

LAW & SOCIAL POLICY | RESEARCH ARTICLE

The Effectiveness of Granting Land and Building Tax Incentives on Individual Taxpayers' Compliance in Fulfilling Tax Obligations Amid Global Economic Impacts in Makassar City, Indonesia

Hasnan Hasbi¹, Syamsul Alam², Dea Larissa³

^{1,2} Department of Law Science, Faculty of Law, Universitas Muslim Indonesia, Makassar, Indonesia.

Email: hasnan.hasbi@umi.ac.id¹, syamsul.alam.fh@umi.ac.id²

³ Department of Constitutional Law, UIN Alauddin, Makassar, Indonesia. Email: dea.larissa@uin-alauddin.ac.id

ARTICLE HISTORY

Received: January 15, 2025

Revised: May 16, 2025

Accepted: May 24, 2025

DOI

<https://doi.org/10.52970/grlspr.v4i2.1011>

ABSTRACT

In this study, entitled "The Effectiveness of Land and Building Tax Incentives on Individual Taxpayers' Compliance Amid Global Economic Impacts in Makassar City", the objective is to examine the implementation of land and building tax incentives for individual taxpayers in fulfilling their tax obligations in the face of global economic disruptions in Makassar. This study also aims to identify the criteria used in determining eligibility for such tax incentives. Beyond ensuring that outstanding tax obligations can still be fulfilled, the research also seeks to determine whether the provision of tax incentives affects the region's locally generated revenue (Pendapatan Asli Daerah) in Makassar. In this context, the study assesses the effectiveness of tax incentives in supporting local revenue. The research employs a normative-empirical legal method, using three types of approaches: the statute approach, the case approach, and the conceptual approach. These approaches are then analyzed through a juridical review and case data of individual taxpayers with outstanding obligations to address the research problem. The expected outcome of this study is to provide insights into how taxpayers with outstanding commitments under the prevailing tax regulations can access tax incentive policies without causing harm to regional finances or engaging in actions that violate existing legal provisions.

Keywords: Tax Policy, Incentive Measures, Global Economic Conditions.

I. Introduction

Every policy and decision-making process must be guided by applicable legal provisions in a constitutional state. As stipulated in Law Number 28 of 2009 concerning Regional Taxes and Levies, "Regional tax is a compulsory contribution to the region owed by an individual or entity that is coercive in nature based on the law, without direct compensation, and used for the needs of the region for the greatest possible welfare of the people." Based on this, regional governments are expected to enhance their Regional Original Revenue (Pendapatan Asli Daerah or PAD) by optimizing various potential state revenue sources, including the Land



and Building Tax. In recent years, Indonesia, like many other countries, has faced serious challenges due to the spread of the COVID-19 virus. The pandemic significantly affected both national and regional areas. In response, the government introduced a set of policies grounded in statutory regulations aimed at reducing the number of positive COVID-19 cases. Among these policies was the implementation of restrictions on public activity, such as the Enforcement of Community Activity Restrictions (PPKM), which limited the mobility and activities of the population.

Learning from the restrictions on public activities, which had widespread effects on all segments of society, these limitations led to a slowdown in economic growth. Consequently, many citizens could not fulfill their taxpayer obligations, such as paying outstanding Land and Building Taxes. This resulted in delays or even failures in meeting tax obligations. Based on the issues outlined above, the researcher is interested in examining how the current study differs from previous research, particularly in assessing the effectiveness of land and building tax incentives in the city of Makassar. Based on that, the objectives of this study are as follows (1) To examine whether the implementation of Land and Building Tax incentives for individual taxpayers has been effective (2) To identify the requirements used by the local government in granting Land and Building Tax incentives to individual taxpayers to avoid a deficit in the Regional Original Revenue of Makassar City.

II. Literature Review and Hypothesis Development

2.1 State of The Art

This table presents previous research, which serves as a guideline or benchmark in the discussion of this study.

Table 1. Prior Research

Authorz	Title	Research Findings
Suparna Wjiaya, Brahmasta Kana Buana	Tax Incentives During the COVID-19 Pandemic for MSMEs: A Case Study of the Tulungagung Primary Tax Service Office	The study found that providing tax incentives only to MSMEs that meet specific income criteria is effective.
Natanael Ginting, Ferry Irawan	Review of Tax Incentive Policies During the COVID-19 Pandemic Based on Budgetary Function and Tax Regulation	The study concluded that tax incentive policies served as a stimulus for handling the impact of COVID-19 while achieving 89.25% of the original revenue.

