

Legal Implications of Abolishing the Land and Building Tax for Regional Own-Source Revenue in Indonesia

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Abstract

Proposals to abolish the Rural and Urban Land and Building Tax (Pajak Bumi dan Bangunan Perdesaan dan Perkotaan or PBB-P2) have entered Indonesian fiscal debate as a measure of tax relief, yet their legal consequences for regional own-source revenue (Pendapatan Asli Daerah or PAD) remain largely unexamined. Existing scholarship documents PBB-P2 collection performance and its contribution to PAD, but does not address what legal instruments abolition would require or how the forgone revenue could be replaced. This study asks three questions: what constitutional and statutory position PBB-P2 occupies within the regional fiscal framework; what legal consequences abolition would produce for regional autonomy and public service obligations; and what instruments could compensate for the loss. Using doctrinal legal research with statutory and conceptual approaches, the study analyses Article 23A and Article 18A(2) of the 1945 Constitution, Law No. 1 of 2022 on Financial Relations between Central and Regional Government, and the regional financial management framework. It argues that abolition would require statutory amendment rather than administrative action, would narrow the constitutional commitment to fiscal decentralisation, and would displace a statutory relief mechanism already available. Targeted exemption is proposed as the proportionate alternative.

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1. Introduction

The Rural and Urban Land and Building Tax (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan* or PBB-P2) is among the few genuinely regional taxes in Indonesia whose base is immobile, visible, and administratively verifiable. It is levied on the ownership, control, or use of land and buildings outside the mining, forestry, and plantation sectors, and since its devolution it has been collected and retained by regency and municipal governments as a component of regional own-source revenue (*Pendapatan Asli Daerah* or PAD).¹ Because the tax base cannot be relocated or concealed, PBB-P2 supplies a comparatively stable and predictable revenue stream, which is precisely what multi-year planning for infrastructure, education, and health services requires.

Proposals to abolish PBB-P2, or to exempt broad classes of taxpayers from it, have nevertheless entered public and political debate. The arguments advanced in favour of abolition are familiar: relief for low-income households, wider access to property ownership, reduction of the administrative burden of assessment and collection, and stimulus to the property sector. What these arguments share is an orientation towards the taxpayer. What they generally omit is the other side of the ledger, namely the legal position of the regional government that would lose the revenue and the constitutional framework within which that loss would have to be absorbed.

That omission matters because taxation in Indonesia is not an administrative matter. Article 23A of the 1945 Constitution provides that taxes and other compulsory levies for state purposes shall be regulated by statute.² PBB-P2 was transferred to regional governments by Law No. 28 of 2009 on Regional Taxes and Regional Levies,³ and the framework governing it is now Law No. 1 of 2022 on Financial Relations between Central and Regional Government.⁴ A regional tax created by statute cannot be extinguished by ministerial circular, presidential instruction, or regional discretion. Any abolition would require amendment of the governing Law, and it is the content of that amendment, rather than the political attractiveness of the policy, that determines its legal consequences.

The existing literature approaches PBB-P2 from a different angle. Studies have measured its growth rate and its proportional contribution to PAD in particular municipalities,⁵ examined the juridical basis of regional taxes and levies and their implementation by regional revenue agencies,⁶ and assessed collection performance, arrears management, and

¹ Rizni Septiyana, Ahmad Baihaqi, and Anna Maryati, "Implementasi Peraturan Daerah Kabupaten Hulu Sungai Tengah Nomor 7 Tahun 2020 tentang Pajak Bumi dan Bangunan Perdesaan dan Perkotaan di Kabupaten Hulu Sungai Tengah," *Al Iidara Balad* 6, no. 2 (2025): 897-907, <https://ejurnal.stiaamuntai.ac.id/index.php/aliidarabalad/article/view/958>.

² Undang-Undang Dasar Negara Republik Indonesia Tahun 1945, art. 23A.

³ Undang-Undang Nomor 28 Tahun 2009 tentang Pajak Daerah dan Retribusi Daerah.

⁴ Undang-Undang Nomor 1 Tahun 2022 tentang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintahan Daerah.

⁵ Wigi Astuti and Yudea Yudea, "Analisis Laju Pertumbuhan Pajak Bumi dan Bangunan Perdesaan dan Perkotaan dan Kontribusinya terhadap Pendapatan Asli Daerah Kota Balikpapan," *Forum Ekonomi: Jurnal Ekonomi, Manajemen dan Akuntansi* 18, no. 1 (2016), <https://www.neliti.com/publications/55593/analisis-laju-pertumbuhan-pajak-bumi-dan-bangunan-perdesaan-dan-perkotaan-dan-ko>.

⁶ Ria Sintha Devi, Novi Juli Rosani Zulkarnaen, and Rani Ika Pratiwi, "Tinjauan Yuridis terhadap Pajak Daerah dan Retribusi Daerah: Studi Pelaksanaan di Unit Pelayanan Pajak Daerah Samsat Kota Binjai," *Jurnal Rectum:*

the effect of digital payment systems on compliance. This body of work establishes, with some consistency, that PBB-P2 is a material but under-optimised component of PAD, and that collection capacity rather than statutory design is the principal constraint on its yield.

What this literature does not address is the legal question that abolition raises. It describes how PBB-P2 performs; it does not analyse what instrument would be required to remove it, what would happen to the constitutional guarantee in Article 18A(2) that financial relations between central and regional government be regulated fairly and harmoniously,⁷ or what legal form a compensating revenue design would have to take. The debate has therefore proceeded largely as a fiscal and political argument, with the doctrinal dimension left implicit. That gap is the point of departure for this study.

This article accordingly addresses three questions. First, what constitutional and statutory position does PBB-P2 occupy within Indonesia's regional fiscal framework, and what legal instrument would abolition require? Second, what legal consequences would abolition produce for regional fiscal autonomy, for the mandatory expenditure obligations of regional governments, and for the equity function that the tax presently performs? Third, what legal instruments are available to compensate for the forgone revenue, and what form must each take to be valid?

The significance of the study lies in reframing an argument that has been conducted almost entirely in fiscal terms as a question of legal design. The contribution is doctrinal: it identifies the hierarchy of instruments that abolition and compensation would each require, and it argues that the statutory framework already contains a calibrated relief mechanism which makes blanket abolition disproportionate to the objective its proponents pursue.

The property-tax question is therefore not simply whether residents should pay less. It is also a question of which level of government is expected to bear the fiscal consequences of that relief. In a decentralised state, assigning a tax base to the local level creates both an entitlement and a responsibility: the region receives room to mobilise revenue, but it must also manage the political costs that accompany mobilisation. The Indonesian experience is important because property taxation sits directly at this intersection. Property is local, its value is connected to local public decisions, and yet assessment and collection have historically been shaped by national rules and administrative capacity. Asher's early analysis of Indonesian property taxation already identified this tension between decentralisation and the need for coherent assessment and administration, while later studies show that local governments have not uniformly realised the tax's potential.⁸

The international fiscal federalism literature provides a useful starting point. A tax is generally more suitable for subnational assignment when its base is relatively immobile, when the benefits of local public expenditure are geographically concentrated, and when the tax can be administered without excessive spillovers across jurisdictions. Property tax satisfies several of these conditions better than taxes attached to mobile transactions or

Tinjauan Yuridis Penanganan Tindak Pidana 3, no. 2 (2021): 195–211, <http://jurnal.darmaagung.ac.id/index.php/jurnalrectum/article/view/1177>.

⁷ Undang-Undang Dasar Negara Republik Indonesia Tahun 1945, art. 18A(2).

