

CHALLENGES AND OPPORTUNITIES IN LOCAL TAX EXTENSIFICATION: A CASE STUDY OF SOUTH SULAWESI REGENCIES

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Abstract

This study explores the potential for local tax extensification during the Takalar, Gowa, and Maros regencies in South Sulawesi, Indonesia. Despite the significant economic potential in sectors such as agriculture, fisheries, tourism, and edible bird nest production, these regions face challenges in optimizing local tax revenues. The research employed a qualitative approach, including a literature review, in-depth interviews with local government officials and taxpayers, and field observations. The findings reveal substantial underutilized tax potential owing to limited local regulations, weak taxpayer databases, and the absence of integrated digital tax systems. Overlapping authorities between central, provincial, and regency governments hinders fiscal autonomy and leads to dependence on central government transfers. Low taxpayer compliance, weak enforcement, limited human resources, and a lack of innovation in tax systems highlight the need for comprehensive institutional reform. The study recommends structural improvements in intergovernmental coordination, digitalization of tax systems, strengthening of tax databases, and capacity building for officials. Addressing these issues is crucial to enhancing regional fiscal independence and improving public service quality. This study contributes to the literature on local financial management and provides practical guidance for policymakers in designing fair, efficient, and sustainable tax extensification strategies.

Keywords: Tax Extensification, Fiscal Autonomy, Tax Administration, Regional Competitiveness, Public Service Quality, Tax Optimization.

1. INTRODUCTION

Taxation is one of the most important sources of state revenue for financing the development of public services [1]. Tax extensification is a strategic step that needs to be studied in depth to enhance regional competitiveness and economic self-reliance [2]. Local tax extensification refers to efforts to broaden the tax base, including identifying tax potentials that have not yet been optimally utilized[3].

Tax administration improvements are still not optimal for indirect taxes [4]. The vast dominance of the informal sector in taxation has not yet been fully leveraged. Lack of information and cash transactions remain obstacles for tax officers to optimally collect taxes [5]. Tax administration processes related to technology, human resources, and information

coordination between local and central governments require greater efficiency [6]. Suboptimal state revenues can result in budget deficits and limit a government's fiscal space for development. Inefficient tax collection can also lead to noncompliance among certain taxpayers, creating unfairness for those who comply [7]. Thus, enhancing tax extensification and optimizing this revenue instrument requires improvements in technology and human resources [8].

To achieve tax optimization, it is necessary to simplify tax regulations to make them easier to understand, strengthen law enforcement to improve oversight and compliance among non-compliant taxpayers, utilize information technology to ease tax administration, increase efficiency, and implement bureaucratic reforms within the Directorate General of Taxes to improve service quality and staff professionalism, thus making it easier for the informal sector to integrate into the taxation system[9].

The potential for local taxes is large, but various challenges hinder the optimization of tax revenues at the regional level, such as limited data, weak capacity among local government officers, and low taxpayer awareness [10]. Therefore, this study aims to explore and analyze the potential for tax extensification at the regional level as well as to seek solutions to existing obstacles.

Based on the above background, the research problems addressed in this study are as follows. First, what are the potential tax sources in regions that have not been optimally utilized? Second, what obstacles and challenges do local governments face when implementing tax extensification? Third, what solutions can be implemented to overcome these obstacles and increase the local tax revenue?

The objectives of this study were as follows: to assess the untapped tax source potential within the region, analyze the factors hindering tax extensification in the region, and develop policy recommendations to optimize tax extensification in these regions.

This study provides theoretical and practical benefits. Theoretical benefits include the development of knowledge, contributing to the literature on local financial management, especially by broadening the tax base, and deepening theories related to local taxation, such as tax compliance theory, public administration theory, and regional economic theory. Additionally, it offers new models or approaches for understanding how tax extensification strategies can be effectively implemented under various social and economic conditions.

Practical benefits encompass the optimization of Local Own-Source Revenue (PAD) by providing guidance for local governments to increase revenue by expanding the tax base and improving the effectiveness of tax collection through more targeted and efficient strategies. This study also aims to improve tax policy by providing concrete recommendations to local governments for designing fair, efficient, and sustainable tax extensification policies, as well as improving the local tax system to make it more transparent and accountable. Furthermore, this research focuses on tax administration efficiency by providing guidelines to enhance the capacity and efficiency of local tax officials through training, information technology, and institutional reform. Finally, it offers insights into how to boost public awareness and

compliance regarding local tax obligations, thereby increasing tax compliance. This study focuses on the potential of untapped tax sources, which are often overlooked in fiscal policy analysis. It identifies sectors or community groups with the capacity to become taxpayers but has not yet been reached by the tax system. This study used a qualitative approach to obtain targeted policy recommendations. Quantitative research on tax extensification has also been conducted by measuring tax revenue figures. The qualitative approach provides a different perspective, focusing on the experiences, perceptions, and social dynamics that influence tax governance.

