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Property Tax Justice in Coastal Tourism Areas: The Impact of Rising Land Values on Local Residents in Bali

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Abstract

Tourism development in Bali's coastal areas has contributed to substantial increases in land and property values. While higher property values can expand local government tax bases, they may also increase property tax liabilities for residents whose income does not increase at the same rate. This article examines the relationship between tourism-driven land appreciation and property tax justice in coastal Bali. Using normative juridical and policy analysis, the study evaluates property valuation, local taxation, tourism development, and mechanisms for protecting economically vulnerable taxpayers. The article argues that market-based property valuation may produce inequitable outcomes when tourism investment rapidly increases land prices without corresponding improvements in residents' economic capacity. Long-term residents may consequently face rising fiscal obligations despite deriving limited financial benefits from tourism-related appreciation. The study proposes a differentiated property tax framework incorporating taxpayer ability to pay, targeted relief, valuation transparency, and safeguards for long-term local residents. The article further argues that high-value tourism properties should bear an appropriate share of the fiscal costs associated with infrastructure and environmental pressures. The study concludes that property taxation in tourism-intensive areas should integrate fiscal efficiency with social protection and distributive justice.

[*Pengembangan pariwisata di kawasan pesisir Bali telah berkontribusi pada peningkatan signifikan nilai tanah dan properti. Meskipun nilai properti yang lebih tinggi dapat memperluas basis pajak pemerintah daerah, hal ini juga dapat meningkatkan beban pajak properti bagi penduduk yang pendapatannya tidak meningkat pada tingkat yang sama. Artikel ini mengkaji hubungan antara kenaikan nilai tanah akibat pariwisata dan keadilan pajak properti di wilayah pesisir Bali. Dengan menggunakan pendekatan yuridis normatif dan analisis kebijakan, studi ini mengevaluasi penilaian properti, perpajakan daerah, pengembangan pariwisata, serta mekanisme perlindungan bagi wajib pajak yang rentan secara ekonomi. Artikel ini berargumen bahwa penilaian properti berbasis pasar dapat menghasilkan* *ketimpangan ketika investasi pariwisata memicu lonjakan harga tanah yang cepat tanpa dibarengi dengan peningkatan kemampuan ekonomi penduduk. Akibatnya, penduduk yang telah lama bermukim mungkin menghadapi kenaikan kewajiban fiskal meskipun hanya memperoleh manfaat finansial terbatas dari kenaikan nilai aset akibat pariwisata. Studi ini mengusulkan kerangka pajak properti yang dibedakan (diferensiasi) dengan mempertimbangkan kemampuan membayar wajib pajak, keringanan pajak yang tepat sasaran, transparansi penilaian, serta perlindungan bagi penduduk lokal yang telah lama tinggal. Artikel ini juga berpendapat bahwa properti pariwisata bernilai tinggi harus menanggung proporsi yang wajar atas beban fiskal terkait infrastruktur dan tekanan lingkungan. Studi ini menyimpulkan bahwa perpajakan properti di kawasan dengan intensitas pariwisata tinggi harus memadukan efisiensi fiskal dengan perlindungan sosial dan keadilan distributif.*]

Keywords: Property tax, Bali, land value, tourism, fiscal justice

Introduction

Property taxation occupies a distinctive position within the architecture of fiscal justice because its tax base is immovable, geographically identifiable, and closely connected to public investment and spatial development. Unlike taxes on income or consumption, property taxes are directly linked to the value of land and buildings, which may increase not only because of the actions of owners but also because of infrastructure provision, zoning decisions, tourism development, environmental amenities, and broader market transformation. In rapidly developing tourism destinations, this characteristic creates a fundamental distributive question: when public policy and private investment increase land values, who should benefit from that appreciation and who should bear the resulting fiscal burden?

Bali provides an important setting in which to examine this question. Tourism has transformed substantial portions of the island's coastal and peri-urban areas into high-value economic spaces. Tourism infrastructure, accommodation development, restaurants, villas, entertainment facilities, transportation networks, and digital tourism platforms have increased the commercial attractiveness of land in areas such as Badung, Gianyar, and other tourism-intensive locations. At the same time, these processes have generated concerns regarding land conversion, displacement, gentrification, housing affordability, and the ability of long-term residents to remain economically connected to areas undergoing rapid tourism commercialization.

Recent research provides evidence that tourism-driven land appreciation in Bali has a significant socio-spatial dimension. Yudiantika and Prasada (2025) find that tourism growth and investment have contributed to substantial increases in land and property prices in areas such as Canggu and Ubud, creating affordability pressures for local residents and contributing to marginalization and displacement. Suyadnya (2020) similarly describes tourism gentrification in Bali as a socio-spatial transformation in which tourism investment increases land and rental values while transforming land utilization and local settlement structures.

