unrealised asset. The article does not argue for systematically exempting local residents from property taxation or imposing discriminatory taxes on investors. Instead, it argues for a differentiated framework based on property value, use, taxpayer circumstances, and the economic benefits generated by the property. High-value hotels, resorts, commercial villas, and tourism facilities should contribute proportionately to the local fiscal system because they benefit directly from tourism infrastructure and land appreciation. At the same time, vulnerable owner-occupiers, agricultural landholders, and customary landholders should receive targeted protection where rising assessed values create liquidity problems without corresponding income gains.

Literature Review and Research Gap

The normative foundation of property tax justice begins with the relationship between taxation and economic capacity. The ability-to-pay principle holds that taxpayers with greater economic capacity should generally bear a greater share of the public burden, while horizontal equity requires taxpayers in comparable economic circumstances to receive comparable treatment (Musgrave 1990).

Property taxation complicates this framework because property value is a stock of wealth rather than a direct measure of annual income. A household may possess a valuable property because of inheritance or long-term ownership even though its current income remains modest. Conversely, a commercial investor may own a similarly valuable property that generates substantial cash income. From the perspective of ability to pay, these taxpayers are not necessarily equivalent. The challenge for property tax design is therefore to recognise wealth as a legitimate indicator of fiscal capacity while avoiding the assumption that asset value and current liquidity are always identical. The distinction becomes especially important in rapidly appreciating tourism regions where land values can increase much faster than household incomes.

Classical tax theory provides competing interpretations of property taxation. Under the benefit principle, property owners may reasonably be taxed because they benefit from local public services, infrastructure, planning, security, roads, sanitation, and other public goods that increase the usability and value of property (Oates 1969). Under the ability-to-pay approach, property taxation is justified because ownership of valuable property represents economic capacity, even when the property does not generate current income. More recent public-finance scholarship combines these perspectives by recognising that land value often reflects collective rather than purely individual production. Land becomes more valuable when government and private actors create roads, transportation systems, tourism infrastructure, environmental amenities, and economic networks around it (George 1879; Fischel 2001). In this sense, taxation of land appreciation can be understood as partial recovery of value generated by society. The normative implication for Bali is that tourism-related property appreciation should not be viewed exclusively as a private gain when public investment and collective tourism infrastructure substantially contribute to the increase.

The literature on recurrent property taxation generally supports its use as a relatively efficient revenue source because immovable property is difficult to conceal or relocate. OECD analysis identifies recurrent taxes on immovable property as among the least economically distortive taxes and notes their potential to strengthen subnational fiscal autonomy (Brys et al. 2016; OECD 2021). Nevertheless, efficiency does not guarantee equity. OECD research emphasises that outdated valuations can produce both horizontal and vertical inequities because properties experiencing different degrees of appreciation may continue to face similar tax liabilities (OECD 2022). Conversely, rapid reassessment can create political resistance and liquidity problems when tax liabilities rise faster than household income. Property tax policy must therefore balance accurate valuation against taxpayer capacity. In Bali, the problem is especially acute because tourism can generate concentrated appreciation in particular corridors, meaning that a national or provincial property valuation methodology may fail to capture localised changes in economic value or may capture them without sufficient safeguards for residents who experience appreciation as a liability rather than as income.

Property valuation is consequently central to tax justice. Almy's comparative study of property assessment systems demonstrates that valuation involves choices concerning what is valued, how values are determined, and which institutional actors conduct the assessment (Almy 2014). Mass appraisal systems can improve consistency and reduce administrative costs, but their legitimacy depends on accurate data, transparent methodology, regular updating, and effective appeal mechanisms. OECD research similarly stresses that regularly updated property values are important for efficiency, revenue, and equity because outdated assessments allow some properties to remain systematically undertaxed while others face relatively higher burdens (OECD 2022). In Indonesia, the NJOP serves as the principal basis for PBB-P2, meaning that the quality of NJOP determination directly affects tax justice. The challenge is particularly significant in fast-changing tourism markets because market prices can change rapidly while administrative valuation systems may adjust more slowly. The resulting valuation gap can either deprive local governments of revenue or create sudden tax shocks when reassessments occur.