2. LITERATURE REVIEW

Classical economists such as Adam Smith, David Ricardo, and John Stuart Mill emphasized the importance of justice, certainty, efficiency, and convenience in imposing taxes on society. David Ricardo viewed taxes as sacrifices made by the society. Ricardo stressed the importance of efficiency within the tax system so that the tax burden borne by society could be minimized [11]. Taxes have an impact on production; too high taxes can reduce individuals' motivation to produce goods and services, thereby hindering economic growth [12].

The tax system should be designed such that it can collect sufficient revenue to finance state activities without placing an excessive burden on the economy. Furthermore, taxes must be borne fairly by all members of society according to their respective abilities. Tax policies must consider how taxes may affect the decisions of individuals and companies in areas such as consumption, investment, and production [13].

This principle is also endorsed by John Stuart Mill, who added the importance of extending taxes in both direct and indirect taxation. Direct taxes, such as income tax, are paid directly by a person who is liable. Meanwhile, indirect taxes, such as taxes on goods and services, are paid by one party, but the burden is often shifted to another. Mill tends to prefer direct taxes because they are more transparent and harder to evade [14].

Mill stated that the purpose of imposing taxes is to influence behavior and implement social justice, not to generate profit for the state. Taxes can be used as an economic stimulus to reduce social inequality [15]. From a neoclassical perspective, Marshall presents a microeconomic analysis of the impact of taxes on consumer and producer behavior [16].

Furthermore, Pigou, in his concept of Pigovian tax, emphasizes tax discrimination against economic activities that have negative externalities, such as air pollution from factories and fossil-fueled vehicles [17]. The purpose of Pigovian taxes is to encourage efficiency in reducing activities that produce negative externalities, to align social (societal) and private (producer) costs, and to increase state revenue to address environmental impacts or provide compensation to the affected parties [18].

Modern economists, such as Musgrave and Peacock and Stiglitz and Rosengard, developed a comprehensive fiscal analytical framework, including an analysis of the role of taxes as a tool for economic stabilization and resource allocation [19]. Joseph Stiglitz, in his theories on information asymmetry and mechanism design, provides important implications for the design

of optimal tax systems. According to Stiglitz and Rosengard, multinational corporations often engage in tax optimization practices to avoid paying the taxes they own rightfully [20]. This results in significant tax revenue losses for the countries. Stiglitz is also highly critical of tax havens, which are countries or regions with very low or no taxes. Companies often shift their profits to tax havens to avoid tax liability. Lastly, in digital taxation, Stiglitz highlights the challenges of implementing taxes on giant technology companies operating globally [21].

Krapf and Staubli [22] studied post-tax income elasticity across all municipalities in Switzerland. They found that a 1% increase in direct corporate taxes led to an aggregate increase in corporate income of 3.5% over four years, especially in small towns. These results show that extending local taxes in Switzerland achieves optimal outcomes.

Boonzaaier et al. [23] attempted to examine the response of small and medium-sized enterprises to changes in tax scales across all cities in South Africa. They find that the response of SMEs to tax reporting is very high. Complicated administrative processes will cause small and medium enterprises to reduce reporting related to sales and their economic activities.

Siglé et al. [24] focus on taxpayer strategies and frameworks. Their research discusses collaborative approaches to corporate tax compliance, highlighting the relationship between tax authorities and taxpayers. This approach emphasizes transparency and trust, shifting away from traditional methods that are often confrontational. Their findings indicated that building trust and ensuring fairness can increase compliance, especially in complex corporate income tax cases. However, this strategy seems less effective in dealing with deliberate non-compliance with transaction taxes, such as VAT.

This study also integrates concepts from Social Exchange Theory and Responsive Regulation Theory by promoting voluntary compliance as a cost-effective regulatory strategy. This method offers mutual benefits to taxpayers and tax authorities by reducing enforcement costs while improving compliance rates.

Anyidoho et al. [25] examined whether the informal sector, which is considered a tax goldmine, pays their taxes optimally. Using 2,700 informal enterprises in Ghana, they find that the taxes paid by the informal sector are paid mostly by low-income informal workers. Inequality in tax payments is due to a suboptimal national taxation system.