These processes create an important but relatively underexamined connection between tourism development and property taxation. When the market value of land increases, the fiscal value assigned to that property may also increase. In Indonesia, PBB-P2 is a local tax whose assessment base is the *Nilai Jual Objek Pajak* (NJOP). Law No. 1 of 2022 establishes NJOP as the basis for PBB-P2 and provides that the NJOP used for calculation may be set within a range of 20 to 100 percent of the NJOP after deduction of the non-taxable NJOP threshold.

The statutory structure therefore creates an important relationship between land valuation and tax liability. If tourism development raises market values and those increases are reflected in NJOP, the tax base can expand even where the resident's income remains relatively unchanged. This is fiscally attractive for local governments because property appreciation expands the potential revenue base without requiring increases in nominal tax rates. From the perspective of fiscal efficiency, such an outcome may appear desirable. From the perspective of distributive justice, however, the outcome is more complicated.

The central problem is that wealth appreciation is not equivalent to income realization. A household may own land that has become extremely valuable because of tourism development while continuing to rely on wages, agricultural income, small business activity, or pensions. The household possesses a valuable asset but may lack sufficient liquid income to absorb substantially higher recurring property-tax obligations. A tax system that treats property value as an adequate proxy for ability to pay can therefore produce a liquidity problem for asset-rich but income-poor residents.

This distinction is important within tax justice theory. Musgrave (1959) emphasizes the allocation and distributional functions of public finance, while Atkinson (1970) and later literature on optimal taxation highlight the importance of evaluating tax burdens in relation to economic capacity rather than simply applying formally identical rules. The ability-to-pay principle consequently suggests that tax burdens should reflect the taxpayer's actual economic capacity. Although property is an indicator of wealth, the relationship between property wealth and current income can become particularly weak when land values are rapidly inflated by external market forces.

The problem is further complicated by the concept of tax capitalization. Oates (1969) demonstrated that property values are influenced by the relationship between property taxes and local public expenditure, suggesting that property taxation and public services can become capitalized into property prices. In a tourism destination, this relationship can become particularly dynamic. Roads, airports, beaches, public spaces, sanitation systems, tourism branding, and local infrastructure may increase accessibility and amenity values, thereby increasing surrounding land prices. Property owners may consequently receive capital gains partly generated by collective public action.

George (1879) offers an even more fundamental perspective through the land-rent tradition. Land value is not created exclusively by individual owners; a substantial component of land value arises from community growth, accessibility, infrastructure, and the economic activity surrounding the property. From this perspective, land taxation can be justified as a mechanism for capturing part of socially generated land rents for public purposes. The challenge for Bali is therefore not simply whether property should be taxed. The more difficult question is how tourism-generated land value should be shared between private owners and the community, and how the tax system should distinguish between economically powerful investors and long-term residents whose land wealth is largely unrealized.

This issue is closely connected to gentrification. Gentrification occurs when investment and rising demand transform relatively lower-value neighborhoods into higher-value spaces, often creating displacement pressures for existing residents. Smith's (1979) rent-gap theory explains gentrification through the divergence between actual ground rent and potential ground rent. When tourism investment dramatically increases the potential economic return from land, owners and investors have incentives to redevelop or acquire properties in order to capture the resulting rent gap.

Ristiawan (2024) provides empirical support for this theoretical framework in the Indonesian tourism context. Examining tourism-driven landscape commodification, the study finds that tourism development and regional infrastructure can create rent gaps, increase land prices, and produce negotiated forms of displacement. The findings are important because they demonstrate that land-value increases are not simply market phenomena; they are produced through interactions between government infrastructure, tourism investment, regional governance, and private capital.

Property taxation consequently operates within the same land-value transformation process. If land values increase because tourism investment and public infrastructure create new economic opportunities, then a portion of the resulting land rent can reasonably be captured through taxation. However, if the tax system simply transfers this increased valuation into higher annual liabilities for long-term residents without mechanisms to distinguish between speculative investors and resident households, taxation may exacerbate rather than alleviate the social consequences of gentrification.

Indonesian law already provides a normative basis for considering land as a social resource rather than merely a private commodity. The Basic Agrarian Law, Law No. 5 of 1960, establishes the social function of land rights. This principle is reinforced by the constitutional conception of land and natural resources as resources that should be used for the greatest prosperity of the people. Property Spatial Planning emphasizes sustainable, transparent, participatory, and socially just spatial governance and recognizes community participation in spatial planning.

This means that land-value changes produced through spatial decisions cannot be treated exclusively inequality, while fiscal studies generally emphasize property taxation as a source of local revenue and a mechanism for financing public services. This article connects these two literatures taxation should therefore be interpreted within a broader legal framework in which private ownership is protected but is not completely detached from social obligations.