Dzikra and Winarningsih, in their previous study titled "Analysis of the Implementation of the Tax Penalty Waiver Program in the Collection of Land and Building Tax (PBB) Receivables in Bandung City", which used a descriptive research method, revealed that the effectiveness of PBB receivables collection before and after the implementation of the tax penalty waiver program showed a significant percentage increase. However, it was still considered ineffective when adjusted according to effectiveness criteria because the results remained below sixty percent. The implementation of this program faced several challenges in improving PBB receivables collection. These challenges included low taxpayer compliance, insufficient program socialization, inadequate utilization of mass media and social media, and the slow functioning of the existing system.

2.2 Tax Policy and Implementation

Tax incentives are special tax provisions that generally result in a smaller tax to be paid to the state treasury than what would otherwise be required. The government issues them to stimulate the national

economy. Tax incentive policies are part of fiscal policy. Fiscal policy is often associated with Keynesianism. In his theory, Keynes's macroeconomic policy suggests how the government plays a role in influencing aggregate demand, thereby affecting macroeconomic conditions to approach the full employment position. Keynes recommended that the economy should not be left solely to market mechanisms. To some extent, the government's intervention is necessary. For example, in the case of unemployment, the government can increase its spending on labor-intensive projects. This way, some unemployed people can be employed, increasing public income. According to Winardi, an incentive is "a tax provision aimed at stimulating taxpayers, functioning not only to generate income for the state but also to enhance economic development in certain sectors." Tax incentives are a facility the government provides to attract taxes by offering ease and various beneficial tax programs for taxpayers.

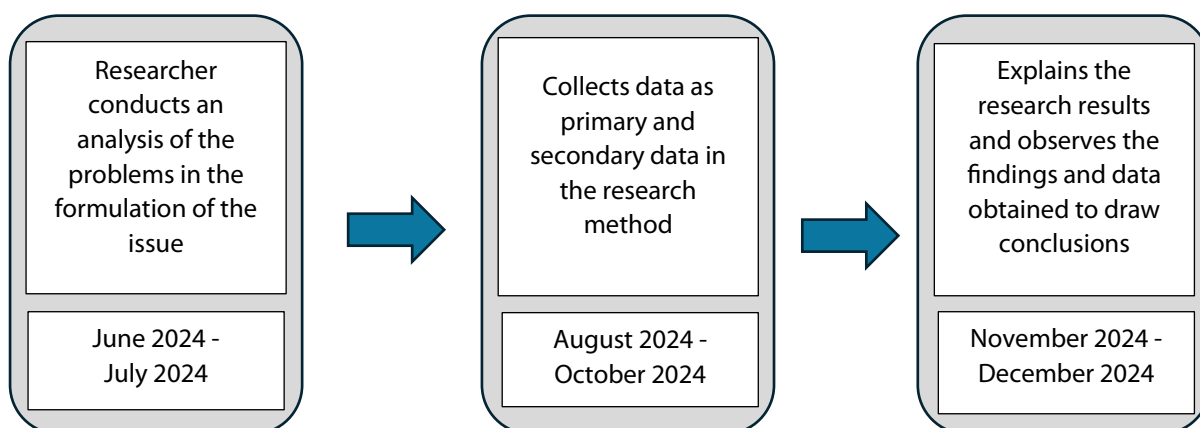


Figure 1. Research Roadmap

2.2.1. Land and Building Tax

A positive list is regulated in Law No. 1 of 2022 for sources derived from taxes and levies. However, for regions with limited natural resources (SDA), the revenue from Land and Building Tax (PBB-P2) becomes one of the local taxes with a significant contribution to the region's income. The transfer of management of the Land and Building Tax for Rural and Urban Areas (PBB-P2) and the Transfer of Land and Building Rights Fee (BPHTB) from the Central Government to Local Governments is evidence of the ongoing process of fiscal decentralization in Indonesia. As mandated in Law No. 32 of 2004 on Local Government, revised by Law No. 23 of 2014, and Law No. 28 of 2009 on Local Taxes and Levies, and more recently through Law No. 1 of 2022 on the Financial Relations between the Central Government and Local Governments, these two legal frameworks encourage Local Governments to achieve fiscal independence by granting them the freedom to manage taxes based on local areas, such as PBB-P2 and BPHTB. According to Law No. 28 of 2009, the Land and Building Tax is a property tax where the amount of tax owed is determined by the object's condition, namely the land and/or building. The term "land" refers to the earth's surface (water and land) and the body of the earth beneath it, such as fields, gardens, rice fields, mines, yards, and so on.