3. METHODOLOGY

This study employed a qualitative approach using a descriptive-analytical method. Data collection involved three main strategies: literature study, in-depth interviews, and field observations. The literature focuses on examining various journals, books, and reports on local taxes and tax extensification. In-depth interviews were conducted with relevant local government officials, such as those from the regional revenue office, as well as with several local taxpayers, to gain perspectives from various parties. Field observations involved observing the implementation of tax policies in several regions considered to have a high extensification potential.

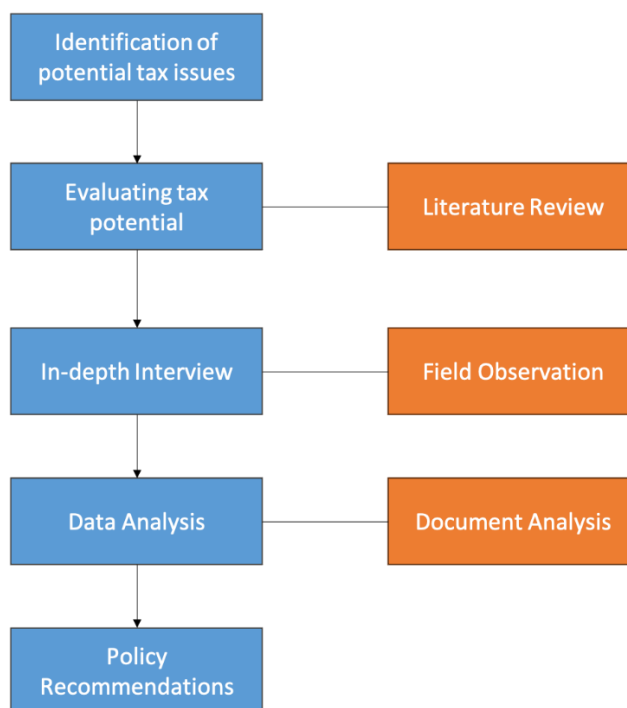


Fig 1: Conceptual Framework

The research process included several key components (Fig. 1). Problem identification is the process of identifying and formulating issues or phenomena related to the potential of local taxes. The assessment of local tax potential involved the process of evaluating and identifying potential tax sources in the region to increase locally generated revenue (PAD). In-depth interviews served as a data collection method aimed at gathering detailed information from participants through open and flexible dialogues.

Data analysis is a systematic process for organizing, understanding, and interpreting non-numerical data, such as text, interviews, observations, or documents, to find in-depth themes, patterns, or meanings. Finally, policy recommendations were developed based on research findings designed to help decision-makers or stakeholders in tax extensification.

The population in this study consists of relevant local government officials, such as the regional revenue office, as well as several taxpayers in South Sulawesi.

The data collection methods used in this research were designed to explore in-depth and context-rich information, which often includes the perspectives, experiences, and interpretations of research subjects. Some of the main methods include the following.

In-depth interviews formed a crucial part of the data collection process, allowing researchers to gain detailed insights from the individual participants. Participant observation was employed to immerse the researchers in the study environment, enabling them to witness and understand behaviors and interactions first. The documentation study involved analyzing relevant written materials to provide additional context and background information.

Focus Group Discussions (FGDs) were conducted to facilitate group interactions and capture diverse viewpoints on specific topics. Finally, field notes were meticulously maintained throughout the research process, recording observations, reflections, and emerging themes, which contributed to a comprehensive understanding of the research context.

Purposive Sampling (Targeted Sampling) was used in this research. Purposive Sampling was used to select participants based on the specific criteria relevant to tax extensification.

The analysis method used in this research is a Framework Analysis. Framework Analysis is a systematic and flexible method of data analysis. This method is used to manage data in a structured manner based on a specific framework, whether predetermined (deductive) or emerging from the data during the analysis process (inductive). Framework Analysis is often used in applied research, such as public policy, health, or education.

4. RESULT AND DISCUSSION

This chapter covers document studies, observations, and interviews to identify problems and assess the tax potential. In this research results and discussion chapter, various aspects will be outlined regarding interviews conducted on February 24–27, 2025 at the local governments of the Takalar, Gowa, and Maros Regencies, related to issues and the potential for tax extensification.

4.1 Overview

The initial stage of this research began by identifying issues related to tax potential, carried out by a Local Expert team at Hasanuddin University on February 11, 2025. This activity aimed to formulate a preliminary overview of the various aspects that could affect the optimization of local tax revenue. In this identification process, the research team systematically described several key characteristics of each area that had the potential to become a source of tax revenue, but up to now have not been fully utilized or recorded as part of the regional original income (PAD).

The characteristics in question consisted of two main categories: general and specific. General characteristics include the size of the administrative area, population density, and distribution of economic activities. On the other hand, specific characteristics include the potential of natural resources, such as agricultural, fisheries, mining yields, as well as unique biodiversity in a particular area, or the potential of human resources that can be mobilized for productive economic activities. This information serves as the initial basis for understanding the objective conditions of the regions while mapping the tax potential, which is yet to be optimally explored.