Spatial planning law provides another relevant dimension. Law No. 26 of 2007 on Spatial Planning emphasizes sustainable, transparent, participatory, and socially just spatial governance and recognizes community participation in spatial planning. This means that land-value changes produced through spatial decisions cannot be treated exclusively as private economic outcomes. Zoning, infrastructure, tourism development permits, and spatial planning decisions can materially affect land values and therefore the distribution of wealth. The housing dimension is equally important. Law No. 1 of 2011 on Housing and Settlement Areas establishes a framework for housing provision, settlement protection, and public participation. In tourism-intensive coastal areas, where residential land can be converted into villas, resorts, short-term rentals, and commercial facilities, property tax policy should therefore be coordinated with housing and spatial policy rather than operating as an isolated fiscal instrument.

Existing Indonesian tourism-justice literature reinforces this concern. Putri (2024) finds that luxury tourism development can generate rising property prices, displacement, marginalization, and the erosion of traditional livelihoods. Wardani and Umar (2025) similarly identify land dispossession and displacement as important justice problems associated with tourism development in Indonesia. Research on tourism and land rights in Bali further emphasizes the tension between tourism-related land acquisition and the protection of indigenous and local communities.

Recent empirical research on Canggu illustrates the intensity of land-use transformation. Research published in 2025 reports that rice fields in Canggu declined substantially as land was converted into villas, hotels, and other tourism-supporting facilities, illustrating the direct connection between tourism investment, land conversion, and changes in local land use. These changes matter for property taxation because they alter not only land values but also the economic function of property.

The article therefore addresses a gap between the literature on tourism gentrification and the literature on local property taxation. Existing studies have extensively examined tourism-related land appreciation, displacement, land conversion, and local inequality, while fiscal studies generally emphasize property taxation as a source of local revenue and a mechanism for financing public services. This article connects these two literatures by asking whether PBB-P2 remains just when tourism-driven increases in land value are substantially disconnected from the current income and economic capacity of long-term residents.

The article makes three contributions. First, it conceptualizes tourism-driven property appreciation as a fiscal-justice problem rather than merely a real-estate or urban-development phenomenon. Second, it examines PBB-P2 framework governing property taxation, land rights, spatial planning, housing, and regional fiscal authority. Particular attention is given to Law No. 5 of 1960 on Basic Agrarian Principles, Law No. 1 of 2011 on Housing and Settlement Areas and NJOP within the broader legal framework governing land, taxation, spatial planning, and housing. Third, it proposes a Tourism Property Tax Justice Framework that combines accurate valuation with ability-to-pay safeguards, targeted relief, valuation transparency, and appropriate taxation of high-value tourism properties.

This study employs a normative juridical and policy-analysis methodology. The normative juridical component examines the legal principles and statutory framework governing property taxation, land rights, spatial planning, housing, and regional fiscal authority. Particular attention is given to Law No. 5 of 1960 on Basic Agrarian Principles, Law No. 1 of 2011 on Housing and Settlement Areas, Law No. 26 of 2007 on Spatial Planning, Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments, and relevant implementing regulations concerning local taxation and PBB-P2.

The policy analysis evaluates the relationship between property valuation, tourism-driven appreciation, tax liability, and distributive justice. The analysis incorporates the ability-to-pay principle, tax capitalization theory, land-rent theory, rent-gap theory, gentrification theory, fiscal federalism, and the social-function principle of land. Secondary literature concerning tourism development, land-value transformation, gentrification, and local communities in Bali is used to contextualize the legal analysis. Particular attention is given to empirical and socio-legal studies published before or during 2025. The research is normative and analytical rather than econometric; it therefore does not estimate a statistically causal relationship between individual PBB-P2 liabilities and household displacement.

Tourism-Driven Land Appreciation and the Distributional Problem of PBB-P2

The first problem concerns the transformation of land into a high-value fiscal asset through tourism development. Land values do not increase solely because individual owners improve their properties. In tourism-intensive locations, values can increase because roads improve, tourism demand expands, commercial facilities emerge, public infrastructure becomes more accessible, environmental amenities are marketed, and the destination acquires international visibility. The resulting appreciation therefore contains both private and socially generated components.

This distinction is critical for evaluating property taxation. If land value is partly produced by collective economic and governmental activity, then taxation of land value has a strong theoretical justification. George's (1879) land-rent theory suggests that socially generated increases in land value can legitimately be captured for public purposes. In modern fiscal terms, property taxation can therefore be understood as a mechanism through which government recovers part of the value created by public investment and collective economic development.

Oates (1969) provides a complementary perspective through tax capitalization. Local taxation and public expenditure can become reflected in property prices, meaning that the fiscal structure of a locality affects the economic value of property itself. In Bali's tourism areas, this relationship may be particularly strong because tourism development depends upon infrastructure and public goods that increase accessibility and destination attractiveness.

From this perspective, an increase in PBB-P2 liability following an increase in land value is not inherently unjust. If an owner receives a substantial increase in asset value because the surrounding area has become more economically productive, taxation can be understood as a mechanism for sharing the resulting prosperity. The problem emerges when the tax liability increases more rapidly than the taxpayer's capacity to pay.