The tourism literature provides evidence that land value appreciation in Bali is not simply an abstract market phenomenon. Suyadnya's study of tourism gentrification in Sanur, Kuta, and Ubud found that tourism-driven development increased land and property rental values while transforming patterns of land utilisation and social space (Suyadnya 2021). Ristiawan's analysis of tourism-related land commodification similarly demonstrates how rural landscapes become incorporated into tourism markets, creating opportunities for landowners while also generating pressures toward displacement and changes in agricultural livelihoods (Ristiawan 2024). Research on Canggu further illustrates the relationship between tourism development and agricultural land conversion, documenting substantial transformation of rice fields into villas and tourism facilities (Putra et al. 2025). These findings are important for property tax analysis because they demonstrate that land appreciation is simultaneously an economic benefit and a social transformation. A tax system that captures appreciation without addressing its distributional consequences may reinforce the displacement pressures created by tourism development.

The literature on tourism taxation also demonstrates the importance of local fiscal institutions. Hotel taxation and tourism-related local taxes can contribute significantly to regional original revenue, particularly in highly developed destinations such as Badung. Iswari and Ratnadi found substantial potential for hotel tax revenue in North Kuta, while Partini and Budiartha found that the effectiveness and contribution of hotel taxation positively affected Badung's regional original revenue (Iswari and Ratnadi 2020; Partini and Budiartha 2023). These studies demonstrate the fiscal significance of tourism enterprises but generally focus on revenue potential and administrative effectiveness rather than the distributional relationship between tourism investors and local property owners. This creates an important conceptual gap. A local government may successfully increase hotel and property tax revenue while simultaneously imposing greater fiscal pressure on residents whose land values rise because of tourism. Revenue growth therefore cannot itself be treated as evidence of tax justice.

The research gap addressed by this article arises from the limited integration of property tax theory, tourism-driven land appreciation, and local distributive justice in the Indonesian context. Existing literature has examined hotel tax contribution, tourism gentrification, land conversion, valuation, and local revenue as separate questions. What remains underdeveloped is an integrated framework asking whether the fiscal system captures tourism-generated land value proportionately while protecting taxpayers whose property appreciation is not accompanied by equivalent income. This article contributes by conceptualising Bali's property tax problem as a distributional relationship between value creation and tax liability. Its principal claim is that the taxpayer who captures substantial economic rents from tourism should bear a greater share of the property-related fiscal burden, whereas taxpayers whose property has appreciated primarily because of external tourism development should not automatically face equivalent effective burdens. This approach moves the discussion beyond the conventional distinction between "taxpayer" and "government" toward the distribution of tourism-created economic value among different property holders.

Method

This research adopts a normative juridical method combined with descriptive, argumentative, and analytical tax-policy analysis. The normative juridical approach is appropriate because the study examines the legal structure governing PBB-P2, regional taxation, property valuation, and local government fiscal authority. The analysis focuses primarily on Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments, Government Regulation No. 35 of 2023 concerning General Provisions for Regional Taxes and Regional Levies, relevant ministerial regulations concerning PBB-P2 valuation, and regional regulations applicable to Bali's major tourism jurisdictions. Particular attention is given to Badung because it represents one of the most tourism-intensive local economies in Bali and has adopted specific regulatory instruments concerning NJOP and PBB-P2. The legal analysis is supplemented by scholarly literature concerning tax justice, property taxation, tourism development, land commodification, gentrification, and local fiscal governance.

The primary legal materials are analysed through statutory and conceptual interpretation. Law No. 1 of 2022 establishes the broader architecture of local taxation and provides the legal foundation for regional governments to collect PBB-P2. Government Regulation No. 35 of 2023 subsequently provides implementing provisions concerning local taxation and administration. At the regional level, Badung's regulatory framework is particularly relevant because the regency issued Regulation of the Regent of Badung No. 27 of 2024 concerning the amount of NJOP and the percentage of NJOP used as the basis for PBB-P2, followed by Regulation

No. 28 of 2024 concerning reductions in PBB-P2 principal. The existence of these instruments demonstrates that tax justice is not determined exclusively at the national level. Regional governments possess meaningful discretion in translating valuation and relief principles into concrete taxpayer obligations.