Meanwhile, "building" refers to a permanent technical construction placed or embedded on land or water, such as houses, multi-story buildings, shopping centers, docks, etc. The Land and Building Tax (PBB) is a central government tax. Still, most of its revenue is transferred to the regions because PBB is a type of tax whose revenue is shared with local governments as part of revenue sharing (Eprianti & Indarti, 2020, p. 33).

2.2.2. PBB Objects

The objects of the Land and Building Tax (PBB) are "Land and/or Buildings": Land: The surface of the earth (land and water) and the body of the planet found inland and in the territorial seas of Indonesia.

Examples include rice fields, gardens, land, yards, and mines. Building: A technical construction that is permanently placed or attached to land and/or water. Examples include residential houses, business premises, multi-story buildings, shopping centers, installations, luxury fences, docks, luxury gardens, benefits facilities, toll roads, swimming pools, and offshore oil platforms.

Tax objects that are exempt from the Land and Building Tax (PBB) include those that:

- a. Are used solely for serving the public interest in the fields of worship, social services, health, education, and national culture, without the intention of making a profit, such as mosques, churches, government hospitals, schools, orphanages, and temples.
- b. Are used for cemeteries, archaeological sites, or similar purposes.
- c. Are designated as protected forests, nature reserves, recreational forests, national parks, grazing land controlled by villages, and state-owned land that has not been encumbered with any rights.
- d. Are used by diplomatic missions based on the principle of reciprocity
- e. Are used by agencies and representatives of international organizations as designated by the Minister of Finance.

A Tax Subject is an individual or entity that, in practice, holds a right over land, and/or receives benefits from the land, and/or owns a building, and/or controls a building, and/or receives benefits from the building.

A Taxpayer is a Tax Subject who is obligated to pay taxes. The current development in tax compliance theory views psychological-social variables as equally crucial as deterrence variables. One of the latest theories on tax compliance is the Slippery Slope Model by Kirchler et al. (2008). This theory states that psychological-social variables and deterrence factors positively impact tax compliance. Psychological-social variables tend to influence voluntary tax compliance, while deterrence variables tend to influence tax compliance based on the fear of negative consequences related to enforced tax compliance. The Slippery Slope Theory has three dimensions: trust in the government, government power, and compliance (Dwi Ratmono et al., 2018). Trust is an expectation of honesty and cooperative behavior based on shared norms. As with the Land and Building Tax (PBB), which adopts the Official Assessment system, this is a tax collection method in which the authority determines the amount of tax owed, which lies with the tax officer or fiscal authority as the tax collector. Under the Official Assessment system, the taxpayer plays a passive role, and the tax liability arises only after the issuance of a tax assessment notice by the tax authority. This tax collection system can be applied to pay PBB or other local taxes. In the case of PBB payments, the Regional Revenue Agency (BAPENDA) is the entity that issues the tax assessment notice containing the amount of PBB due each year. From a legal perspective, a tax incentive is considered a special treatment granted only to specific investment projects. Meanwhile, from a practical tax perspective, a tax incentive is defined as the impact on reducing the tax burden the taxpayer bears.

2.3 Ricardian Equivalence Theory

The relevance of this theory to the current research lies in the notion that tax incentive policies represent future public debt, stemming from today's fiscal stimulus (in the form of tax incentives), which will eventually be repaid through future tax increases. In other words, the government sacrifices current tax revenues by offering tax incentives now and plans to increase taxes in the future to compensate. The central figure behind this theory is David Ricardo, who stated that a budget deficit policy is essentially a form of deferred taxation in his work *On the Principles of Political Economy and Taxation* (1817). Buchanan (1976), inspired by Barro (1974), later developed this idea into what became known as the Ricardian Equivalence Theory. According to Utomo Anggita et al. (2018), Ricardian Equivalence holds under the assumptions that: society lives forever, capital markets are perfect, there is certainty about future taxes and income, and tax amounts are predetermined by the state (Bernheim, 1987). However, Barro (1989) in *The Ricardian Approach*