⁸ Mukul G. Asher, "The Role of Property Tax in Fiscal Decentralization in Indonesia," *Policy and Society* 21, no. 2 (2002): 26–41, [https://doi.org/10.1016/S1449-4035\(02\)70007-6](https://doi.org/10.1016/S1449-4035(02)70007-6).

highly cyclical economic activities. That does not make property taxation automatically fair or efficient, but it explains why it repeatedly appears in decentralisation reform. In Indonesia, the transfer of PBB-P2 to regency and municipal governments can thus be understood as more than a technical redistribution of collecting functions. It represents a legal choice about which level of government should possess an own-source instrument linked to a territorially fixed base.⁹

That legal choice has practical importance because local fiscal autonomy is not measured solely by the size of a regional budget. It also depends on the extent to which a local government can influence the composition of its revenue within statutory boundaries. Research on Indonesian intergovernmental finance shows that transfers can stabilise regional budgets and correct unequal fiscal capacity, but transfers also shape local incentives. A region that loses a locally controlled tax may receive compensation through a transfer formula and still experience a reduction in fiscal discretion. The distinction matters for the legal assessment of abolition because the relevant constitutional question is not whether every rupiah can be replaced from another source. The deeper issue is whether the architecture of regional financial relations remains sufficiently autonomous, fair, and predictable after the tax is removed.¹⁰

Recent Indonesian studies reinforce the importance of looking beyond aggregate collection figures. Local tax effort varies considerably between jurisdictions, and the same statutory instrument can produce different outcomes depending on the quality of tax records, assessment practices, political leadership, taxpayer communication, and payment systems. Studies of PBB-P2 in Manado, Mataram, Tuban, Palopo, Padang, Jambi, and other localities report this variation in effectiveness and contribution. These findings do not establish that PBB-P2 is universally efficient. They establish something more modest and more relevant to a legal reform argument: there are observable administrative and institutional margins for improvement, and those margins should be assessed before a statute is repealed. A failure of collection in one locality is not, by itself, evidence that the legal tax base has become defective.¹¹

The same point is visible in the Indonesian literature on local taxing power. Subnational tax effort studies emphasise that the gap between potential and realised revenue can be significant, while local revenue strategies frequently focus on intensifying administration

⁹ Roy Kelly, "Property Tax Reform in Indonesia: Emerging Challenges from Decentralisation," *Asia Pacific Journal of Public Administration* 26, no. 1 (2004): 71-90, <https://doi.org/10.1080/23276665.2004.10779286>; Wallace E. Oates, "An Essay on Fiscal Federalism," *Journal of Economic Literature* 37, no. 3 (1999): 1120-1149, <https://doi.org/10.1257/jel.37.3.1120>.

¹⁰ Paul Smoke and Blane D. Lewis, "Fiscal Decentralization in Indonesia: A New Approach to an Old Idea," *World Development* 24, no. 8 (1996): 1281-1299, [https://doi.org/10.1016/0305-750X\(96\)00042-3](https://doi.org/10.1016/0305-750X(96)00042-3); Christopher Silver, Iwan J. Azis, and Larry Schroeder, "Intergovernmental Transfers and Decentralisation in Indonesia," *Bulletin of Indonesian Economic Studies* 37, no. 3 (2001): 345-362, <https://doi.org/10.1080/00074910152669172>.

¹¹ Febriano Weol, Harijanto Sabijono, and Syermi S.E. Mintalangi, "Efektivitas Penerimaan Pajak Bumi dan Bangunan Perdesaan dan Perkotaan di Kelurahan Sario Kota Manado," *Jurnal EMBA* 11, no. 3 (2023): 840-847, <https://doi.org/10.35794/emba.v11i3.50343>; Luluk Fadliyanti Nikmatika and Baiq Saripta Wijimulawiani, "Analisis Potensi dan Kontribusi Penerimaan Pajak Bumi dan Bangunan Perdesaan dan Perkotaan (PBB-P2) terhadap Pendapatan Asli Daerah (PAD) di Kota Mataram Tahun 2015-2020," *Jurnal Konstanta* 3, no. 1 (2024): 137-155, <https://doi.org/10.29303/konstanta.v3i1.1105>.

rather than inventing new tax categories. The existence of unrealised tax capacity complicates an abolition argument because the foregone revenue is not necessarily equivalent to the revenue that is currently collected. Repeal eliminates both the current yield and the legal capacity to capture additional yield in the future. A rigorous policy assessment should therefore distinguish three concepts: the amount actually collected, the amount legally collectible under current rules, and the amount potentially collectible if administrative constraints are reduced. The three figures are conceptually different and have different implications for legislative design.¹²

There is also a distributional dimension that deserves greater attention. Property taxes are often criticised as burdensome because assessments can rise even when a household's cash income does not rise at the same pace. That concern is legitimate, particularly for elderly owners, low-income households, and residents in areas experiencing rapid land-value appreciation. Yet blanket abolition treats these taxpayers as if they were similarly situated to owners of high-value commercial or residential property. The result can be an unusually broad tax expenditure whose largest absolute benefits go to those who hold the most valuable assets. Comparative property-tax literature therefore does not treat the central policy choice as a binary question of tax or no tax. It asks whether valuation, thresholds, rates, exemptions, relief programmes, deferrals, and administration can be designed so that the burden is aligned more closely with ability to pay and the fiscal capacity of the taxing jurisdiction.¹³

For Indonesia, this suggests a more precise problem statement. The question is not whether PBB-P2 should be protected as a revenue source regardless of taxpayer burden. The question is whether the legal framework can address affordability and compliance problems without dismantling an own-source tax that has a clear place in the architecture of local finance. That framing also makes the proposed remedy easier to test against legal principles. If targeted relief can achieve the legitimate objective of reducing burdens on low-value or financially constrained property owners, then abolition must explain what additional benefit it delivers, and why that additional benefit justifies the loss of local taxing capacity. This study develops that comparison from the perspective of statutory competence, fiscal autonomy, expenditure obligations, equity, and transitional legal consequences.¹⁴

¹² Andri Arif Pramanda, Citra Sukmadilaga, and Ivan Yudianto, "Menakar Local Taxing Power Menggunakan Analisis Subnational Tax Effort: Studi pada Kabupaten/Kota di Provinsi Jawa Barat," *Jurnal Akuntansi* 18, no. 1 (2023): 20–35, <http://jurnal.unsil.ac.id/index.php/jak>; Evi Nilawati, "Analisis dan Strategi Peningkatan Pendapatan Asli Daerah (PAD) di Kabupaten Gunungkidul," *Jurnal Maksipreneur: Manajemen, Koperasi, dan Entrepreneurship* 9, no. 1 (2019): 41–60, <https://doi.org/10.30588/jmp.v9i1.469>.

¹³ Wallace E. Oates and William A. Fischel, "Are Local Property Taxes Regressive, Progressive, or What?" *National Tax Journal* 69, no. 2 (2016): 415–434; Donald R. Haurin, "The Effect of Property Taxes on Urban Areas," *Journal of Urban Economics* 7, no. 3 (1980): 384–396, [https://doi.org/10.1016/0094-1190\(80\)90009-1](https://doi.org/10.1016/0094-1190(80)90009-1).

¹⁴ Richard M. Bird, "Subnational Taxation in Developing Countries: A Review of the Literature," *Journal of International Commerce, Economics and Policy* 2, no. 1 (2011): 139–161, <https://doi.org/10.1142/S1793993311000269>; Roy Bahl and Richard Bird, "Subnational Taxes in Developing Countries: The Way Forward," *Public Budgeting & Finance* 28, no. 4 (2008): 1–25, <https://doi.org/10.1111/j.1540-5850.2008.00914.x>.

2. Method

This study is normative legal research. It examines the positive law governing PBB-P2 and evaluates a proposed change to that law against constitutional and statutory standards, rather than measuring the behaviour of taxpayers or the performance of revenue agencies.

Two approaches are employed. The *statutory approach* is used to identify and interpret the governing norms: Article 23A and Article 18A(2) of the 1945 Constitution; Law No. 28 of 2009 on Regional Taxes and Regional Levies; Law No. 1 of 2022 on Financial Relations between Central and Regional Government; and Government Regulation No. 12 of 2019 on Regional Financial Management. The *conceptual approach* is used to work with the doctrines of fiscal decentralisation, regional autonomy, and equity in taxation, which supply the criteria against which abolition is assessed. Primary legal materials comprise the Constitution, the statutes and the government regulation named above. Secondary legal materials comprise peer-reviewed scholarship on regional taxation and PAD. Analysis proceeds by grammatical and systematic interpretation of the governing provisions, followed by evaluation of the abolition proposal against the criteria of legality, proportionality, and consistency with fiscal decentralisation. The study does not present original quantitative data and makes no empirical claim about the effects of any implemented policy.