This is where the distinction between wealth and income becomes central. Consider a long-term resident who owns a parcel inherited from parents or grandparents. A tourism boom may increase the market value of the property several-fold. However, the resident may continue to earn a relatively modest income NJOP upward to reflect the increased value of the area, the household's recurring tax liability may rise. The resident cannot easily monetize the unrealized capital gain without selling or redeveloping the property. Consequently an attractive tax base because it is immobile and observable, but its immobility does not mean that its owners possess equal liquidity. A property tax can therefore be efficient from an from farming, local employment, a small shop, or other informal activities. The resident has become wealthier on paper but not necessarily wealthier in terms of disposable income.

If the tax authority adjusts NJOP upward to reflect the increased value of the area, the household's recurring tax liability may rise. The resident cannot easily monetize the unrealized capital gain without selling or redeveloping the property. Consequently, the household faces a liquidity constraint: the tax is payable in cash, whereas the underlying wealth is embodied in land. This problem has long been recognized in the broader literature on property taxation. Property is an attractive tax base because it is immobile and observable, but its immobility does not mean that its owners possess equal liquidity. A property tax can therefore be efficient from an administrative perspective while producing distributional difficulties for households whose assets are valuable but whose incomes remain low.

The ability-to-pay principle provides a normative response. Tax justice requires that tax burdens be evaluated in relation to the economic capacity of taxpayers. This does not mean that property taxes should be determined solely by income because doing so would undermine the fundamental rationale of property taxation. Rather, property value and income should be considered together when designing while the taxable NJOP used for calculation can be determined between 20 and 100 percent of the relevant NJOP after the non-taxable component is deducted. This relief mechanisms.

Law No. 1 of 2022 already provides important flexibility within the PBB-P2 structure. Article 40 establishes NJOP as the tax base and provides for a non-taxable NJOP threshold, while the taxable NJOP used for calculation can be determined between 20 and 100 percent of the relevant NJOP after the non-taxable component is deducted. This structure provides local governments with a degree of policy discretion that can potentially be used to mitigate sudden increases in tax burdens.

The existence of this flexibility is significant because it demonstrates that the legal framework does not necessarily require a simple one-to-one relationship between market appreciation and tax liability. Local governments can potentially calibrate the effective tax burden to local economic circumstances. The policy challenge is therefore not government issued regulations in 2024 concerning the determination of NJOP and the percentage of NJOP used for PBB-P2, as well as separate regulations providing reductions in the principal PBB-P2 liability. The existence of these instruments demonstrates that local fiscal policy can incorporate relief mechanisms within the PBB-P2 framework. modest primary residences occupied by long-term local households. Although both may experience increases in NJOP, their economic functions and owners' ability to absorb tax increases can be horizontal and vertical equity. Horizontal equity requires similarly situated taxpayers to be treated similarly, while vertical equity recognizes that taxpayers with different economic capacities may legitimately face different effective burdens. Property taxation in tourism areas must necessarily legislative replacement but the development of transparent and justice-oriented valuation and relief policies.

Badung provides a particularly relevant institutional example. The Badung Regency government issued regulations in 2024 concerning the determination of NJOP and the percentage of NJOP used for PBB-P2, as well as separate regulations providing reductions in the principal PBB-P2 liability. The existence of these instruments demonstrates that local fiscal policy can incorporate relief mechanisms within the PBB-P2 framework.

Such mechanisms should be understood not as administrative concessions but as instruments of tax justice. A tax reduction for vulnerable long-term residents can prevent a situation in which tourism-driven appreciation forces households to sell property simply because they can no longer afford the recurring tax liability. The risk of such displacement is not hypothetical. Yudiantika and Prasada (2025) document significant land-price increases associated with tourism development in Bali and argue that local communities face growing affordability pressures and displacement risks. Putri (2024) similarly identifies rising property prices and local displacement as consequences of luxury tourism development.

Property taxation can interact with these pressures in two opposing ways. Properly designed, it can capture tourism-generated land rents and use them to finance public services, infrastructure, and community protection. Poorly designed, it can increase the cost of remaining in a tourism-intensive area for residents who have not realized the financial benefits of land appreciation.

This distinction suggests that the central question should not be whether PBB-P2 should increase when land values increase. Instead, the question is whether the distribution of the additional tax burden corresponds to the distribution of the additional economic benefit generated by tourism. High-value villas, luxury resorts, commercial properties, and investment properties are fundamentally different from modest primary residences occupied by long-term local households. Although both may experience increases in NJOP, their economic functions and owners' ability to absorb tax increases can be radically different.

A luxury villa purchased as an investment may generate substantial rental income and capital appreciation. A traditional family home may generate no direct monetary return. Applying identical effective tax treatment to both merely because their assessed land values have increased may therefore produce formally equal but substantively unequal taxation. This is a classic distinction between horizontal and vertical equity. Horizontal equity requires similarly situated taxpayers to be treated similarly, while vertical equity recognizes that taxpayers with different economic capacities may legitimately face different effective burdens. Property taxation in tourism areas must incorporate both principles.