Secondary materials consist of peer-reviewed academic publications, OECD and World Bank policy literature, official statistical publications, and relevant Indonesian studies concerning tourism and taxation. The study uses BPS tourism statistics to establish the scale of tourism activity and government financial reports to contextualise the fiscal importance of PBB-P2 and tourism-related taxes. Academic studies are used to identify the social consequences of tourism-driven land appreciation, particularly gentrification, land conversion, and displacement. International literature is used comparatively to establish principles for valuation, progressive property taxation, taxpayer relief, and local fiscal autonomy. The study deliberately does not employ sources published in 2026. The analytical period therefore ends with materials available through December 2025, ensuring that the normative argument is based on legal and scholarly developments available within the specified temporal boundary.

The analytical framework consists of four interconnected dimensions: ability to pay, value capture, valuation transparency, and taxpayer protection. Ability to pay examines whether property tax liability corresponds reasonably to economic capacity rather than merely asset value. Value capture examines whether taxpayers who obtain substantial economic benefits from tourism-related land appreciation contribute appropriately to the public infrastructure and services supporting that appreciation. Valuation transparency examines whether NJOP determination is sufficiently accurate, consistent, understandable, and challengeable. Taxpayer protection examines whether the legal system provides adequate relief for vulnerable owners facing liquidity constraints, particularly owner-occupiers, agricultural landholders, and customary landholders. These dimensions are evaluated together because a property tax system may perform well on revenue generation while performing poorly on equity. The purpose of the method is therefore not to determine whether PBB-P2 should be higher or lower in absolute terms, but whether its distribution across different categories of property owners can be justified according to coherent principles of tax justice.

Analysis and Discussion

A. Tourism-Driven Land Appreciation and the Distribution of Economic Value

Tourism development generates property value through several interconnected mechanisms. Increased tourist arrivals create demand for accommodation, restaurants, entertainment, transport, retail, and residential services. Investors consequently compete for strategically located land, particularly near beaches, cultural attractions, major roads, and established tourism clusters. Public investment can reinforce this process by improving roads, sanitation, airports, water systems, public spaces, and security. The resulting appreciation is therefore partly attributable to the private characteristics of land but also to external economic and institutional conditions. George's classical land-value argument is relevant because increases in land value can reflect social and economic development rather than the owner's individual productive contribution (George 1879). In Bali, tourism makes this relationship especially visible. A parcel that previously generated agricultural income may acquire substantially greater market value once surrounding land is developed into hotels, restaurants, villas, and tourist infrastructure. The owner benefits from the appreciation, but the appreciation itself is produced through a broader ecosystem of collective investment and market demand.

The problem is that property appreciation does not necessarily distribute benefits evenly. A hotel investor can transform a strategically located parcel into a revenue-producing asset by constructing accommodation and commercial facilities. The investor's increased property value is therefore associated with an income-generating business. The local owner of an adjacent residential or agricultural parcel may experience the same increase in market value without receiving comparable annual income. This distinction is essential to tax justice because taxation based exclusively on property value treats the appreciation of the two properties as equivalent evidence of fiscal capacity. Yet one property generates a continuous stream of tourism revenue while the other may generate only subsistence agricultural income or no direct monetary return. The difference becomes particularly important where landowners do not intend to sell their property. A valuation increase can therefore create an obligation based on wealth that is difficult to monetise. The tax system should recognise that economic capacity has both an asset dimension and an income dimension, and that these dimensions can diverge sharply during periods of rapid tourism-led appreciation.

The phenomenon is evident in tourism-intensive areas of Bali. Research on tourism gentrification shows that investment has increased land and rental values in Sanur, Kuta, and Ubud while transforming local spatial structures (Suyadnya 2021). Research in Canggu similarly documents the conversion of rice fields into villas and other tourism-supporting facilities as land becomes increasingly valuable for tourism purposes (Putra et al. 2025). These transformations create a paradox for property taxation. On one hand, increasing land values create a stronger fiscal base for local governments and provide owners with greater potential wealth. On the other hand, taxation based on those values may place pressure on owners who continue to use their property for low-income activities. If the property tax rises while agricultural income remains stable, the tax becomes increasingly detached from the owner's capacity to generate cash. In extreme cases, the taxpayer may be encouraged to sell land simply to meet fiscal obligations. Such an outcome would make taxation indirectly contribute to the conversion of local property into tourism assets, thereby reinforcing the very land-market pressures that generated the appreciation.