The doctrinal analysis is supplemented by a structured review of journal scholarship because the legal consequences of abolition cannot be assessed from statutory text alone. Empirical studies are used here as evidence about how PBB-P2 operates in practice and about the institutional conditions that affect local revenue mobilisation. They are not treated as proof of a nationwide causal effect where the underlying study is limited to one locality or a particular period. This distinction is important: a study showing high collection effectiveness in one municipality can support the proposition that administrative improvement is feasible, but it cannot establish that every local government faces the same administrative capacity. Conversely, evidence of underperformance in a particular locality can identify a recurring risk without demonstrating that the tax design is invalid in all regions.¹⁵

The analysis also separates three levels of legal consequence. The first is competence: which institution has authority to create, modify, or abolish the tax. The second is system effect: how repeal would interact with the statutory architecture of PAD, transfers, expenditure responsibilities, and regional budgeting. The third is implementation: how existing assessments, arrears, objections, appeals, records, and taxpayer liabilities would be treated during transition. This three-level approach prevents the abolition question from being reduced to an abstract statement that a tax is unpopular or inefficient. A measure can be legally authorised yet poorly designed, or economically attractive yet legally incapable of being implemented without transitional rules. The study evaluates these dimensions

¹⁵ Daniel Hummel and Bevaola Kusumasari, "Local Government Financial Performance and Decentralization in Indonesia," *State and Local Government Review* 58, no. 2 (2026): 206–227, <https://doi.org/10.1177/0160323X251364379>.

together while recognising that it remains a normative analysis rather than an impact evaluation.¹⁶

3. The Position of PBB-P2 in Indonesia's Regional Fiscal Framework

3.1. Constitutional and Statutory Basis

The legal foundation of PBB-P2 rests on two constitutional provisions operating together. Article 23A establishes the principle of legality in taxation: no compulsory levy may be imposed except by statute.¹⁷ Article 18A(2) requires that financial relations between central and regional government be regulated and implemented fairly and in a harmonised manner on the basis of statute.¹⁸ The first provision governs the creation of the tax; the second governs its allocation between tiers of government. Neither can be satisfied by executive action alone.

Within that constitutional frame, the devolution of PBB-P2 was effected by Law No. 28 of 2009, which transferred the rural and urban component of the Land and Building Tax from central to regional administration.¹⁹ The transfer was not merely a change of collecting agency. It conferred on regency and municipal governments the authority to determine the operative rate within a statutory ceiling, to administer assessment on the basis of the Sale Value of Taxable Objects (*Nilai Jual Objek Pajak* or NJOP), and to retain the entire yield as PAD. Law No. 1 of 2022 subsequently replaced the regional taxation provisions of Law No. 28 of 2009 and now supplies the governing framework, retaining PBB-P2 as a regency and municipal tax while adjusting the rate ceiling and the statutory non-taxable threshold.²⁰

Two features of this design are decisive for the abolition question. The first is the location of authority. Because the tax is constituted by statute and allocated to a specified tier of government by statute, its removal requires an instrument of equal rank. A regional regulation may set the rate within the ceiling and may grant reductions; it cannot abolish the tax. Neither may a ministerial regulation nor an executive instruction. This is not a formality: it determines that abolition is a legislative act, subject to parliamentary deliberation and to the participation requirements attaching to statute-making, rather than a matter of administrative discretion.

The second feature is that the governing Law already contains a graduated relief mechanism. The statutory framework prescribes a maximum rate rather than a fixed rate, leaving regional governments free to set a lower one, and it establishes a non-taxable threshold below which no liability arises.²¹ Regional governments may also grant

¹⁶ Jan Seifert and Hui Li, "Indonesia's Fiscal Decentralization and its Effect on Provincial Public Finances," *Public Finance and Management* 15, no. 2 (2015): 108–129, <https://doi.org/10.1177/152397211501500202>; Christian von Haldenwang, "The Political Cost of Local Revenue Mobilization: Decentralization of the Property Tax in Indonesia," *Public Finance and Management* 17, no. 2 (2017): 124–151, <https://doi.org/10.1177/152397211701700202>.

¹⁷ Undang-Undang Dasar Negara Republik Indonesia Tahun 1945, art. 23A.

¹⁸ Undang-Undang Dasar Negara Republik Indonesia Tahun 1945, art. 18A(2).

¹⁹ Undang-Undang Nomor 28 Tahun 2009 tentang Pajak Daerah dan Retribusi Daerah.

²⁰ Undang-Undang Nomor 1 Tahun 2022, art. 41. The maximum rate and the statutory non-taxable threshold are set by that Law; the operative rate within the ceiling is fixed by regional regulation.

²¹ Undang-Undang Nomor 1 Tahun 2022, art. 41.

reductions, waivers, and deferrals through regional regulation.²² The instruments for relieving low-value property owners of the burden that abolition proponents invoke are therefore already in force. This observation is central to the argument developed in Section 5.

3.2. The Contribution of PBB-P2 to Regional Own-Source Revenue

PAD is the category of revenue that regional governments raise under their own authority, and its relative size is the conventional indicator of fiscal autonomy. Studies of PBB-P2 performance following devolution report a material but uneven contribution to PAD: the tax supplies a significant proportion of own-source revenue in municipalities with dense and highly valued property stock, and considerably less in regencies whose property base is dispersed and low in assessed value.²³ Research on regional revenue strategy similarly identifies PBB-P2 as one of the components with the clearest scope for optimisation, precisely because its base is fixed and its taxpayers are identifiable.²⁴

The character of this contribution matters more than its magnitude. Most components of PAD fluctuate with economic activity. Hotel, restaurant, and entertainment taxes contract in a downturn; regional levies depend on service volumes. PBB-P2 is anchored to an asset whose assessed value is administratively determined and revised periodically rather than market-driven in the short term. It therefore behaves as the stable floor of the PAD structure. A revenue source with that profile is disproportionately valuable for financing recurrent obligations, which cannot be suspended in a bad year.

The literature is also consistent on where the deficiency lies. Studies of collection systems and procedures at regional revenue agencies attribute shortfalls to administrative capacity rather than to the design of the tax,²⁵ and work on digital payment infrastructure reports improvement in compliance where collection has been simplified.²⁶ Research on taxpayer compliance likewise points to the effect of information and outreach rather than to any structural defect in the levy itself.²⁷ The diagnosis emerging from this scholarship is one of under-collection, not of an unworkable tax. That diagnosis supports a remedy directed at administration, and it sits awkwardly with a remedy that removes the tax altogether.

²² Septiyana, Baihaqi, and Maryati, "Implementasi Peraturan Daerah Kabupaten Hulu Sungai Tengah Nomor 7 Tahun 2020," 897-907.

²³ Astuti and Yudea, "Analisis Laju Pertumbuhan Pajak Bumi dan Bangunan Perdesaan dan Perkotaan."

²⁴ Evi Nilawati, "Analisis dan Strategi Peningkatan Pendapatan Asli Daerah (PAD) di Kabupaten Gunungkidul," *Jurnal Maksipreneur: Manajemen, Koperasi, dan Entrepreneurship* 9, no. 1 (2019): 41, <https://doi.org/10.30588/jmp.v9i1.469>.

²⁵ Amyati Amyati and Sri Ratu Hikmawati, "Analisis Sistem dan Prosedur Pemungutan Pajak Daerah dalam Upaya Peningkatan Pendapatan Asli Daerah pada Badan Pelayanan Pajak Daerah," *Yudishtira Journal: Indonesian Journal of Finance and Strategy Inside* 1, no. 2 (2021): 86-96, <https://doi.org/10.53363/yud.v1i2.34>.

²⁶ Fitran Sah, Novi Winarti, and Ardi Putra, "Efektivitas Program E-Payment One Stop Service dalam Menunjang Pemungutan Pajak Bumi dan Bangunan di Kabupaten Karimun," *Tuturan: Jurnal Ilmu Komunikasi, Sosial dan Humaniora* 3, no. 1 (2025): 101-18, <https://e-journal.nalanda.ac.id/index.php/TUTURAN/article/view/1467>.

²⁷ Ratna Kandi Febriani, "Pengaruh Kebijakan Sunset Policy dan Sosialisasi Pajak terhadap Kepatuhan Wajib Pajak Bumi dan Bangunan Kota Malang" (undergraduate thesis, STIE Malangkecewara, 2020), <http://repository.stie-mce.ac.id/id/eprint/943>.