Takalar Regency, South Sulawesi, features areas including coastlines, lowlands, and hills. The region is dominated by 74 km of coastal area, with significant rivers such as Jeneberang, Jenetallasa, Pamakkulu, and Jenemarrung. Geographically, Takalar is located in the southern part of South Sulawesi, bordering several other regencies and the Sea. Most of the population is Makassar, and the region is known for its boiled glutinous corn and several beach tourism attractions.

Gowa Regency is mainly characterized by highlands, comprising about 72.26% of its total area, especially in the eastern and southern parts which are mountainous. In addition, Gowa is traversed by many rivers and has a considerable natural resource potential. Gowa has C excavation mining potential, and the Bili-Bili dam plays an important role in water and energy management. The region also has extensive forested areas and significant agricultural potential, as it is one of the largest rice-producing areas in South Sulawesi.

Maros Regency, South Sulawesi, has several distinctive characteristics. Geographically, Maros covers diverse areas, from the coastlines and lowlands to hills and mountains. Maros is also known as a region with tropical climate, adequate rainfall, and fertile agricultural potential. In addition, Maros is home to a famous karst area that is recognized as a UNESCO World Heritage Site.

The second stage of this process is to conduct an assessment of the tax potential in a region. This assessment begins by compiling a list of questions designed to probe deeper into the various aspects of taxation. The initial step involves identifying the economic sectors with a high potential to contribute to local tax revenue. These sectors are selected based on their contribution to the local economy and opportunities to increase tax revenue that can be optimized. The assessment also includes identifying the problems and constraints faced in tax collection in each sector.

Special focus is given to the agricultural sector, as it is currently a primary concern of the government in its efforts to improve community welfare and food self-sufficiency. Common issues encountered include low tax compliance, lack of valid taxpayer data, and weak supervision and law enforcement in the field. The final stage of this assessment was to evaluate the existing regional tax system. This evaluation aimed to identify the effectiveness of the current system, assess how well it addresses field challenges, and provide recommendations for future local tax policy improvements and reforms. Through this approach, it is expected that tax potential can be maximized to make a significant contribution to regional development.

Based on these assessment indicators, in-depth interviews were conducted as the third stage with three sources: the Head of Revenue Planning Division at Takalar Local Revenue Agency, Arman Arif and his team; Secretary of Gowa Local Revenue Agency, Faisal Ichwan Azali, S.STP, M.AP and his team; and the Head of the Financial and Regional Revenue Management Agency, Samsophyan, SE., MM and his team. In-depth interviews were conducted on Monday, February 24, 2025; Thursday, February 27, 2025; and Friday, February 28, 2025. In-depth interviews were conducted during working hours, lasting approximately one hour in each district. This was done to ensure that respondents could focus clearly on the assessment points and to obtain additional informants with a wide range of subjective perspectives. Conducting in-depth interviews during working hours for one hour plays a very important role, especially in the context of qualitative data collection in professional environments. Holding interviews during work hours allows respondents to be in a setting relevant to their activities; thus, the information provided tends to be more contextual and accurate. A one-hour duration is considered ideal because it is sufficient to explore information in depth without burdening or causing respondents to lose focus. In addition, conducting interviews during working hours

demonstrates professionalism and the seriousness of the activity and facilitates coordination and support from the institution where the respondents work. This timing also prevents disruptions from personal matters that might arise if the interviews are conducted outside working hours.

The data collection and analysis consisted of four stages. In the first stage, data are collected and compiled into a narrative form, resulting in meaningful information aligned with the research problem. Observations and in-depth interviews were conducted based on the previously established problem statements. The second stage involved data reduction, in which important information related to the research problem was collected and categorized. The results of the observations and in-depth interviews were grouped according to the information provider. In the third stage (data display), the collected information was interpreted and aligned with the informants' arguments and formulated research problems. The organized data were then presented in a clear manner to facilitate understanding. The final stage involved a conclusion verification. Based on the narrative compiled in the third stage, conclusions were drawn to provide answers to the research questions. After arranging all of the information, a discussion was conducted, leading to a conclusion regarding the issue being researched.