This does not imply that tourism-induced appreciation should be excluded from the tax base. Such an approach would create a different injustice because it would allow owners of highly valuable tourism-related property to retain substantial gains while contributing little to the public infrastructure supporting that value. OECD research emphasises that recurrent property taxes can improve both efficiency and equity when valuations are regularly updated and tax liabilities correspond to property values (OECD 2022). Property taxation can therefore be understood as a mechanism through which part of socially generated land value returns to the public sector. The crucial issue is distribution. The government should capture a reasonable portion of tourism-generated property value, but it should do so in a manner that distinguishes high-value income-producing properties from vulnerable property holders whose land value has increased primarily because of external market forces. Justice therefore requires value capture with taxpayer differentiation, rather than either blanket taxation or blanket protection.

B. PBB-P2, Property Valuation, and Horizontal Equity

Indonesia's PBB-P2 framework provides regional governments with substantial responsibility for property valuation and tax administration. Law No. 1 of 2022 places PBB-P2 within the local tax system, while subsequent implementing regulations provide the framework for determining taxable property values and administering local taxation (Government of Indonesia 2022; Government of Indonesia 2023). The structure reflects fiscal decentralisation because local governments possess better information concerning local property markets and are responsible for delivering many services that affect property values. However, decentralised valuation also creates risks of inconsistent assessment, political intervention, and unequal treatment among taxpayers. The legitimacy of PBB-P2 therefore depends heavily on the quality of the local valuation system. Where assessed values do not accurately reflect property characteristics or market conditions, taxpayers with economically similar properties may face different burdens, violating horizontal equity.

Badung illustrates both the potential and complexity of this system. Regulation of the Regent of Badung No. 27 of 2024 establishes NJOP and the percentage of NJOP used in calculating PBB-P2, while Regulation No. 28 of 2024 provides mechanisms for reductions in PBB-P2. The regulatory architecture demonstrates that local authorities already possess instruments capable of adjusting the relationship between property value and tax liability. Badung's subsequent fiscal regulations therefore provide a useful institutional basis for a more differentiated justice framework. The important question is how these mechanisms are used. If valuation primarily responds to market appreciation without sufficient attention to taxpayer circumstances, local landowners may experience substantial tax increases. If relief is too broad, however, high-value properties may remain undertaxed and local government may lose revenue needed to provide infrastructure.

Valuation transparency is therefore as important as the tax rate itself. Almy argues that property taxation requires reliable answers to three fundamental questions: what is valued, how it is valued, and who is responsible for valuation (Almy 2014). A taxpayer is more likely to accept an increase in tax liability when the valuation methodology is transparent and the taxpayer can understand why the property's assessed value has changed. Conversely, opaque valuation can create perceptions of arbitrary taxation even where the resulting assessment is technically accurate. OECD research identifies assessment administration, fiscal cadastral systems, mass appraisal, billing, appeals, and enforcement as critical elements of property tax administration (OECD 2021). The implication for Bali is that property tax justice cannot be achieved merely by introducing more progressive rates. A progressive tax calculated from an inaccurate or opaque valuation remains unjust because the underlying distribution of liabilities is unreliable.

Regular reassessment presents a particularly difficult trade-off. If NJOP is not updated regularly, properties in rapidly appreciating tourism areas may remain significantly undervalued, allowing high-value investors to pay taxes that no longer correspond to actual economic value. This reduces local revenue and creates horizontal inequity between properties whose values have been updated and those whose assessments remain outdated. OECD evidence strongly supports regular updating because outdated valuations can weaken both revenue and equity (OECD 2022). However, frequent reassessment can create sharp increases in liabilities for local residents whose incomes do not rise proportionately. The appropriate response is therefore not to freeze valuations but to combine accurate valuation with gradual adjustment, targeted relief, and payment mechanisms that reduce liquidity pressure. In other words, valuation should reflect economic reality, while tax payment should reflect taxpayer capacity. These are separate policy questions and should not be conflated.

Horizontal equity also requires comparing different forms of property use. A luxury resort, a large commercial villa complex, and a modest family residence may all be located in a high-value tourism zone, but their economic functions are different. The resort may generate substantial revenue from international tourists and benefit directly from roads, public beaches, sanitation, security, and destination marketing. The family residence may generate no commercial revenue and provide only housing for its occupants. A tax system that applies identical effective treatment based solely on location and assessed value may therefore overlook differences in the benefits and income associated with property use. This does not justify exempting residential property automatically, because high-value owner-occupied property can also represent significant wealth. It does, however, support differentiated treatment where the policy objective is to prevent tourism-related land appreciation from generating excessive fiscal pressure on households. The distinction should be based on objective criteria such as property use, value, income status, occupancy, and vulnerability rather than nationality or a simplistic classification between “investor” and “local.”