A justice-oriented PBB-P2 regime should consequently distinguish between investment properties and primary residences, especially where rapid tourism development creates extraordinary land appreciation. Such, community facilities, traditional settlements, and residential properties can provide social value that is not captured by market prices. If tourism-related speculation causes their assessed values differentiation does not necessarily constitute preferential treatment. It can represent a correction for differences in economic function and liquidity.

The same reasoning applies to land held for productive local purposes. Agricultural land, community facilities, traditional settlements, and residential properties can provide social value that is not captured by market prices. If tourism-related speculation causes their assessed values to increase, a tax system based exclusively on market value may inadvertently penalize the continued social use of the land. This is particularly important in Bali because land is connected to agricultural, cultural, customary, and community institutions. The social-function principle of land under Indonesian agrarian law provides a legal basis for understanding why land policy should not be reduced to private market value.

The issue therefore extends beyond PBB-P2. Land taxation, spatial planning, tourism licensing, housing policy, and environmental governance should operate as an integrated system. A local government cannot reasonably promote intensive tourism development, permit rapid conversion of land, benefit from resulting fiscal appreciation, and then treat displacement caused by the resulting tax burden as an entirely private problem. Tourism-generated land appreciation is therefore simultaneously an economic opportunity and a distributive challenge. The appropriate fiscal response is not to suppress property-value growth but to ensure that the public value generated by tourism is shared while vulnerable residents are protected from involuntary fiscal displacement.

NJOP, Ability to Pay, Gentrification, and the Social Function of Land

The second issue concerns the methodology through which property values are translated into tax liabilities. Accurate valuation is essential for tax neutrality because undervalued properties can produce arbitrary differences in tax burdens. However, valuation accuracy alone a technical valuation concept. It is a fiscal institution with distributive consequences. When NJOP rises, the change can affect not only government revenue but also household expenditure, property investment decisions, land-use land prices to increase rapidly within specific coastal corridors while values remain considerably lower in neighboring areas. A uniform regional policy can therefore produce highly unequal consequences at the in a manner that forces residents to realize that rent through sale. If an elderly household or low-income family is compelled to sell a long-held property because annual taxes become unaffordable, cannot guarantee tax justice. A perfectly accurate valuation may still generate unjust outcomes if the underlying tax structure ignores differences in economic capacity.

NJOP is therefore not merely a technical valuation concept. It is a fiscal institution with distributive consequences. When NJOP rises, the change can affect not only government revenue but also household expenditure, property investment decisions, land-use decisions, and ultimately the social composition of a neighborhood. This becomes especially significant in tourism areas because market prices can be highly volatile and geographically concentrated. Tourism investment may cause land prices to increase rapidly within specific coastal corridors while values remain considerably lower in neighboring areas. A uniform regional policy can therefore produce highly unequal consequences at the local level.

Ristiawan's (2024) analysis of tourism-related land commodification in Indonesia demonstrates that tourism development can create significant rent gaps and rapid land-price increases. The study shows that infrastructure and tourism-related interventions can contribute to dramatic increases in land values, while local and regional governance structures influence how these gains are distributed. The implication for PBB-P2 is important. A substantial portion of property appreciation may result from factors external to the owner's individual investment. The owner benefits from the appreciation, but the owner did not necessarily create the economic conditions that generated it. Taxation of the resulting land value can therefore be justified as a mechanism for capturing part of a socially produced rent.

However, the tax should not be structured in a manner that forces residents to realize that rent through sale. If an elderly household or low-income family is compelled to sell a long-held property because annual taxes become unaffordable, the property tax has effectively become an indirect mechanism of displacement. This is the concept of fiscal displacement. It differs from conventional gentrification because the government may not directly acquire the land or impose a development rent-gap theory explains that redevelopment becomes attractive when the potential economic return from land substantially exceeds its existing use value. Tourism investment can accelerate this process because accommodation and commercial project. Instead, fiscal obligations become part of the economic pressure that makes continued residence increasingly difficult.

Gentrification theory provides an important analytical framework here. Smith's (1979) rent-gap theory explains that redevelopment becomes attractive when the potential economic return from land substantially exceeds its existing use value. Tourism investment can accelerate this process because accommodation and commercial uses may generate significantly greater returns than traditional residential or agricultural activities. Suyadnya (2020) identifies tourism gentrification in Bali as a process involving rising land and property rental values, changes in land utilization, and the expansion of tourism investment into previously lower-value areas. Yudiantika and Prasada (2025) similarly demonstrate how rising property values associated with tourism have contributed to affordability pressures and social marginalization.

The tax system becomes part of this process when property owners and investors calculate the fiscal cost of retaining land against its potential commercial return. A resident who does not wish to sell may nevertheless face pressure to do so if the property becomes expensive to hold. This is particularly problematic when taxation does not distinguish between realized and unrealized gains. A property investor may benefit from rental income and capital appreciation, whereas a resident owner may experience only an unrealized increase in wealth. Both may face higher PBB-P2 because of the same NJOP increase.