to Budget Deficits criticized these assumptions, arguing that in reality: people do not live forever, capital markets are imperfect, future taxes and incomes are uncertain, and the government does not entirely set tax amounts because they depend on factors like income, expenditure, wealth, and more. According to Winardi (in Setyorini, 2022), an incentive is "a tax provision aimed at stimulating taxpayers, functioning not only to generate revenue for the state but also to promote economic growth in certain sectors." Tax incentives can thus be seen as government-provided facilities encouraging tax compliance through benefits such as simplified processes or attractive programs for taxpayers. According to Spitz (in Setyorini, 2022), tax incentives can take four forms: Tax Exemptions – temporary relief from tax obligations granted by the government, Reduction of Tax Base – a deduction from the total taxable amount, Reduction of Tax Rates – lowering of standard tax rates to special rates regulated by the government, Tax Deferral – allowing taxpayers to postpone payment until a later date.

III. Research Method

2.4 Research Location, Data Sources

The research is located in Makassar City, specifically at the Office of the Regional Revenue Agency of Makassar City, UPTD PBB (Property Tax Service Unit). The research will be conducted from July to December 2024. The type of data needed for this research includes approaches to data sources, which can be outlined as follows: Primary Legal Materials; these consist of legislation, including: The Civil Code (KUH Perdata), Law No. 28 of 2009, Law No. 12 of 1985 concerning Land and Building Tax, Mayor Regulation No. 27 of 2020 regarding the Extension of Due Dates, Reduction of Principal Debt, and Cancellation of Administrative Sanctions in the form of Interest and/or Fines on Rural and Urban Property Taxes in Makassar City for 2020. These materials are relevant to primary legal materials and can aid in analyzing and understanding them. They consist of data collected from the research location, books authored by scholars, and results from various seminars or other scientific activities related to the discussed issues.

IV. Results and Discussion

4.1. Effectiveness of Tax Incentives on Land and Buildings for Individual Taxpayers

The Mayor of Makassar's Regulation No. 27 of 2020 concerning the relaxation of Land and Building Tax (PBB) for rural and urban areas in Makassar due to the non-natural disaster of the COVID-19 pandemic states in Article 2 that the purpose of this regulation is to serve as a guideline for providing tax relief in the form of a reduction in principal assessments, waiving of fines, and postponement of payment deadlines for PBB P2 due to the outbreak of the COVID-19 virus. This regulation further explains the provision of PBB P2 relaxation from 1994 to 2020 and specifies in Article 6 that the relief granted is 50%. This regulation is a measure taken by the Makassar city government to stimulate the economy during challenging times. An overview of the tax incentives for Land and Buildings in Makassar City can be seen in Table 1 below:

Table 1. Tax Incentives Assessment and Realizations 2021

District	Provisions			%
	Relaxation (IDR)	%	Realization (IDR)	
Biringkanaya	2,235,494,372	9.10	959,028,403	5.51
Bontoala	772,537,263	15.99	537,612,523	12.15
Makassar	995,477,125	11.73	685,843,421	9.40
Mamajang	346,246,708	5.87	226,072,858	4.55
Manggala	78,808,799	0.86	55,130,477	0.93
Mariso	1,822,418,032	25.36	1,244,231,928	21.09
Panakkukang	10,020,265,095	24.57	6,725,024,172	20.65

District	Provisions			%
	Relaxation (IDR)	%	Realization (IDR)	
Rappocini	3,255,532,055	12.36	2,388,632,256	11.30
Tallo	2,755,453,403	31.25	1,929,647,383	25.00
Tamalanrea	5,469,765,763	19.30	3,872,821,199	20.77
Tamalate	12,943,907,220	37.27	9,059,651,612	34.54
Ujung Pandang	4,241,940,949	24.13	2,967,070,561	18.65
Ujung Tanah	42,185,711	3.31	29,529,997	2.57
Wajo	2,632,308,703	17.74	1,734,477,644	13.28
Sangkarrang				
Harbor Area				
	47,612,341,198	20,00	32,414,774,434	17,37

Data source: Makassar City Regional Revenue Agency (Bapenda), 2022.

Based on the data in Table 2, the allocated property tax (PBB) incentive in Makassar City amounted to IDR 47.6 billion, with an actual realization of IDR 32.4 billion. According to the definition of tax incentives, property tax revenue in Makassar City in 2021 experienced a decrease of IDR 32.4 billion. This policy was implemented as part of the government's efforts to support national economic recovery. Given the economic conditions, particularly in Makassar City, which were negatively affected, this tax relaxation policy aimed to reduce taxpayer noncompliance in settling tax arrears, while maintaining consistent tax payments as a civic obligation. Tax incentives granted to taxpayers are part of a fiscal stimulus scheme, a macroeconomic policy adopted to support national economic recovery. Therefore, it can be stated that this policy is an integral part of the national government's broader economic strategy.