C. Hotel Investors, Local Landowners, and the Principle of Value Capture

The distinction between hotel investors and local landowners is best understood through the concept of value capture. Tourism investors generally acquire property because they expect the property to generate economic returns. The value of a hotel site is not merely its physical land and building value; it reflects expected future tourism revenue, accessibility, destination attractiveness, infrastructure, and the broader tourism ecosystem. A substantial part of this economic value is therefore dependent upon public and collective conditions. Local governments provide roads, waste management, licensing systems, public order, destination infrastructure, environmental management, and other services necessary for tourism. From the benefit principle, it is therefore reasonable for high-value tourism properties to make a substantial contribution to local revenue. Property taxation can serve as one mechanism through which the public sector captures part of the economic rent created by these collective conditions.

Badung's fiscal data illustrate why this argument matters. In 2024, the regency recorded approximately IDR 3.61 trillion in PBJT revenue from hotel services and approximately IDR 287.84 billion in PBB-P2 revenue. These figures demonstrate the scale of tourism-related fiscal activity and the importance of property taxation within the broader local revenue structure (Government of Badung 2025). The existence of substantial hotel-related tax revenue does not mean PBB-P2 should be minimised. Instead, the two instruments can serve complementary purposes. Hotel-related taxes capture part of the flow of economic activity generated by tourism, while PBB-P2 captures part of the underlying stock of land and building value. A justice-oriented fiscal system should therefore ensure that high-value tourism properties contribute through both dimensions when appropriate. Such an approach is more defensible than relying excessively on taxes paid by ordinary residents whose properties appreciate because of the same tourism development.

Hotel investors also generally possess greater administrative capacity than individual landowners. Corporate tourism enterprises typically employ accountants, tax advisers, lawyers, valuation professionals, and property managers. They can therefore respond more effectively to complex tax rules, valuation disputes, reporting requirements, and appeals. Local landowners may lack equivalent resources. This difference matters because formal equality in legal obligations can produce substantive inequality in compliance capacity. Tax justice should consequently consider not only the amount of tax imposed but also the taxpayer's capacity to understand and challenge the assessment. OECD research on property tax administration emphasises the importance of accessible billing and appeal systems because administrative asymmetries can undermine horizontal equity (OECD 2021). Bali's property tax administration should therefore ensure that small landowners have accessible procedures for correcting erroneous valuations, requesting relief, and challenging assessments without requiring professional representation comparable to that available to large investors.

At the same time, it would be normatively problematic to characterise every local landowner as vulnerable and every investor as capable of paying more. Some local owners may possess high-value beachfront or strategically located property and derive significant rental income from it. Conversely, some tourism businesses may operate under financial constraints, particularly during periods of low occupancy or economic shocks. Tax justice therefore cannot rest on identity categories alone. The relevant criteria should be economic and functional. A local owner operating several commercial villas should not receive the same treatment as a low-income household occupying inherited land. Similarly, a small locally owned guesthouse should not automatically face the same fiscal treatment as a multinational hotel complex. The proper principle is capacity-sensitive neutrality: the tax system should remain neutral toward ownership identity while recognising differences in economic capacity, property use, and benefits obtained from tourism development.

The same reasoning applies to foreign investment. The presence of foreign capital in Bali can contribute to economic growth, employment, infrastructure, and tourism competitiveness, but ownership and investment structures may also generate concerns about land control and local displacement. The relevant tax response should not be a nationality-based property tax because such discrimination would undermine legal neutrality and could conflict with broader investment principles. Instead, high-value property, commercial use, income generation, and tourism intensity should be the principal tax criteria. This approach ensures that the fiscal system captures economic rents regardless of whether the property is owned by a domestic company, local entrepreneur, or foreign-backed investment vehicle. The justice objective is not to penalise foreign investors but to ensure that economic actors who derive substantial value from Bali's tourism ecosystem contribute appropriately to maintaining the public conditions that make that value possible.