The statutory design also matters because it distributes decision-making across different levels of government. National legislation determines the existence of PBB-P2, its basic object and subject, and the boundaries of rate-setting. Regional governments then operate within those boundaries through regional regulations and administrative decisions. This layered structure is characteristic of decentralised taxation: central legislation creates common legal standards, while local rules allow some adaptation to local conditions. Such a design reduces the risk of extreme differences in legal treatment between regions while retaining a measure of local policy discretion. It also means that a proposal to abolish PBB-P2 must be assessed not only as a tax change but as a redistribution of regulatory authority.²⁸

Law No. 1 of 2022 further illustrates why the rate ceiling should not be confused with the effective rate. The statutory ceiling provides an outer legal boundary, but the operative rate is determined through regional regulation within that boundary. The same is true of the statutory non-taxable threshold and the possibility of relief measures. From a legal-design perspective, this is significant because it makes the tax adjustable without requiring Parliament to amend the national statute every time local conditions change. A municipality facing rapid property appreciation can adopt a more protective local policy within the statutory framework; a jurisdiction with stronger fiscal capacity can preserve a broader base. The existence of this adjustable space is one reason a blanket national repeal may be more restrictive than necessary.²⁹

The current framework should also be read together with the implementing regulations that govern regional taxation and financial management. Government Regulation No. 35 of 2023 provides a more detailed framework for regional taxes and levies and replaced earlier implementing regulations in the field. Its role is not to create the tax independently of the statute, but to operationalise matters that depend on statutory authorisation. This reinforces the hierarchy relevant to abolition: implementing regulation may structure administration, but it cannot lawfully erase a tax category that Parliament has established. In practical terms, a change made only through administrative guidance would create a mismatch between the legal source of the tax obligation and the instrument purporting to terminate it.³⁰

Another issue is the valuation base itself. Under the PBB-P2 framework, liability is tied to the taxable value of land and buildings rather than to current cash income. That creates a familiar property-tax problem: taxpayers can be asset-rich but cash-poor, and valuation adjustments can generate an increase in liability even when household income is comparatively stable. The appropriate legal response is therefore not necessarily to eliminate the tax base, but to decide how valuation, thresholds, and relief should account for these differences. Comparative scholarship shows that property-tax performance

²⁸ James Alm, Robert H. Aten, and Roy Bahl, "Can Indonesia Decentralise Successfully? Plans, Problems and Prospects," *Bulletin of Indonesian Economic Studies* 37, no. 1 (2001): 83–102, <https://doi.org/10.1080/000749101300046537>.

²⁹ Mohammed Ali Berawi et al., "Utilizing Building Information Modelling in the Tax Assessment Process of Apartment Buildings," *International Journal of Technology* 13, no. 7 (2022): 1515–1526, <https://doi.org/10.14716/ijtech.v13i7.6188>.

³⁰ Rizni Septiyana, Ahmad Baihaqi, and Anna Maryati, "Implementasi Peraturan Daerah Kabupaten Hulu Sungai Tengah Nomor 7 Tahun 2020 tentang Pajak Bumi dan Bangunan Perdesaan dan Perkotaan di Kabupaten Hulu Sungai Tengah," *Al Iidara Balad* 6, no. 2 (2025): 897–907, <https://ejurnal.stiaamuntai.ac.id/index.php/aliidarabalad/article/view/958>.

depends heavily on assessment quality and on the institutional credibility of valuation, while Indonesian research similarly points to data quality and administrative constraints as recurring problems.³¹

Property taxation also creates a feedback relationship between local government and the tax base. Infrastructure, land-use regulation, public services, and planning decisions can affect property values, while higher property values expand the potential tax base. This is one of the reasons property tax is often associated with local government finance in fiscal-federalism theory. The relationship is not automatic, and it does not mean that every increase in land value is created by government action. It does mean that a tax tied to immobile property can connect local fiscal capacity to the quality and scale of local public decisions more directly than many mobile tax bases. Removing the tax weakens that connection unless another locally controlled instrument performs a similar function.³²

The Indonesian experience also shows that decentralisation should not be evaluated by asking only whether local governments collect more. Von Haldenwang finds that political costs, deficient data, low acceptance, and accumulated liabilities can discourage stronger local revenue mobilisation. This helps explain why a theoretically suitable tax base can remain underused. It also changes the interpretation of low collection: weak yield may reflect political economy and administrative capacity rather than a lack of taxable wealth. That distinction is central to the proposed legal remedy. If the main problem is political reluctance or administrative weakness, repeal removes the incentive and the legal capacity to improve the system rather than resolving the underlying constraints.³³

4. Projected Legal Consequences of Abolishing PBB-P2

The consequences discussed in this section are projections drawn from the legal framework, not observations of an implemented policy. No abolition of PBB-P2 has taken effect, and no post-implementation data exist. What can be established doctrinally is what the governing norms would require, permit, and prohibit if abolition were enacted.

4.1. Consequences for Fiscal Autonomy

The most direct legal consequence would be a contraction of the revenue base over which regional governments exercise autonomous authority. Removing PBB-P2 from the list of regency and municipal taxes would not merely reduce the amount of PAD; it would reduce the proportion of regional expenditure funded by revenue the region itself controls, and increase the proportion funded by transfers from the centre, principally the General

³¹ Dewi Kania Sugiharti, Faqih Lutfi, and Holyness N. Singadimedja, "Pajak Bumi dan Bangunan Yayasan Pendidikan dalam Pengembangan Pendidikan Nasional," *Jurnal Poros Hukum Padjadjaran* 1, no. 2 (2020): 262–282, <https://doi.org/10.23920/jphp.v1i2.233>; Christian von Haldenwang, "The Political Cost of Local Revenue Mobilization: Decentralization of the Property Tax in Indonesia," *Public Finance and Management* 17, no. 2 (2017): 124–151, <https://doi.org/10.1177/152397211701700202>.

³² Wallace E. Oates, "Property Taxation and Local Public Spending: The Renter Effect," *Journal of Urban Economics* 57, no. 3 (2005): 419–431, <https://doi.org/10.1016/j.jue.2004.12.006>.

³³ Christian von Haldenwang, "The Political Cost of Local Revenue Mobilization: Decentralization of the Property Tax in Indonesia," *Public Finance and Management* 17, no. 2 (2017): 124–151, <https://doi.org/10.1177/152397211701700202>.

Allocation Fund (*Dana Alokasi Umum*) and the Special Allocation Fund (*Dana Alokasi Khusus*).

This shift engages Article 18A(2). The constitutional command that financial relations between the centre and the regions be regulated fairly and harmoniously is not satisfied merely by ensuring that regions receive sufficient money; it speaks to the *relationship* through which they receive it.³⁴ Transfers are determined by central formula and are subject to central conditionality, particularly in the case of the Special Allocation Fund, whose use is earmarked. Own-source revenue is not. Substituting the second for the first narrows regional discretion in development planning even where the aggregate sum is preserved. Abolition would therefore raise a constitutional question of degree: at what point does the erosion of own-source revenue render the fiscal relationship no longer ‘harmonised’ within the meaning of the provision?

The effect would also be asymmetric. Municipalities with a substantial property base would lose a larger share of PAD than regencies with a dispersed one,³⁵ but the former are generally better placed to substitute other own-source instruments, while the latter have fewer alternatives available. Uniform abolition applied to non-uniform fiscal capacity would widen, not narrow, interregional disparity. A statute enacting abolition without differentiation would consequently be vulnerable to challenge on the fairness limb of Article 18A(2).

4.1.1. Fiscal Autonomy as a Matter of Marginal Discretion

The fiscal-autonomy consequence should be understood in terms of marginal discretion rather than only budget totals. A regional government can receive the same nominal amount after abolition through transfers and still be less fiscally autonomous because it has lost a revenue instrument over which it could previously exercise limited policy choice. This distinction is well established in decentralisation research. Own-source revenue allows local governments to adjust some revenue decisions in response to local priorities, while transfers are designed primarily to equalise capacity, address spillovers, or support nationally defined priorities. The two sources may both finance the same public service, but they do not perform the same institutional function.³⁶

There is a further incentive effect. When local officials know that additional tax effort will generate additional locally retained revenue, the political costs of collection can be weighed against visible local benefits. Once that tax is removed, the local government no longer has the same fiscal return from improving cadastre records, valuation, billing, or enforcement. The resulting incentive is not necessarily dramatic in every jurisdiction, but it is legally relevant because decentralisation assumes a connection between local responsibility and local fiscal capacity. Indonesian evidence on intergovernmental transfers is mixed about the strength of behavioural responses, which cautions against claiming a simple one-directional

³⁴ Undang-Undang Dasar Negara Republik Indonesia Tahun 1945, art. 18A(2).

³⁵ Astuti and Yudea, “Analisis Laju Pertumbuhan Pajak Bumi dan Bangunan Perdesaan dan Perkotaan.”