4.2 Results

After the Data Collection and Data Reduction stages, an analysis of the research results (Data Display) from each informant in every regency is presented. The interview structure in this study did not follow a rigid guideline; if an informant's response was unclear, the researcher asked further questions so that the answers could be more thoroughly elaborated. The results of the analysis in this study are as follows:

Takalar has significant potential in the agriculture and fisheries sectors; however, in the agriculture sector, there is currently no direct tax because there are no local tax regulations covering this matter. Even though potential revenue has been recognized, until now, there has been no realization of such revenue from this sector. Efforts to identify this potential, made two–three years ago, encountered many obstacles in the field, including difficult access to certain locations. Additionally, most tax from the fisheries sector, aside from land leases, is allocated to the provincial government, as is the case with aquaculture, such as vannamei shrimp farming.

For the edible-nest swiftlet (walet) sector, the potential tax revenue is substantial, even though it was once targeted at just Rp 5 million per year without clear paperwork. The tax on edible-nest swiftlets is usually imposed on collectors, not directly on farmers. However, swiftlet collectors in Takalar have not yet been recorded, nor have they been registered in Makassar. Furthermore, there are no clear regulations or legal “hooks” to impose local taxes on edible-nest swiftlets.

In general, there are some challenges in local tax collection in Takalar. One is the low compliance of taxpayers (WP), who often do not pay in full, or lack awareness of their tax obligations. Law enforcement is also weak because there are no firm actions, such as shutting down businesses, nor are there field officers who function as “tax police” to directly monitor

and act against non-compliant taxpayers. Takalar Regency also does not have a local tax bailiff. Additionally, there is confusion over the division of tax collection authority between the central, provincial, and local governments for certain commodities; for example, packaged beverages are subject to provincial taxes, whereas beverages made on-site are subject to local tax. The varying number of tax applications is also an issue. Differences in account codes for expenditures between central and local governments further complicate the process of budget consolidation. Competition between the central, provincial, and local governments is suspected of achieving revenue realization targets. In addition, some tax collection systems in Integrated Service Units (UPT) are still manual.

From a regional perspective, it is recommended that the calculation of potential revenue from the agriculture, forestry, and fisheries sectors be carried out directly by the regions and not just by the central government. This aims to ensure that more of the resulting funds go directly into the regional coffers and can be used immediately, without having to wait for the often-delayed or small portions of Revenue Sharing Funds (DBH) from the central government. An example from another region, such as Meranti, which produces oil but receives only a small share because the calculations are centralized and divided among other regions, serves as an important lesson. It is also suggested that the swallow's nest tax be tied to the collectors to simplify collection.

Gowa Regency currently relies on the Duty on the Acquisition of Rights to Land and Buildings (BPHTB) as its largest local tax source. The increase in land and house sale-purchase transactions in Gowa is the main reason because many workers in Makassar choose to buy property in Gowa, which serves as a satellite area and is not too far from Makassar. Gowa's BPHTB target reached Rp 61.2 billion, making it the highest among the tax sectors. In addition to BPHTB, the Street Lighting Tax (PPJ) and the Land and Building Tax (PBB) are also significant contributors, where the increase in sale-purchase transactions also correlates with the rise in PBB.

The Government of the Gowa Regency is also striving to maximize other potential, especially in the tourism sector. This is based on the fact that many Somba Opu residents carry out their activities and spend their money in Makassar, thus not directly contributing to Gowa's economy. Therefore, Malino is being developed as a new tourism area to attract investors and grow the restaurant, hotel, and entertainment sectors. These three tax sectors are currently being boosted and expanded, especially in the Tinggimoncong District (Malino), considering that villas in Malino are also categorized under hotel tax.

To support the development of tourism, the Government of Gowa Regency will implement tax intensification. This means that new tax objects will be registered, although the process will be gradual, as Tinggimoncong District (Malino) is quite large, and the number of personnel is limited. This registration effort will be maximized this year for three tax sectors (restaurants, hotels, and entertainment) in the area. The presence of various new entertainment and culinary venues such as Cimory and Kampung Eropa in Malino is expected to become a significant potential to increase Gowa's Local Own-Source Revenue (PAD).

Regarding the taxation system, Gowa also innovated. They have Sismiob and Post Payment applications, which allow the public to pay taxes without having to come directly to the office. In fact, BPHTB and Motor Vehicle Title Transfer Fees (BBNKB) can now be paid through *mobile banking*. The latest development, considered a positive step, is the implementation of a revenue-sharing system for Motor Vehicle Tax (PKB) and BBNKB starting this year. With this system, vehicle tax revenues are divided directly and *in real time* between the province and the regency, giving regions a clear insight into incoming funds and eliminating the frequent delays in disbursing revenue-sharing funds (DBH) that were previously used.