D. Protecting Vulnerable Landowners through Progressive Valuation and Targeted Relief

The strongest case for reform concerns landowners whose property value rises without a corresponding increase in income. This group may include elderly owner-occupiers, low-income households, small farmers, and families holding inherited land in rapidly developing tourism corridors. For these taxpayers, property tax can become a cash-flow problem. The property is valuable on paper but cannot easily be converted into income without selling or commercially developing it. A system that responds to tourism appreciation by automatically increasing annual tax liability may unintentionally create pressure to sell. This is particularly concerning in Bali because land is associated not only with economic value but also with family continuity, community relationships, agricultural production, and cultural identity. A tax policy that ignores these dimensions can be formally lawful while producing socially disruptive outcomes. The appropriate solution is not to suppress property valuation but to introduce targeted mechanisms that separate accurate valuation from immediate payment capacity.

Progressive valuation provides one potential mechanism. Rather than applying the same percentage of assessed value across all properties, local governments can use value bands or differentiated taxable-value percentages so that the effective burden increases with property value. Denpasar's regulatory framework demonstrates that regional governments can differentiate PBB-P2 according to property value and use. Its 2024 regulation established different rates for properties below and above IDR 1 billion and provided zero-percent treatment for certain agricultural and low-income properties under specified conditions (Government of Denpasar 2024). Such policy demonstrates that progressive property taxation is institutionally feasible within Indonesia. The lesson for Bali is not necessarily to replicate Denpasar's exact structure in every jurisdiction, but to recognise that progressive treatment can be designed within existing decentralised authority.

Targeted relief should nevertheless be designed carefully. Broad exemptions based solely on property ownership can create opportunities for high-value taxpayers to reduce their liabilities and may weaken the revenue base. OECD research warns that tax relief and assessment caps can reduce progressivity when they disproportionately benefit owners of valuable property (OECD 2022). The appropriate approach is therefore to link relief to objectively verifiable vulnerability. Owner-occupied residential property of low-income households could receive reductions or deferrals, while agricultural land that remains genuinely productive could receive preferential treatment consistent with food-security and spatial-planning objectives. Elderly taxpayers with limited income could potentially defer part of the tax until the property is transferred or sold. Such mechanisms would protect liquidity without permanently removing the property from the tax base. The principle is that tax relief should address inability to pay, not merely reduce tax because a taxpayer owns property.

Deferral is particularly attractive because it addresses liquidity without destroying the government's claim on future property wealth. If a local landowner owns a highly appreciated parcel but has insufficient income to pay the full PBB-P2 liability, the government could permit partial deferral subject to clear legal conditions. The deferred amount could become payable upon sale, transfer, or another specified event. Such a mechanism recognises that the taxpayer may eventually realise the capital gain while avoiding forced sale during periods of low liquidity. International property tax systems have used various forms of deferral, caps, or payment arrangements to address the mismatch between property value and current income, although these instruments must be carefully designed to avoid undermining progressivity (OECD 2022). For Bali, deferral could be particularly relevant where tourism appreciation is rapid and residents wish to retain family property rather than sell it.

Protection should also be connected to land-use policy. Agricultural land that is deliberately maintained as productive land provides environmental, food-security, and cultural benefits that extend beyond the individual owner. Tax treatment can therefore support broader spatial objectives by preventing productive land from being fiscally disadvantaged relative to tourism conversion. If a farmer faces rising PBB-P2 while a developer can generate substantially greater revenue by converting the same land into tourism facilities, taxation may unintentionally reinforce conversion incentives. Property taxation should instead be coordinated with spatial planning and sustainable land-use policies. The objective is not to use tax policy as a substitute for land-use regulation but to ensure that the tax system does not undermine public objectives concerning agricultural preservation, environmental protection, or cultural landscapes. This is consistent with OECD analysis recognising that recurrent property taxation can influence land-use decisions and should be coordinated with planning policy (OECD 2021).

The final element is transparency. Local landowners should be able to understand how tourism-driven appreciation affects their NJOP, how the assessment was determined, what comparable properties were considered, and what relief mechanisms are available. A transparent valuation system could publish general valuation zones, methodological standards, and appeal procedures while protecting individual taxpayer information. Digital cadastral and valuation systems can improve consistency, but digitalisation should not eliminate human assistance. Small landowners need accessible channels through which they can contest errors or explain circumstances that automated valuation cannot capture. The OECD has emphasised that effective property tax administration requires reliable fiscal cadastres, updated valuations, billing systems, and appeal mechanisms (OECD 2021). For Bali, transparency is therefore not merely an administrative ideal; it is a condition for maintaining legitimacy when property values rise rapidly because of tourism development.