³⁶ Paul Smoke and Blane D. Lewis, “Fiscal Decentralization in Indonesia: A New Approach to an Old Idea,” *World Development* 24, no. 8 (1996): 1281–1299, [https://doi.org/10.1016/0305-750X\(96\)00042-3](https://doi.org/10.1016/0305-750X(96)00042-3); Jan Seifert and Hui Li, “Indonesia’s Fiscal Decentralization and its Effect on Provincial Public Finances,” *Public Finance and Management* 15, no. 2 (2015): 108–129, <https://doi.org/10.1177/152397211501500202>.

effect. The safer conclusion is that abolition would alter the incentive structure and should be assessed for that reason.³⁷

The risk of unequal impact is also more complex than a simple statement that richer municipalities lose more. A municipality with a high-value property base may lose a large absolute amount but possess more alternative revenue sources and a stronger administrative apparatus. A lower-capacity regency may lose less in absolute terms yet face greater difficulty replacing each rupiah. Fiscal equalisation can address differences in revenue capacity, but the design of the replacement transfer matters. If compensation follows historic collection rather than revenue capacity, it can reward places that were already better at collection; if it follows potential tax base, it may create different incentives. The legal architecture should therefore distinguish compensation for a legislatively caused revenue loss from routine equalisation of fiscal capacity.³⁸

This point connects the abolition debate to broader findings on Indonesian public finance. Research on decentralisation and local public investment indicates that fiscal resources affect local investment decisions, while institutional conditions determine whether decentralisation translates into better public-good provision. Fiscal decentralisation is not, therefore, a mechanical process in which more local revenue automatically produces better services. But it would be equally mistaken to assume that the source of revenue is irrelevant. The legal design determines which government is accountable for mobilisation, what discretion it possesses, and how it bears the political consequences of its fiscal choices. Abolition would change each of these relationships.³⁹

A constitutional assessment should consequently be careful in its language. Article 18A(2) does not create an absolute constitutional right for each region to retain every existing tax. Legislatures retain substantial discretion to revise fiscal arrangements. The stronger argument is narrower: because the Constitution requires financial relations between the centre and regions to be regulated and implemented fairly and harmoniously, a reform that materially reduces local own-source capacity should be accompanied by a rational fiscal design that recognises differences in capacity and expenditure responsibility. The

³⁷ Blane D. Lewis, "Intergovernmental Fiscal Transfers and Local Incentives and Responses: The Case of Indonesia," *Fiscal Studies* 38, no. 1 (2017): 111–139, <https://doi.org/10.1111/1475-5890.12080>.

³⁸ Y. M. V. Mudayen and H. Maridjo, "The Impacts of Fiscal Decentralization, Institutional Transformation, and Regional Revenue on Income Disparities between Provinces in Indonesia," *Journal of Economics, Business, and Accountancy Ventura* 20, no. 3 (2018): 247–259, <https://doi.org/10.14414/jebav.v20i2.878>; Faradina Zevaya et al., "Examining How Macroeconomic Variables Influence Regional Autonomy: An Examination of Local Taxing Power," *The Journal of Indonesia Sustainable Development Planning* 5, no. 1 (2024): 54–66, <https://doi.org/10.46456/jisdep.v5i1.533>.

³⁹ Krisztina Kis-Katos and Bambang Suharnoko Sjahrir, "The Impact of Fiscal and Political Decentralization on Local Public Investment in Indonesia," *Journal of Comparative Economics* 45, no. 2 (2017): 344–365, <https://doi.org/10.1016/j.jce.2017.03.003>; Sarmistha Pal and Zaki Wahhaj, "Fiscal Decentralisation, Local Institutions and Public Good Provision: Evidence from Indonesia," *Journal of Comparative Economics* 45, no. 2 (2017): 383–409, <https://doi.org/10.1016/j.jce.2016.07.004>.

constitutional concern is greatest where a national repeal produces a foreseeable and uneven loss without a corresponding equalisation or transition mechanism.⁴⁰

4.2. Consequences for Mandatory Expenditure Obligations

Regional governments do not have unconstrained discretion over expenditure. Government Regulation No. 12 of 2019 on Regional Financial Management requires that expenditure be budgeted in accordance with available revenue and that regional obligations be met within the fiscal year,⁴¹ and sectoral legislation imposes minimum service standards in education and health that regional budgets must fund. A reduction in PAD does not reduce those obligations; it reduces the means of discharging them.

The legal consequence is a constrained set of lawful responses. A regional government facing a revenue shortfall may not simply decline to fund a mandatory obligation. It must either secure a substitute revenue source, obtain an increased transfer, or reduce discretionary expenditure. Where the shortfall is large enough that discretionary expenditure alone cannot absorb it, the pressure transfers to the capital budget, and the practical effect is the deferral of development programmes whose postponement is not itself unlawful.⁴² Abolition would thus tend to displace fiscal adjustment onto precisely the category of spending that carries no legal protection.

It follows that an abolition statute that made no provision for replacement revenue would create an internal inconsistency in the legal order: it would withdraw the means of performance while leaving the duty of performance intact. Legislative practice ordinarily avoids this through transitional provisions, and their absence would be a serious drafting defect rather than a mere policy omission.

4.2.1. Budgetary Rigidity and Capital Spending

The interaction with mandatory expenditure obligations deserves closer treatment because it reveals why replacement revenue cannot be left to a later administrative decision. Regional budgets finance services that are subject to national minimum standards and other statutory commitments. Those obligations may be implemented through different sectoral statutes and budget rules, but the underlying legal point is stable: the disappearance of a revenue source does not, by itself, repeal the government's duty to provide services. A legislature that removes a tax therefore has to consider where the resulting fiscal pressure will fall. If the pressure is expected to be absorbed by discretionary programmes, the practical effect may be delayed infrastructure or maintenance rather than an immediate violation of the service obligation.⁴³

⁴⁰ Sarmistha Pal and Zaki Wahhaj, "Fiscal Decentralisation, Local Institutions and Public Good Provision: Evidence from Indonesia," *Journal of Comparative Economics* 45, no. 2 (2017): 383–409, <https://doi.org/10.1016/j.jce.2016.07.004>.

⁴¹ Peraturan Pemerintah Nomor 12 Tahun 2019 tentang Pengelolaan Keuangan Daerah.

⁴² Peraturan Pemerintah Nomor 12 Tahun 2019, on the obligation of regional governments to align expenditure with available revenue in the regional budget.

⁴³ Christopher Silver, Iwan J. Azis, and Larry Schroeder, "Intergovernmental Transfers and Decentralisation in Indonesia," *Bulletin of Indonesian Economic Studies* 37, no. 3 (2001): 345–362, <https://doi.org/10.1080/00074910152669172>.

Capital spending is particularly exposed because it is more easily deferred than payroll, debt service, or legally mandated service programmes. This is not necessarily a legal defect in every individual budget decision, but it matters for legislative design because recurring revenue supports recurring planning. Where local tax revenue is replaced by transfers that are earmarked or subject to conditions, local governments may have less flexibility over timing and composition of expenditure. The result can be a budget that remains formally balanced while becoming less responsive to local priorities. Comparative research on decentralisation supports the general proposition that expenditure outcomes depend not only on the amount transferred but on the institutional rules attached to different sources of finance.⁴⁴

4.3. Consequences for Equity in Taxation

PBB-P2 is one of the few regional levies with a redistributive structure. Liability attaches to assessed property value, so that owners of higher-value holdings bear a proportionately larger burden, and the statutory non-taxable threshold removes the smallest holdings from the tax altogether.⁴⁵ The levy therefore already distinguishes between taxpayers by capacity to pay.

Abolition would remove that distinction rather than refine it. Relief would accrue to every property owner in proportion to holdings, which means that the largest benefit would accrue to the owners of the most valuable property. The measure would be regressive in effect even where its stated purpose is progressive. Meanwhile the revenue forgone would have to be recovered, if at all, through instruments such as consumption-based regional taxes and service levies, whose incidence falls more heavily on lower-income households.⁴⁶ The net distributive result of abolition plus substitution could therefore be the opposite of the one intended.

This is the point at which the availability of the existing statutory mechanism becomes decisive. If the objective is to relieve low-value property owners, the framework already permits it: the non-taxable threshold can be raised, the operative rate can be set below the ceiling, and regional regulation can grant targeted reductions.⁴⁷ A measure that achieves the stated objective through instruments already in force, without extinguishing the levy or its redistributive structure, is the less restrictive means. Abolition fails the proportionality test not because its purpose is illegitimate but because a calibrated alternative exists.

4.3.1. Distributional Incidence and Housing Affordability

The equity argument becomes stronger when the unit of analysis moves from property owners as a group to different types of property owner. Consider three stylised taxpayers: a household occupying a modest home, an owner of several high-value residential units, and a business holding a large commercial property. A blanket abolition grants relief to all three, but the fiscal value of that relief is closely related to the value and number of taxable

⁴⁴ James Alm, Robert H. Aten, and Roy Bahl, "Can Indonesia Decentralise Successfully? Plans, Problems and Prospects," *Bulletin of Indonesian Economic Studies* 37, no. 1 (2001): 83–102, <https://doi.org/10.1080/000749101300046537>.