This regency has considerable economic potential, particularly in the agricultural sector, swiftlet nest farming, and fisheries. These three sectors show active and high-value economic activities, which should provide significant sources of regional tax revenue. However, this potential has not been fully optimized because of the lack of clear and specific tax regulations governing the collection of taxes from these sectors. The absence of a strong legal basis makes it difficult for local governments to establish fair and effective tax policies, resulting in tax potential from agriculture, swiftlet nests, and fisheries not yet providing maximum contribution to Regional Original Revenue (PAD).

The potential of the swiftlet nest industry in Maros Regency is considerable and promising as one of the sources of local revenue, considering the high market value of this commodity, both domestically and in exports. However, managing this potential is hindered by various obstacles. One of the main issues is that collectors or business operators for swiftlet nests have not yet been officially registered, making it difficult for local governments to conduct supervision and tax collection. In addition, the absence of clear legal grounds at the regency level to regulate levies on swiftlet nest business activities is another obstacle to optimizing regional revenues. On the other hand, the authority to levy taxes on swiftlet nest businesses remains at the provincial level, limiting the fiscal space of the urgent government to tap into this local potential.

Maros Regency, which was one of the respondents in this study, has relatively stable regional financial conditions, largely due to the presence of the airport, which serves as one of its main sources of revenue. The restaurant tax sector, especially that located in the airport area, contributes significantly to regional income. However, there are still obstacles for local restaurants and small businesses, whose tax compliance rates remain low and are not fully aligned with the expected tax patterns.

Additionally, the overall regional taxation system in Maros faces challenges. One such challenge is the very low level of taxpayer (WP) awareness, especially regarding self-assessment reporting. Although random audits are conducted, taxpayers are reluctant to make additional payments. Maros also notes that some major tourism potentials, such as Ramang-Ramang, do not contribute to the region but are instead managed by the village government or fall under provincial jurisdiction. Regarding the Special Allocation Fund (DAK), Maros has experienced cuts, most of which have trimmed physical capital expenditures, such as for roads and bridges. This creates a dilemma for local governments because the development commitments established in the budget (APBD) have become hampered.

Regarding the taxation system, Maros implemented several innovations. They have opened holding accounts at various state-owned banks (BNI, BRI, Bank Mandiri, Bank BTN) for the payment of Land and Building Tax (PBB) and Fees for the Acquisition of Rights to Land and Buildings (BPHTB) so that taxpayers can pay directly into the regional treasury account without going through a treasurer. There is also an in-house application for tax payment. However, there is still confusion regarding the division of tax authority between central, provincial, and regional governments, especially for restaurant taxes. For example, packaged food is classified under provincial jurisdiction, whereas food prepared and consumed on-site at outlets such as Indomaret can be classified under the region.

Regions should be given flexibility to calculate and collect income from potential sectors such as agriculture, fisheries, edible bird nests, and other natural resources. The aim is for regional revenues to flow directly into the local government treasury without relying too heavily on transfers from the central government, which are often delayed in disbursement and yield relatively small shares. The case that occurred in the Meranti Islands Regency, which is an oil producer but is disadvantaged by the central fund-sharing mechanism, is a clear example of inequality that can occur as a result of a system that does not favor the regions. Therefore, to maximize the potential of each region, regulations need to be improved, including a review of regional taxation authorities as well as reforms to the fiscal administration system to better support regional fiscal independence. With clear regulations and an effective system in place, regions can increase their Locally Generated Revenue (PAD), use it directly to meet development needs, and provide more responsive and targeted public services.

4.3 Discussion

This research reflects the structural, institutional, and fiscal challenges in the management of local taxes, particularly in the regencies of Takalar, Gowa, and Maros. The key implications of this study are as follows.

The findings in Takalar, Gowa, and Maros indicate an urgent need for genuine fiscal decentralization. Although regional autonomy has been formally implemented, the fiscal authority of local governments remains limited in practice. Many potential sources of revenue from sectors such as agriculture, fisheries, and edible birds' nests have not been maximized because regency governments do not have direct authority to tax these sectors. However, most revenues remain under the jurisdiction of the provincial or central government, while local governments lack a clear legal basis for imposing levies, even on obvious economic potential within their own regions.

Dependence on revenue-sharing funds (Dana Bagi Hasil/DBH) from the central government, which are often disbursed late and in small amounts, hampers regional development, as seen in Maros when the reduction in Special Allocation Funds had a direct impact on infrastructure spending. Similar situations have occurred in other regions, such as Meranti Regency, which, despite being an oil producer, receives a disproportionate share of DBH. Furthermore, fiscal limitations restrict the ability of local governments to adapt tax policies to local economic characteristics as well as strengthen effective taxation systems and institutions. Therefore, more

tangible fiscal decentralization is needed, not only in the form of fund transfers but also through the full delegation of authority to local governments to calculate, manage, and collect their own potential revenues. Thus, regions can become more fiscally independent and finance development according to the needs and priorities of local communities.