A justice-oriented property tax system should therefore consider use, ownership status, and economic capacity alongside assessed value. Primary residences should receive stronger protection than speculative or income-generating properties. Commercial tourism properties should not receive the same relief as households whose land serves primarily as a home. The distinction is also compatible with fiscal efficiency. High-value tourism properties have greater capacity to generate income from their location. Hotels, villas, resorts, restaurants, and short-term rental properties benefit directly from tourism-driven land appreciation. Their tax burden can therefore reasonably reflect both their property value and their commercial use.

The principle of benefit taxation provides a strong justification. Property owners whose economic returns depend heavily on tourism infrastructure and destination amenities benefit directly from public investment. Their contribution to local revenue can therefore be calibrated to reflect both property value and commercial activity. Conversely, long-term residents may benefit less directly from tourism-generated appreciation. Their primary benefit may simply be the continued ability to live in their community. If their property becomes expensive solely because external tourism demand has increased, requiring them to bear the full fiscal consequences may violate substantive equality.

This does not imply that long-term residents should be permanently exempt from PBB-P2. Permanent exemption would weaken the tax base and create inequities between property owners. Instead, the appropriate mechanism is targeted relief that prevents sudden or excessive tax increases while maintaining a contribution proportionate to capacity. Possible legal-policy instruments include gradual phase-in of NJOP increases, deferral mechanisms for qualifying elderly or low-income residents, primary-residence relief, ceilings on annual tax increases, and reassessment procedures where taxpayers can demonstrate that the assessed value does not correspond to actual local market conditions.

Transparency is essential because valuation disputes can otherwise undermine trust. Taxpayers should be able to understand how NJOP is calculated, what valuation zone their property belongs to, what comparable properties are used, and how changes in tourism development affect the assessment. The transparency principle is especially important in areas experiencing rapid transformation. If property owners perceive NJOP increases as arbitrary or politically influenced, compliance may decline. Conversely, transparent valuation can strengthen the legitimacy of property taxation even when tax liabilities increase.

Spatial planning must also be integrated with valuation. Law No. 26 of 2007 establishes spatial planning as a process involving planning, utilization, and control of space, while emphasizing sustainability, public participation, and justice. If a property is subject to development restrictions because of agricultural, environmental, cultural, coastal, or spatial-protection policies, its fiscal valuation should take the legally permitted use of the property into account.

This principle is particularly relevant for coastal Bali. A parcel located near a tourism destination may command a high theoretical market value, but actual development may be constrained by zoning, coastal setbacks, environmental regulations, cultural restrictions, or other land-use rules. Tax valuation should therefore avoid treating speculative development potential as fully equivalent to legally realizable economic value.

Otherwise, taxpayers could be taxed on a value that they cannot legally realize. Such a situation would be difficult to reconcile with ability-to-pay principles because the assessment would incorporate hypothetical economic capacity rather than actual or legally available capacity. The housing framework adds another dimension. Law No. 1 of 2011 establishes state responsibilities concerning housing and settlement areas and provides a legal framework for maintaining adequate housing and involving communities in housing policy. In tourism-intensive locations, this means that fiscal policy should not inadvertently undermine the availability of housing for local residents.

Short-term rental markets provide an additional mechanism through which tourism can affect residential property values. The conversion of residential properties into tourism accommodation can reduce long-term rental supply and contribute to higher housing costs. Although short-term rental regulation is distinct from property taxation, the two policies interact because tourism commercialization changes both the income-generating potential and market valuation of residential property.

This reinforces the argument that PBB-P2 should not operate in isolation. A comprehensive tourism property policy should coordinate property taxation with spatial planning, housing regulation, tourism licensing, and land-use controls. The social-function principle of land provides an overarching legal rationale. Indonesian land law does not conceptualize ownership as an entirely unrestricted private entitlement. Land rights exist within a social framework, meaning that land use should contribute to broader public welfare.

This principle has direct implications for property tax justice. A tax system can legitimately capture part of land value for public purposes because land values depend partly on collective social and infrastructural conditions. At the same time, the social function of land also requires government to ensure that taxation does not undermine the social use of land by making long-term residence economically unsustainable. The appropriate policy balance is therefore neither maximum taxation nor maximum protection. It is a system in which high-value tourism development contributes appropriately to public finance while vulnerable residents receive protection against tax-induced displacement.

Toward a Tourism Property Tax Justice Framework for Bali

The preceding analysis demonstrates that property taxation in tourism-intensive areas requires a framework that integrates fiscal efficiency with social and spatial justice. The core problem is not the existence of PBB-P2 but the possibility that a valuation-based tax can treat dramatically different economic situations as if they were identical.