⁴⁵ Undang-Undang Nomor 1 Tahun 2022, art. 41.

⁴⁶ Devi, Zulkarnaen, and Pratiwi, "Tinjauan Yuridis terhadap Pajak Daerah dan Retribusi Daerah," 195–211.

⁴⁷ Undang-Undang Nomor 1 Tahun 2022, art. 41.

holdings. By contrast, a higher non-taxable threshold or a targeted reduction directs the benefit more deliberately toward the first group. The legal principle at stake is not that progressive taxation requires every taxpayer to pay something; it is that a relief measure should be rationally connected to the problem it seeks to solve.⁴⁸

Property tax can also interact with housing markets in ways that complicate a simple affordability narrative. Lower recurrent property taxation may increase the attractiveness of holding property, but the effect on ownership, development, or rents depends on market structure and on who ultimately bears the tax. Research on property taxation has long distinguished between the statutory taxpayer and the economic incidence of the tax, while recent Indonesian scholarship focuses more directly on legality and the practical operation of PBB-P2. For a legislative proposal, the relevant conclusion is modest: abolition should not be justified solely on the assumption that every rupiah of PBB-P2 is ultimately borne by the household named on the tax notice. Incidence can vary, and a targeted relief regime allows the legislature to respond more precisely.⁴⁹

4.4. Transitional Effects on Assessments, Arrears, and Appeals

Abolition would also have immediate legal implications for assessments, billing records, outstanding arrears, objections, and appeals. A tax statute does not operate only through the annual liability created for a particular year. It generates administrative acts and legal relationships over time. An assessment may already have been issued; a taxpayer may be disputing the valuation; an instalment may be overdue; or a court proceeding may concern the validity of an earlier decision. Repeal legislation that simply deletes the tax from the statute without preserving rules for these situations creates uncertainty about which legal regime governs rights and liabilities that arose before the repeal date.⁵⁰

A well-drafted repeal would normally include a temporal rule that distinguishes liabilities arising before the effective date from liabilities arising afterwards. It should identify whether unpaid amounts remain collectible under the old law, whether administrative penalties continue, whether objections and appeals proceed under existing procedures, and how overpayments are treated. The precise solution can differ by legislative policy, but the principle is straightforward: accrued rights and obligations cannot be left to implication where the old law is being removed. Transitional provisions are therefore not secondary drafting detail. They are part of the legality of the reform.⁵¹

Data and records present another practical issue. PBB-P2 administration depends on taxpayer identification, property records, valuation information, maps, and payment

⁴⁸ Wallace E. Oates and William A. Fischel, "Are Local Property Taxes Regressive, Progressive, or What?" *National Tax Journal* 69, no. 2 (2016): 415–434.

⁴⁹ Jeffrey Chapman and Evgenia Gorina, "Effects of the Form of Government and Property Tax Limits on Local Finance in the Context of Revenue and Expenditure Simultaneity," *Public Budgeting & Finance* 32, no. 4 (2012): 19–45, <https://doi.org/10.1111/j.1540-5850.2012.01022.x>.

⁵⁰ Ria Sintha Devi, Novi Juli Rosani Zulkarnaen, and Rani Ika Pratiwi, "Tinjauan Yuridis terhadap Pajak Daerah dan Retribusi Daerah: Studi Pelaksanaan di Unit Pelayanan Pajak Daerah Samsat Kota Binjai," *Jurnal Rectum* 3, no. 2 (2021): 195–211, <http://jurnal.darmaagung.ac.id/index.php/jurnalrectum/article/view/1177>.

⁵¹ Dina Pomeranz, "No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax," *American Economic Review* 105, no. 8 (2015): 2539–2569, <https://doi.org/10.1257/aer.20130393>.

histories. Digitalisation can improve collection efficiency, but it also creates public assets in the form of databases and administrative knowledge. If the tax is abolished, the legal status and permitted use of these records must be clarified, particularly where the same data may be relevant to other taxes, land-use regulation, or public-service planning. Indonesian studies of e-payment systems and property assessment technology indicate that digital tools can reduce administrative friction and improve the quality of revenue processes. Their value does not disappear simply because one tax is removed; indeed, the existence of these systems may support a case for administrative reform rather than repeal.⁵²

4.5. Institutional Accountability and Political Economy

The political economy of local taxation is relevant because PBB-P2 places elected local governments in a visible relationship with taxpayers. A tax notice attached to a house or parcel is more tangible than a central transfer that appears in a budget document. Local officials may therefore face direct political resistance when rates rise, valuations are updated, or arrears are enforced. Research on Indonesia identifies this political cost as one explanation for underutilisation of the property-tax base. From a legal perspective, however, political difficulty does not transform a tax into an administratively defective instrument. A statutory system can acknowledge political constraints through thresholds, differentiated rates, instalments, relief, and transparent valuation rules while retaining the tax itself.⁵³

Local accountability is also linked to the visibility of the revenue-service relationship. When residents can see a connection between local payments and local roads, drainage, waste management, or public facilities, compliance may become easier to justify. That relationship should not be romanticised: taxpayers can comply for many reasons, and poor services can undermine willingness to pay. The literature on tax compliance nonetheless shows that enforcement power is only one part of the compliance equation. Information, perceived fairness, trust, and administrative convenience matter as well. This supports a policy approach that treats collection reform as a legal and institutional project rather than as a purely punitive one.⁵⁴

5. Legal Instruments for a Compensating Revenue Design

If abolition were nonetheless enacted, the revenue would have to be replaced. The proposals commonly advanced in policy debate, such as diversifying revenue sources, optimising regional assets, or improving reporting, are frequently stated without specifying the legal

⁵² Mohammed Ali Berawi et al., "Utilizing Building Information Modelling in the Tax Assessment Process of Apartment Buildings," *International Journal of Technology* 13, no. 7 (2022): 1515–1526, <https://doi.org/10.14716/ijtech.v13i7.6188>; Fitran Sah, Novi Winarti, and Ardi Putra, "Efektivitas Program E-Payment One Stop Service dalam Menunjang Pemungutan Pajak Bumi dan Bangunan di Kabupaten Karimun," *Tuturan* 3, no. 1 (2025): 101–118, <https://doi.org/10.47861/tuturan.v3i1.1467>.

⁵³ Christian von Haldenwang, "The Political Cost of Local Revenue Mobilization: Decentralization of the Property Tax in Indonesia," *Public Finance and Management* 17, no. 2 (2017): 124–151, <https://doi.org/10.1177/152397211701700202>.

⁵⁴ Erich Kirchler, Erik Hoelzl, and Ingrid Wahl, "Enforced versus voluntary tax compliance: The 'slippery slope' framework," *Journal of Economic Psychology* 29, no. 2 (2008): 210–225, <https://doi.org/10.1016/j.joep.2007.05.004>; James Alm, "What Motivates Tax Compliance?" *Journal of Economic Surveys* 33, no. 2 (2019): 353–388, <https://doi.org/10.1111/joes.12272>.

instrument each would require. That omission is consequential: an instrument of the wrong rank is invalid regardless of its merit. Table 1 sets out the principal options together with the form each would have to take.

Table 1. Compensating Instruments and the Legal Form Each Requires

Instrument	Legal Form Required	Function and Limit
Repeal of PBB-P2	Amendment to Law No. 1 of 2022	Removes the levy; cannot be effected by regional or ministerial regulation
New or restructured regional tax	Statute, with rate ceiling; implemented by regional regulation	Capable of material yield, but the tax types and ceilings are fixed by statute
<i>Opsen</i> surcharge on another tier's tax	Statutory basis in Law No. 1 of 2022; regional regulation to apply	Redistributes existing yield between tiers rather than expanding the base
Adjustment of regional service levies	Regional regulation within statutory limits	Must be proportionate to service cost; unlawful as a general revenue instrument
Utilisation of regional assets	Regional head regulation under Government Regulation No. 12 of 2019	Within regional control but finite; requires procedural safeguards against misuse
Increased central transfers (DAU/DAK)	Central allocation under statute and annual budget law	Available but conditional; increases dependence rather than autonomy

Source: Compiled by the authors from Law No. 1 of 2022 and Government Regulation No. 12 of 2019.