The weak legal and regulatory framework for local taxes has been a primary obstacle to optimizing tax revenue from potential sectors. Many taxable objects with high economic value, such as agriculture, fisheries, and edible bird's nest businesses, cannot be officially taxed because there are no local regulations (*perda*) that legally regulate collection mechanisms. For example, in Takalar, the agricultural sector is recognized as having great potential, but there is no single regulation that can serve as a basis for collecting taxes from these activities. A similar situation exists with the edible bird nest business: even though its revenue potential is high, there is no "legal hook" to make collectors' activities subject to local taxes. As a result, revenue targets that have been set—for example, only IDR 5 million per year—are not based on solid research or working papers and face the risk of not being legally collectible.

The absence of regulation creates confusion among regency, provincial, and central governments regarding who has the authority to collect certain taxes, which could lead to overlapping authority and potential revenue leaks. At the same time, legal ambiguity hinders the supervision and enforcement of taxpayer compliance, because there is no firm basis for sanctions. Therefore, strengthening local tax regulations is crucial so that urgent governments have the legitimacy to set, collect, and enforce taxes from local sectors that have not been addressed thus far. Without a strong legal foundation, opportunities to broaden the tax base and increase local own-source revenue (PAD) remain inhibited, even if local economic potential is available and growing.

The key implication of the research results in the Takalar, Gowa, and Maros Regencies is the existence of gaps in institutional capacity and human resources at the local government level in tax administration. Although these regions have significant potential tax revenues, limitations in local institutional capacity, whether in terms of organizational structure, personnel, or technology, hinder the optimization of tax collection. One of the main problems identified is the absence of dedicated officers functioning as tax law enforcers or a kind of "tax police" in the field who can monitor and take action against non-compliant taxpayers. Furthermore, for example, in Takalar, there is not yet a regional tax bailiff responsible for the collection and confiscation processes for delinquent taxpayers. However, the low level of public tax literacy and awareness, combined with the lack of trained collectors and supervisors, leads to low tax compliance and a sluggish collection process. In terms of technology, tax collection systems are still often manual and carried out through an Integrated Service Unit (UPT), while digitalization has not been evenly implemented in all sectors. This situation differs from the Gowa Regency, which has begun adopting digital systems and payment integration via mobile banking, although they still face challenges in extending these systems across a vast area. Altogether, these observations indicate that improving the quality of institutional and human resources for local taxation must be a top priority. Without strong institutional capacity and adequate human resources, opportunities to broaden the tax base,

improve collection efficiency, and enforce fiscal compliance remain limited, regardless of the extent of the region's revenue potential.

The next implication from the research in the Takalar, Gowa, and Maros Regencies is the issue of coordination and overlapping authority between the central, provincial, and regency governments in the management and collection of taxes. These three regions face difficulties in determining who has the legal authority to collect taxes from certain sectors. For instance, in the case of fisheries taxes, most of the revenue goes to the province, even though fish farming and catching activities occur within the administrative area of the regency. Similarly, for swallow nest taxes, local governments struggle to determine the levies, as collectors are not yet registered, and the rules on the collection process either remain under provincial jurisdiction or have not been established at all.

In Maros, ambiguities also arise concerning restaurant tax objects, especially for takeaway foods or pre-packaged meals: packaged foods are subject to provincial tax, while food served on-site can fall under district tax collection, but these boundaries are not always clear. These overlaps are exacerbated by a lack of interagency communication and the absence of either integrated data systems or synchronized mechanisms for the allocation of authority. As a result, technical confusion occurs, potential revenues are not optimized, and there is often competition between different levels of government in pursuing revenue targets. This issue demonstrates that there is a need for harmonization of fiscal regulations between governments, clarity on the limits of authority, and a more structured coordination system to avoid competing claims or legal loopholes that ultimately harm local tax revenues. Without systemic solutions, this overlapping authority will continue to be a major obstacle to efforts to strengthen regional fiscal independence.

Next is the high fiscal dependence on the central government and fiscal justice gap among regions. All three regions demonstrate a situation in which Regional Original Revenue (PAD) has not yet been able to independently finance development because of limited authority to collect taxes and suboptimal utilization of local economic potential. As a result, they are highly dependent on fiscal transfers from the central government, such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), and revenue-sharing fund (DBH).

However, this transfer system is often unfair and disproportionate to the region's contribution in terms of both disbursement timing and allocation amount. For example, Maros experienced DAK cuts that directly delayed infrastructure development programs even though the region had significant fiscal potential and good performance. Another frequently referenced case is the Meranti Islands Regency, which, despite being an oil-producing area, received a small DBH because the calculations and distribution were centrally managed and did not consider the specific characteristics or requirements of the producing region.