A Tourism Property Tax Justice Framework should therefore begin with the recognition that land value is simultaneously private wealth and socially produced value. Tourism investors and property owners can legitimately benefit from increases in land value, but a portion of those gains can also be captured by government to finance infrastructure and public goods. At the same time, residents who experience appreciation without realizing corresponding income should not be exposed to sudden fiscal pressures that force them to leave their communities. The first principle of the framework is therefore fair land-value capture. Properties that derive substantial economic benefits from tourism should make an appropriate contribution to local public finance. Commercial tourism properties, luxury villas, resorts, and investment properties should not receive tax treatment equivalent to modest primary residences simply because both are classified as property.

This principle is consistent with the economic rationale of land-value taxation. Where land appreciation is substantially produced by external factors such as public infrastructure, tourism branding, accessibility, and regional economic growth, taxation can capture part of that socially generated value. George's (1879) theory provides the foundational justification, while Oates's (1969) work illustrates the relationship between property taxation, public expenditure, and property values.

The second principle is ability-to-pay protection. PBB-P2 should recognize that high property value does not always correspond to high current income. Long-term residents, elderly homeowners, low-income households, and households occupying inherited family land may require targeted relief when NJOP rises rapidly because of tourism development. This relief should be carefully designed so that it does not become a generalized tax exemption. Eligibility should be connected to objectively verifiable criteria such as primary-residence status, duration of residence, household income, age, disability, or demonstrated inability to meet the increased tax obligation.

Deferral mechanisms can be particularly useful. Instead of eliminating the tax, government could allow qualifying taxpayers to defer part of the liability until the property is sold or transferred. This would recognize the existence of property wealth while addressing the immediate liquidity problem. Such a mechanism would also avoid creating a permanent gap between high-value residents and other taxpayers. The government would eventually recover the deferred liability when the underlying capital gain is realized, while the resident would not be forced to sell merely to meet an annual tax obligation.

The third principle is gradual valuation adjustment. Rapid changes in NJOP can generate fiscal shocks even when they accurately reflect changing market conditions. A phased adjustment can preserve the integrity of valuation while preventing abrupt increases in annual tax liabilities. The legal framework already gives local governments some room to determine the effective taxable NJOP within the statutory range established by Law No. 1 of 2022. This flexibility should be used transparently and predictably rather than through ad hoc political intervention.

The fourth principle is valuation transparency and procedural justice. Property owners should have meaningful access to valuation information and effective mechanisms to challenge assessments. This is particularly important in tourism areas where market values can vary significantly within short distances. A transparent valuation system should disclose the methodology used to establish NJOP, the relevant valuation zones, the factors considered in determining land value, and the legal restrictions affecting development potential. Public access to valuation data would also reduce the risk of arbitrary or politically influenced assessments. Procedural justice matters because tax legitimacy depends not only on the amount of tax imposed but also on whether taxpayers perceive the process as fair. Tyler (1990) demonstrates the importance of procedural legitimacy in shaping compliance with law. Applied to property taxation, transparent and reviewable valuation procedures can increase voluntary compliance even when taxpayers disagree with the final amount.

The fifth principle is protection of socially valuable land uses. Agricultural land, customary settlements, community spaces, and environmentally protected areas should not be treated identically to speculative tourism land. Where law restricts the commercial use of property for legitimate social or environmental reasons, valuation should reflect those restrictions. This principle is particularly important because tourism-driven land conversion can undermine agricultural and cultural systems. Research on Canggu shows the extent to which productive land has been transformed into tourism-supporting development. Ristiawan (2024) similarly demonstrates that tourism commodification can create rent gaps and negotiated displacement in Indonesian tourism landscapes.

Tax policy should therefore avoid creating incentives for land conversion merely because developed tourism properties receive more favorable economic returns than socially valuable agricultural or residential uses. Fiscal neutrality requires that the tax system not unintentionally accelerate the very land conversion that spatial planning seeks to control.

The sixth principle is tourism-benefit reinvestment. Revenue generated from tourism-intensive property markets should contribute visibly to the public goods that sustain those markets. Roads, drainage, waste management, water systems, coastal protection, public spaces, housing infrastructure, and environmental restoration are examples of public investments that can maintain destination quality while benefiting residents.

This creates a fiscal feedback relationship. Tourism increases land values; higher land values increase the fiscal base; property tax revenues finance public goods; and public goods sustain the destination's economic and social value. However, this relationship becomes unjust if revenue is extracted from local residents while public investment disproportionately benefits tourism investors. The seventh principle is territorial differentiation. Bali should not necessarily apply identical property-tax policies to all areas because tourism intensity and land-market conditions differ considerably between regions. A coastal tourism corridor experiencing extraordinary land appreciation may require different relief mechanisms and valuation strategies from a predominantly agricultural inland area.

Badung's experience is instructive because its local government has already adopted specific regulatory instruments concerning NJOP determination and PBB-P2 reductions. This demonstrates the feasibility of differentiated local policy within the national framework.