Two conclusions follow from the table. The first is that the instruments capable of generating substantial replacement revenue, namely new or restructured regional taxes and the *opsen* surcharge mechanism, all require action at statutory level or are bounded by statutory ceilings.⁵⁵ Regional governments cannot compensate themselves out of the loss; the compensating design would have to be enacted by the same legislature that enacted the abolition, and ideally in the same instrument.

The second is that the instruments genuinely within regional control, namely asset utilisation, administrative improvement, and levy adjustment, are limited in scale. Leasing or partnering in the use of regional assets can generate income, but the asset stock is finite and its productive deployment requires strict procedural safeguards to prevent misuse.⁵⁶ Administrative improvement in the collection of remaining taxes is real but bounded: the evidence indicates that better systems raise yield from existing bases rather than creating new ones.⁵⁷ Service levies must be proportionate to the cost of the service provided and cannot lawfully be used as a general revenue instrument.⁵⁸

⁵⁵ Undang-Undang Nomor 1 Tahun 2022 introduces the *opsen* mechanism, under which one tier of regional government levies a surcharge on a tax administered by another tier.

⁵⁶ Peraturan Pemerintah Nomor 12 Tahun 2019 tentang Pengelolaan Keuangan Daerah.

⁵⁷ Sah, Winarti, and Putra, "Efektivitas Program E-Payment One Stop Service," 101–18.

⁵⁸ Amyati and Hikmawati, "Analisis Sistem dan Prosedur Pemungutan Pajak Daerah," 86–96.

A defensible compensating design would therefore need four elements. It would need a statutory basis enacted concurrently with abolition, so that no interval arises in which the duty to fund mandatory services survives the means of funding it. It would need differentiation by fiscal capacity, so that regions with the fewest alternatives are not required to absorb an identical loss. It would need transitional provisions specifying the treatment of assessments already issued, arrears outstanding, and appeals pending at the date of repeal. And it would need explicit safeguards for mandatory expenditure, ensuring that adjustment does not fall by default on the capital budget.

None of these elements is unusual in Indonesian legislative practice. What is notable is that the abolition proposals presently in circulation address none of them. The debate has been conducted at the level of objective rather than instrument, and the doctrinal work of specifying how the objective would be given legal effect remains undone.

5.1. Targeted Relief Rather than Blanket Abolition

The most proportionate alternative to abolition is targeted relief. The statutory architecture already contains several tools that can be adjusted without eliminating PBB-P2: the non-taxable threshold can protect lower-value properties; the regional government can set a rate below the statutory maximum; and regional rules can provide reductions or other forms of relief where permitted. These instruments can be calibrated around the policy objective. A legislature seeking to protect low-income households can raise the threshold or create a carefully defined exemption; a region experiencing abrupt valuation increases can phase the impact through local relief; and a government concerned about vulnerable property owners can prioritise them rather than subsidising every property owner equally.⁵⁹

Targeted relief also has an administrative advantage. It preserves the tax register and the valuation infrastructure, which means that the government can maintain a stable compliance relationship while narrowing the burden. By contrast, abolition followed by creation of a new tax requires a new base, new taxpayer communication, new billing rules, and potentially new disputes. The transition cost is not trivial. Indonesian experience with PBB-P2 indicates that administrative implementation is already shaped by data quality, taxpayer awareness, payment convenience, and local institutional capacity. A reform that keeps the basic system in place can focus scarce administrative resources on correcting these weaknesses instead of rebuilding the system from the beginning.⁶⁰

⁵⁹ A. Z. Fadila, T. E. Jaya, and S. Nurmalita, "Analisis Efektivitas dan Kontribusi BPHTB dan PBB-P2 Terhadap PAD Kota Bekasi 2019–2024," *Jurnal Akuntansi, Perpajakan dan Auditing* 7, no. 2 (2026): 242–257, <https://doi.org/10.21009/japa.0702.04>; Nazhira Fadila, Ratih Kusumastuti, and Riski Hernando, "Pengaruh efisiensi, efektivitas, dan kontribusi pajak bumi dan bangunan perdesaan dan perkotaan (PBB P-2) terhadap pendapatan asli daerah (PAD) Kota Jambi tahun 2019–2023," *Jurnal Akuntansi & Keuangan Unja* 10, no. 1 (2025): 15–23, <https://doi.org/10.22437/jaku.v10i01.45895>.

⁶⁰ Luluk Fadliyanti Nikmatika and Baiq Saripta Wijimulawiani, "Analisis Potensi dan Kontribusi Penerimaan Pajak Bumi dan Bangunan Perdesaan dan Perkotaan (PBB-P2) terhadap Pendapatan Asli Daerah (PAD) di Kota Mataram Tahun 2015–2020," *Jurnal Konstanta* 3, no. 1 (2024): 137–155, <https://doi.org/10.29303/konstanta.v3i1.1105>; Putri Apriliani Rahmah Safitri, Galih Wicaksono, and Nurcahyaning Dwi Kusumaningrum, "Effectiveness Analysis of the Land and Building Tax of Rural and Urban Areas (PBB-P2) Contribution to Local Own-Source Revenue (PAD) of Tuban Regency," *International Journal of Multidisciplinary Research and Literature* 1, no. 1 (2022): 7–13, <https://doi.org/10.53067/ijomral.v1i1.1>.

The principle of equality also favours differentiation where the underlying burden differs. A single national relief rule may be too rigid because property values, income levels, and fiscal capacity differ between regions. The national statute can therefore establish minimum protections and legal criteria, while regional regulation applies them to local conditions. Such a model does not remove the need for oversight. Regional relief should remain transparent, based on objective criteria, and capable of review so that exemptions do not become instruments of arbitrary favouritism. The literature on local government finance suggests that institutional quality strongly conditions decentralisation outcomes; legal discretion therefore needs procedural safeguards rather than unrestricted freedom.⁶¹

5.2. Transfers and Fiscal Equalisation

Where national policy nonetheless requires substantial abolition, replacement should be designed as part of the same legislative package. A transfer can compensate regions for lost revenue, but the formula should be explicit about what is being compensated. One option is to use recent PBB-P2 collections as a transitional baseline. Another is to recognise revenue capacity, expenditure needs, and the expected growth of the abolished base. Each approach has trade-offs. Compensation based only on collections may lock in historical differences in tax effort, while compensation based only on potential may reward jurisdictions that did not previously collect effectively. A hybrid formula can reduce the incentive problems associated with either extreme.⁶²

Intergovernmental transfer research provides an additional warning: transfers can influence local fiscal behaviour. If local governments expect central compensation whenever they undercollect, the incentive to mobilise own-source revenue can weaken. Conversely, a transfer regime that ignores a legislated loss of a local tax can impose an abrupt fiscal shock on jurisdictions with limited alternatives. The legally defensible middle position is a transparent, time-limited transition combined with a clear expectation that local governments maintain reasonable fiscal effort. The transfer should cushion the reform, not permanently sever the connection between local responsibility and local revenue mobilisation.⁶³

5.3. Administrative Reform and Taxpayer Compliance

Administrative reform is the most immediate alternative where the empirical problem is under-collection. The first step is usually the tax register: identifying taxable objects, matching owners or controllers, correcting duplicate records, and keeping changes in property status current. The second is valuation: the authority needs methods that are credible, documented, and periodically updated. The third is collection: bills must be delivered through channels that taxpayers actually use, payments must be easy to make,

⁶¹ Dewi Kania Sugiharti, Faqih Lutfi, and Holyness N. Singadimedja, "Pajak Bumi dan Bangunan Yayasan Pendidikan dalam Pengembangan Pendidikan Nasional," *Jurnal Poros Hukum Padjadjaran* 1, no. 2 (2020): 262–282, <https://doi.org/10.23920/jphp.v1i2.233>.

⁶² Roy Bahl and Richard Bird, "Subnational Taxes in Developing Countries: The Way Forward," *Public Budgeting & Finance* 28, no. 4 (2008): 1–25, <https://doi.org/10.1111/j.1540-5850.2008.00914.x>.