This disparity indicates that the national fiscal system does not fully uphold the principles of vertical or horizontal justice. Producing regions do not always receive fiscal benefits equal to their contributions to the national economy, whereas regions with lower potential continue to receive large transfers because allocation formulas tend to be more political or evenly

distributed. Therefore, reforms of the intergovernmental fiscal balance system are needed to reduce fiscal dependence and achieve true fiscal justice. Regions should be given more autonomy to calculate, collect, and use their own revenue independently and proportionally to their potential to strengthen their sustainable and fair development capacity.

Furthermore, the availability of accurate data and digitalization of systems are crucial to support the expansion of local tax bases. The three regencies face similar challenges in broadening their tax base due to the lack of complete and valid data on tax objects and subjects, especially in high-risk informal sectors such as the nests of edible birds, small businesses, and agriculture. In Takalar and Maros, collectors of edible bird nests have not been officially registered, so even though the potential revenue is large, local governments find it difficult to accurately target taxes.

Moreover, many business actors in the informal sector are unregistered, thus avoiding fiscal oversight. This condition is worsened by manual tax collection still being used in several service units, especially in Takalar, which not only takes time, but is also prone to leakage and lacks transparency. Meanwhile, the Gowa Regency has begun to make progress with the implementation of digital systems, such as online tax payment applications (Sismiob and Post Payment), as well as integrating BPHTB and BBNKB payments through mobile banking, which has significantly improved efficiency, transparency, and convenience for taxpayers. Digitalization also facilitates data consolidation between agencies and serves as an important foundation for developing a data-driven taxation system. Therefore, to encourage sustainable tax expansion, local governments must invest in integrated tax information systems, accelerate the digitalization of services, and build accurate and up-to-date databases. These efforts not only expand the tax base but also strengthen public trust in the regional taxation system and gradually improve taxpayer compliance.

Finally, the high dependence on fiscal transfers from the center, coupled with the low Regional Original Revenue (PAD) due to suboptimal tax collection, makes it difficult for regions to quickly and equitably meet the basic needs of the population. For instance, in Maros, cuts in the Special Allocation Fund (DAK) disrupted capital expenditure on infrastructure such as roads and bridges, resulting in development promises outlined in the regional budget (APBD) becoming unrealizable. In Takalar and Maros, the potential from agriculture, nests of edible birds, and fisheries have yet to be harnessed due to weak regulation and fiscal capacity, even though revenue from these sectors could be used to fund public services such as education, health, and social assistance.

On the other hand, fiscal limitations also affect institutional capacity and the availability of adequate human resources for services. Low regional revenues make it difficult for the government to recruit or train technical staff, including tax supervision and management of public services. As a result, service quality has become stagnant and unresponsive to the needs of citizens. In the long term, this condition risks widening development gaps between regions and hindering local economic growth. Therefore, increasing regional fiscal independence through improvements to the tax system, regulation, data integration, and digitalization has become an urgent step so that local governments can provide better, more equitable, and

sustainable public services in accordance with the characteristics and needs of the communities in each region.

5. CONCLUSIONS

The three regencies of Takalar, Gowa, and Maros possess significant economic potential, particularly for agriculture, fisheries, tourism, and edible bird nest production. However, this potential remains underutilized because of limited local tax regulations, weak taxpayer databases, and the absence of an integrated digital tax system. Overlapping authorities between the central, provincial, and local governments in tax management creates confusion and hinders optimal Local Revenue (PAD) collection. This results in high dependence on central government transfers, which are often delayed and disproportionate to regional fiscal contributions. There is an urgent need for comprehensive institutional reforms to expand the tax base and promote regional self-sufficiency. This includes digitalizing the regional taxation system, building official capacity, and reviewing legal foundations and tax authorities. These measures are crucial for strengthening fiscal independence and improving public services at a regional level.

This study proposes several recommendations to address the unresolved issues in local taxation. Structural improvements are needed to clarify the coordination and authority between government levels. Joint regulations should harmonize fiscal authority and establish clear coordination mechanisms to optimize government functions. Digitalization is crucial for improving the efficiency and transparency of local taxation. Implementing integrated digital tax systems, as exemplified by Gowa Regency's online payment applications, can increase compliance and reduce revenue leakages. Strengthening the tax database is essential for local tax extension. Local governments must update the data collection of tax subjects and objects, especially in informal and high-risk sectors. Cross-departmental data integration enables accurate fiscal data and realistic revenue targets.

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