Conclusion

Property taxation in Bali must be evaluated within the broader political economy of tourism-driven land appreciation. Tourism increases the economic value of land by generating demand for accommodation, commercial activities, infrastructure, and strategically located property. High-value tourism enterprises are therefore legitimate subjects of substantial property taxation because they derive economic benefits from the tourism ecosystem and from public infrastructure that supports those benefits. PBB-P2 can function as an important instrument for capturing part of this value for local government and financing public services. However, the same valuation process can produce injustice when increases in assessed property value affect local landowners whose income has not increased proportionately. The central problem is therefore not whether property values should be taxed, but whether the tax burden reflects the difference between economically productive property and property whose value has increased primarily through external tourism-driven appreciation. Tax justice requires the government to capture socially generated land value while preventing asset-rich but income-constrained residents from bearing disproportionate fiscal pressure.

A justice-oriented property tax framework for Bali should consequently combine accurate valuation, progressive treatment of high-value properties, transparent assessment, and targeted protection for vulnerable landowners. High-value hotels, resorts, commercial villas, and tourism properties should contribute proportionately to local revenue because their economic capacity and dependence on tourism infrastructure are substantial. Local owner-occupiers, agricultural landholders, and other vulnerable taxpayers should have access to reductions, deferrals, or carefully targeted exemptions when rising property values create liquidity problems without corresponding income. Such relief should be based on objective economic and functional criteria rather than nationality or ownership identity. The ultimate objective should be tourism value capture without local fiscal displacement. Bali should not choose between attracting investment and protecting local communities. A properly designed property tax system can do both by ensuring that those who receive the greatest economic benefit from tourism-generated land value contribute more to the public system while residents whose property appreciates beyond their income capacity are protected from being taxed into selling the land that anchors their economic, social, and cultural security.

References

Almy, Richard. 2014. "Valuation and Assessment of Immovable Property." *OECD Working Papers on Fiscal Federalism*, no. 19. Paris: OECD Publishing. https://doi.org/10.1787/5jz5pzvr28hk-en.

Bird, Richard M., and Enid Slack. 2004. "International Handbook of Land and Property Taxation." Cheltenham: Edward Elgar.

Bird, Richard M., and Enid Slack. 2013. "Land and Property Taxation: A Review." *International Center for Public Policy Working Paper Series*. Atlanta: Georgia State University.

Bluchliger, Hansjurg. 2015. "Reforming the Tax on Immovable Property: Taking Care of the Unloved." *OECD Economics Department Working Papers*, no. 1205. Paris: OECD Publishing. https://doi.org/10.1787/5js30tw0n7kg-en.

Brys, Bert, Sarah Perret, Alastair Thomas, and Pierce O'Reilly. 2016. "Tax Design for Inclusive Economic Growth." *OECD Taxation Working Papers*, no. 26. Paris: OECD Publishing.

Fischel, William A. 2001. *The Homevoter Hypothesis: How Home Values Influence Local Government Taxation, School Finance, and Land-Use Policies*. Cambridge, MA: Harvard University Press.

George, Henry. 1879. *Progress and Poverty*. New York: Robert Schalkenbach Foundation.

Government of Badung. 2024. *Regulation of the Regent of Badung No. 27 of 2024 concerning the Amount of Sales Value of Taxable Objects and the Percentage of Sales Value of Taxable Objects for Land and Building Tax for Rural and Urban Areas.*

Government of Badung. 2024. *Regulation of the Regent of Badung No. 28 of 2024 concerning Reductions of Principal Land and Building Tax for Rural and Urban Areas.*

Government of Badung. 2024. *Regulation of the Regent of Badung No. 29 of 2024 concerning the Administration of Regional Taxes.*

Government of Badung. 2025. *Notes to the Financial Statements of the Government of Badung Regency for Fiscal Year 2024.* Badung: Government of Badung.

Government of Denpasar. 2024. *Regulation of the Mayor of Denpasar No. 1 of 2024 concerning Regional Taxes and Regional Levies.*

Government of Indonesia. 2022. *Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments.* Jakarta: Government of Indonesia.

Government of Indonesia. 2023. *Government Regulation No. 35 of 2023 concerning General Provisions for Regional Taxes and Regional Levies.* Jakarta: Government of Indonesia.

Harvey, David. 2008. "The Right to the City." *New Left Review* 53: 23–40.