⁶³ Blane D. Lewis, "Intergovernmental Fiscal Transfers and Local Incentives and Responses: The Case of Indonesia," *Fiscal Studies* 38, no. 1 (2017): 111–139, <https://doi.org/10.1111/1475-5890.12080>; Haryo Kuncoro, "Pengaruh Transfer antar Pemerintah pada Kinerja Fiskal Pemerintah Daerah Kota dan Kabupaten di Indonesia," *Economic Journal of Emerging Markets* 9, no. 1 (2009), <https://doi.org/10.20885/ejem.v9i1.624>.

and arrears must be followed up consistently. The Indonesian studies reviewed in this article repeatedly suggest that these operational factors influence the effectiveness of PBB-P2, while digital payment research points to the potential of simpler payment systems.⁶⁴

Technology can support these reforms, but technology should not be treated as a substitute for legal clarity. Building information modelling, geospatial data, digital payment platforms, and integrated databases can improve assessment and collection. Yet each tool depends on a lawful basis for data processing, clear institutional responsibility, and procedures for correcting errors. A taxpayer who receives a digital bill based on an incorrect property record needs a way to challenge the underlying assessment. Digitalisation therefore strengthens the case for procedural guarantees at the same time that it strengthens administrative capacity.⁶⁵

Taxpayer compliance should likewise be addressed through information and predictability. Research in tax compliance consistently indicates that people do not respond only to the probability of enforcement. Their willingness to comply is also affected by whether rules are understandable, whether authorities are perceived as fair, and whether the cost of compliance is reasonable. For PBB-P2, this means clear notices, transparent assessment information, accessible objection procedures, and a visible explanation of relief criteria. These measures are particularly important when property valuation changes, because a sudden increase in liability can be perceived as arbitrary if the taxpayer cannot see how the taxable value was determined.⁶⁶

A stronger compliance approach can also make enforcement more proportionate. The objective is not to maximise penalties; it is to improve the likelihood that liabilities are paid accurately and on time. A graduated approach can begin with reminders and accessible payment options, move to structured instalment arrangements where legally available, and reserve stronger enforcement for persistent non-compliance. Such an approach is consistent with the broader literature on enforced and voluntary compliance, which treats trust and enforcement as complementary rather than mutually exclusive. For local governments, this can reduce administrative conflict while improving the credibility of the tax system.⁶⁷

⁶⁴ Arif Hartono and Yeni Alvionita, "Analysis of Local Tax Efforts in Supporting Increasing Ponorogo Regency's Original Local Government Revenue," *Ekulilibrium* 16, no. 2 (2021): 164–175, <https://doi.org/10.24269/ekulilibrium.v16i2.2021.pp164-175>; Devids Ramadhan, "Efektifitas Penerimaan Pajak Bumi Dan Bangunan Pedesaan dan Perkotaan (PBB-P2) Di Bapenda Kota Padang," *Jurnal Riset Akuntansi, Perpajakan dan Auditing* 1, no. 3 (2024): 132–138, <https://doi.org/10.62194/y38y8072>.

⁶⁵ Mohammed Ali Berawi et al., "Utilizing Building Information Modelling in the Tax Assessment Process of Apartment Buildings," *International Journal of Technology* 13, no. 7 (2022): 1515–1526, <https://doi.org/10.14716/ijtech.v13i7.6188>; Fitran Sah, Novi Winarti, and Ardi Putra, "Efektivitas Program E-Payment One Stop Service dalam Menunjang Pemungutan Pajak Bumi dan Bangunan di Kabupaten Karimun," *Tuturan* 3, no. 1 (2025): 101–118, <https://doi.org/10.47861/tuturan.v3i1.1467>.

⁶⁶ James Alm, "What Motivates Tax Compliance?" *Journal of Economic Surveys* 33, no. 2 (2019): 353–388, <https://doi.org/10.1111/joes.12272>; Dina Pomeranz, "No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax," *American Economic Review* 105, no. 8 (2015): 2539–2569, <https://doi.org/10.1257/aer.20130393>.

⁶⁷ Erich Kirchler, Erik Hoelzl, and Ingrid Wahl, "Enforced versus voluntary tax compliance: The 'slippery slope' framework," *Journal of Economic Psychology* 29, no. 2 (2008): 210–225, <https://doi.org/10.1016/j.joep.2007.05.004>; Timothy Besley and Torsten Persson, "Why Do Developing

5.4. Legislative Design and Transition

If an abolition bill were nevertheless pursued, the drafting should address at least six legal questions. First, it should state the precise effective date. Second, it should preserve or terminate pre-existing liabilities expressly rather than by implication. Third, it should regulate ongoing objections, appeals, and court cases. Fourth, it should establish how taxpayer overpayments and credits are handled. Fifth, it should determine the institutional ownership and lawful use of tax records after repeal. Sixth, it should identify the replacement revenue mechanism and its effective date so that there is no legal gap between the disappearance of PBB-P2 and the arrival of replacement funds. Each question is connected to legal certainty and good financial administration.⁶⁸

The same principle applies to compensation. If replacement taxation is enacted, the law should identify the tax object, taxpayer, base, rate or rate ceiling, allocation, and implementing authority. If an open mechanism is used, the statute should make clear how the surcharge relates to the tax administered by the other tier and how proceeds are accounted for. If asset utilisation is expected to fill the gap, the policy should not assume that asset income can scale instantly to match recurring tax revenue. Assets are finite, returns may be volatile, and transactions require procedural controls. In each case, the legal form must match the fiscal claim being made.⁶⁹

Legislative transition should also include an evaluation clause. A temporary replacement transfer, for example, could be reviewed after three budget cycles against measurable indicators such as revenue adequacy, local tax effort, service delivery, and fiscal disparity. A sunset or adjustment mechanism would allow Parliament and the regional governments to respond to evidence rather than assuming at the outset that the compensation formula is optimal. Such review is particularly important in Indonesia because fiscal capacity differs widely between local jurisdictions and because local financial institutions continue to develop after decentralisation reforms.⁷⁰

Taken together, these considerations point to a hierarchy of responses. Where the problem is affordability, targeted relief is the first option. Where the problem is weak administration, tax-register, valuation, payment, and compliance reforms are the appropriate tools. Where the problem is an unequal fiscal capacity among regions, transfers and equalisation are relevant. Only where the legislature concludes that the tax category itself is incompatible

Countries Tax So Little?" *Journal of Economic Perspectives* 28, no. 4 (2014): 99–120, <https://doi.org/10.1257/jep.28.4.99>.

⁶⁸ Noviyanti and Fauziah Zen, "Pengaruh Penerapan Sistem Closed List dan Penambahan Jenis Pajak Daerah terhadap Upaya Pemungutan Pajak Daerah," *Indonesian Treasury Review* 7, no. 1 (2022), <https://doi.org/10.33105/itrev.v7i1.527>.

⁶⁹ Thiago Costa Monteiro Caldeira, Philipp Ehrl, and Tito Belchior Silva Moreira, "Fiscal decentralization and tax collection: evidence from the rural property tax in Brazil," *European Journal of Political Economy* 78 (2023): 102396, <https://doi.org/10.1016/j.ejpoleco.2023.102396>; Tiemele Aristide Affroumou, "(Re)understanding the Relationship between Fiscal Decentralization and Property Tax Revenue: Insights from Developing and Developed Countries," *Economic Change and Restructuring* 58, no. 3 (2025): 1–48, <https://doi.org/10.1007/s10644-025-09883-2>.

⁷⁰ Nurhany Hasanah et al., "Empirical Evidence on the Role of Local Own-Source Revenue in Strengthening Fiscal Independence of Indonesian Local Governments," *Owner: Riset dan Jurnal Akuntansi* 9, no. 4 (2025): 2950–2963, <https://doi.org/10.33395/owner.v9i4.2788>.

with the desired fiscal architecture should abolition be considered. This hierarchy is more consistent with proportionality because each legal instrument is matched to the problem it is capable of solving.⁷¹

6. Conclusion

On the first question, PBB-P2 is a statutory regional tax under Article 23A and Article 18A(2) of the 1945 Constitution and Law No. 1 of 2022; therefore, its abolition would require an amendment to the statute and could not be carried out through regional or ministerial regulation. On the second question, abolition would reduce regional fiscal autonomy, increase dependence on central transfers, create difficulties in meeting mandatory expenditure obligations, and potentially weaken the redistributive function of the tax. On the third question, replacement revenue would require an appropriate statutory basis, while regional-level instruments would remain limited in scale. The study therefore concludes that blanket abolition is disproportionate because the existing legal framework already provides more targeted alternatives, including a higher non-taxable threshold, lower regional rates, and targeted tax reductions. Accordingly, the more appropriate approach is to recalibrate PBB-P2 through targeted relief and improved administration rather than abolishing the tax altogether.

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⁷¹ Nathan B. Anderson, "Property Tax Limitations: An Interpretative Review," *National Tax Journal* 59, no. 3 (2006): 685–694; Chin-Wei Yang, Dwight B. Means Jr., and George E. Moody, "Tax Rates and Total Tax Revenues From Local Property Taxes," *Public Finance Review* 21, no. 4 (1993): 355–377, <https://doi.org/10.1177/109114219302100401>.

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