The challenge is to ensure that differentiation is based on transparent criteria rather than political discretion. Relevant criteria may include tourism intensity, land-price growth, household income, housing affordability, development restrictions, infrastructure pressure, and environmental vulnerability. The eighth principle is integration with anti-gentrification policy. Property taxation cannot be expected to resolve gentrification independently. However, it should not intensify displacement. Property tax policy should therefore be incorporated into broader tourism and land-governance strategies.

This is particularly important given the evidence of tourism-related gentrification in Bali. Yudiantika and Prasada (2025) argue that inadequate land regulation can exacerbate tourism-driven gentrification and recommend stronger protection of local communities and more inclusive land-use policies. Putri (2024) likewise links luxury tourism development with rising property prices and local displacement.

The ninth principle is community participation in land-value governance. Because tourism-driven land appreciation affects not only individual property owners but also neighborhood structure, housing affordability, agricultural systems, and cultural identity, communities should have meaningful opportunities to participate in spatial and fiscal policy. Law No. 26 of 2007 explicitly recognizes public participation in spatial planning. This principle should extend to discussions concerning major changes in valuation zones and tourism development that materially affect property values.

A community should not be treated simply as a passive taxpayer. It is also a stakeholder in the production of destination value. Local residents contribute labor, culture, social networks, customary institutions, and environmental stewardship that make tourism possible. The final principle is intergenerational justice. Tourism-driven land appreciation can generate substantial short-term gains but may also reduce agricultural land, increase housing costs, and weaken the ability of younger generations to remain in their communities. Property tax policy should therefore consider whether current fiscal arrangements contribute to or mitigate these long-term pressures.

Intergenerational justice does not require freezing land values. Rather, it requires that fiscal policy avoid encouraging a situation in which current landowners can maximize short-term gains while future generations inherit unaffordable housing and diminished access to land. A Tourism Property Tax Justice Framework therefore requires coordination among taxation, spatial planning, housing, tourism, environmental policy, and community development. PBB-P2 should not be viewed as an isolated revenue instrument. It is part of a broader institutional system that determines how tourism-generated land value is produced, captured, distributed, and reproduced.

The ultimate measure of success should consequently be broader than PBB-P2 revenue growth. A successful property tax regime should be capable of simultaneously maintaining a strong local tax base, preventing arbitrary valuation, protecting economically vulnerable residents, capturing a reasonable share of tourism-generated land rents, and financing public goods that sustain the destination. The relevant policy question should therefore change from "How much PBB-P2 can be collected from appreciating land?" to "How can tourism-generated land value be shared fairly without making long-term residence economically unsustainable?"

That shift is the central implication of property tax justice in Bali. Fiscal efficiency and social protection are not necessarily competing objectives. Properly designed valuation, targeted relief, transparent administration, and appropriate taxation of high-value tourism properties can allow government to capture socially generated land value while preserving the ability of long-term residents to remain within the communities that have produced Bali's tourism economy.

Conclusion

Tourism-driven land appreciation creates a fundamental property-tax justice dilemma in Bali. Rising land values can strengthen the fiscal capacity of local governments and provide legitimate opportunities to capture part of the economic value generated by tourism, infrastructure, and regional development. Nevertheless, the conversion of land appreciation into higher PBB-P2 liabilities can produce substantive inequality when property wealth increases much faster than household income. Long-term residents may therefore become asset-rich but cash-poor, possessing increasingly valuable land without possessing sufficient liquid income to absorb substantially higher recurring tax obligations. The problem is intensified by tourism gentrification, which can simultaneously increase land prices, reduce housing affordability, encourage land conversion, and place pressure on local residents to sell. Indonesian law provides important foundations for addressing this tension through the social-function principle of land, the statutory structure of PBB-P2 and NJOP, spatial-planning principles, and housing protections. The challenge is to integrate these legal principles into a coherent fiscal-justice policy rather than treating property taxation as an autonomous revenue instrument.

This article proposes a Tourism Property Tax Justice Framework based on fair land-value capture, ability-to-pay protection, gradual valuation adjustment, transparent NJOP determination, protection of socially valuable land uses, tourism-benefit reinvestment, territorial differentiation, anti-gentrification coordination, community participation, and intergenerational justice. The framework does not advocate suppressing property values or exempting long-term residents from taxation. Instead, it seeks to distinguish between economically powerful tourism properties and primary residences whose owners may not have realized the financial gains associated with land appreciation. Targeted relief, tax deferral, transparent valuation, and appropriate taxation of high-value tourism properties can enable local governments to capture socially generated land value without converting property taxation into an unintended mechanism of displacement. In this sense, property tax justice in Bali requires a shift from a narrow revenue-maximization paradigm toward a broader conception of fiscal governance in which taxation contributes simultaneously to local revenue, land-value redistribution, housing security, sustainable tourism, and the long-term social sustainability of coastal communities.

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