Iswari, Kadek Clara Sintha, and Ni Made Dwi Ratnadi. 2020. "Analisis Potensi Pajak Hotel dan Kontribusinya Terhadap PAD Kabupaten Badung." *E-Jurnal Akuntansi* 30 (2). https://doi.org/10.24843/EJA.2020.v30.i02.p10.

Kelly, Roy, Richard White, and Arbind Modi. 2020. *Property Tax Diagnostic Manual.* Washington, DC: World Bank.

Musgrave, Richard A. 1990. "Horizontal Equity, Once More." *National Tax Journal* 43 (2): 113–122. https://doi.org/10.1086/NTJ41788830.

Oates, Wallace E. 1969. "The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Tax Capitalization and the Tiebout Hypothesis." *Journal of Political Economy* 77 (6): 957–971.

OECD. 2015. *Taxation of SMEs in OECD and G20 Countries.* OECD Tax Policy Studies, no. 23. Paris: OECD Publishing. https://doi.org/10.1787/9789264243507-en.

OECD. 2021. *Making Property Tax Reform Happen in China: A Review of Property Tax Policy and Administration.* Paris: OECD Publishing.

OECD. 2022. *Housing Taxation in OECD Countries.* Paris: OECD Publishing. https://doi.org/10.1787/03dfe007-en.

OECD. 2022. *Revenue Statistics 2022.* Paris: OECD Publishing.

OECD. 2023. *OECD Economic Surveys: Indonesia 2023.* Paris: OECD Publishing.

Partini, I Gusti Ayu San Yogi, and I Ketut Budiartha. 2023. "Pengaruh Efektivitas dan Kontribusi Pajak Hotel dan Pajak Restoran terhadap Pendapatan Asli Daerah Kabupaten Badung." *E-Jurnal Ekonomi dan Bisnis Universitas Udayana* 12 (5): 981–990. https://doi.org/10.24843/EEB.2023.v12.i05.p17.

Putra, I. Wayan, et al. 2025. "Overtourism Sensitivity and Tourism Development in Canggu, Bali." *Cogent Social Sciences*. https://doi.org/10.1080/23311886.2025.2521364.

Rawls, John. 1971. *A Theory of Justice*. Cambridge, MA: Harvard University Press.

Ristiawan, R. 2024. "Apprehending Land Value Through Tourism in Indonesia: Commodification of Rural Landscapes Through Geoparks." *Tijdschrift voor Economische en Sociale Geografie*. https://doi.org/10.1111/tesg.12597.

Slack, Enid, and Richard M. Bird. 2014. "The Political Economy of Property Tax Reform." *OECD Working Papers on Fiscal Federalism*, no. 18. Paris: OECD Publishing.

Slemrod, Joel. 2007. "Cheating Ourselves: The Economics of Tax Evasion." *Journal of Economic Perspectives* 21 (1): 25–48. https://doi.org/10.1257/jep.21.1.25.

Suyadnya, I Wayan. 2021. "Tourism Gentrification in Bali, Indonesia: A Wake-up Call for Overtourism." *Masyarakat: Jurnal Sosiologi* 26 (2). https://doi.org/10.7454/MJS.v26i2.12930.

Winarko, Hilarius Bambang, and Mila. 2025. "The Paradox of Hospitality: Tourism Development, Cultural and Environmental Sustainability." *Bali Tourism Journal* 9 (3). https://doi.org/10.36675/btj.v9i3.120.

World Bank. 2011. *Property Tax Reform: Guidelines for Countries*. Washington, DC: World Bank.

World Bank. 2018. *Land Governance Assessment Framework: Implementation Manual*. Washington, DC: World Bank.

Yudiantika, Kadek Agus, and Dewa Krisna Prasada. 2025. "The Evaluating Land Regulation Challenges in Mitigating Gentrification: Insights from Bali's Mass Tourism Impact." *Jurnal Akta* 12 (1). https://doi.org/10.30659/akta.v12i1.43449.

***

This page is intentionally left blank

Acknowledgment

None

Funding Information

None

Conflicting Interest Statement

The authors state that there is no conflict of interest in the publication of this article.

Publishing Ethical and Originality Statement

All authors declared that this work is original and has never been published in any form and in any media, nor is it under consideration for publication in any journal, and all sources cited in this work refer to the basic standards of scientific citation.

Generative AI Statement

N/A