4.2. Conditions and Regulations for Determining Incentive Recipients by the Local Government Regarding Property Tax for Individual Taxpayers in Order to Avoid Deficits in Local Revenue in Makassar City

In Article 6 regarding the amount of relaxation provided at a rate of 50%, Regulation No. 27 of 2020 represents the Makassar City Government's efforts to stimulate the economy, which is currently facing resilience challenges. Based on Mayor Regulation No. 27 of 2020, the procedures for reducing principal amounts and waiving interest and/or penalties are as follows:

1. Extension of Due Dates: Reduction of principal receivables and waiving of administrative penalties such as interest and/or property tax penalties (PBB-P2) are granted automatically through the SismioP system.
2. Tax Receivables Eligible for Reduction: Tax receivables that can be reduced are as follows:
 - a. SPPT (Property Tax Notification)
 - b. SKPD (Tax Assessment Decision)
 - c. STPD (Overdue Tax Notification)
 - d. SKPDKB (Tax Assessment Decision for Underpayment)
 - e. SKPDKBT (Tax Assessment Decision for Rectification)
 - f. Correction Decision Letter
 - g. Objection Decision Letter
 - h. Cancellation Decision Letter
 - i. Appeal Decision
 - j. Judicial Review Decision that increases the amount of tax payable.

Amount of Reduction for Property Tax Receivables: The reduction rates for PBB-P2 receivables for the years 1994-2018 are as follows:

1. For PBB-P2 receivables from 1994-2012: 50%
2. For PBB-P2 receivables from 2013-2015: 30%
3. For PBB-P2 receivables from 2016-2018: 20%
4. For PBB-P2 receivables from 2019-2020: 0%

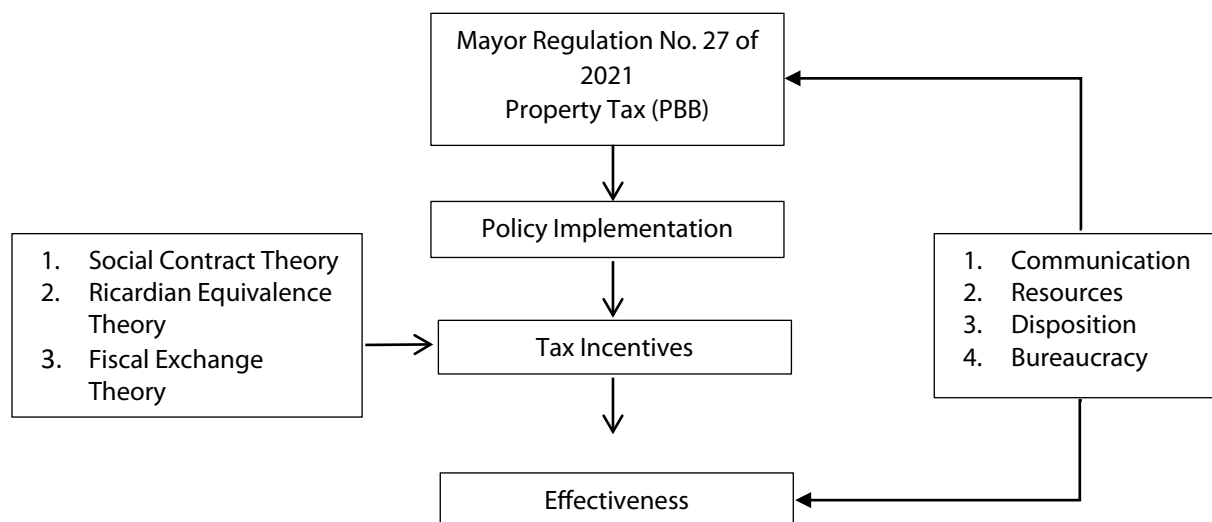


Figure 2. Result of Research Findings

V. Conclusion

Based on the data analyzed, the tax incentive for Land and Building Tax (PBB) in Makassar City amounted to IDR 47.6 billion, while the actual revenue collected only reached IDR 32.4 billion. This indicates a decrease in PBB revenue of IDR 32.4 billion in 2021. The policy was implemented as part of the government's broader initiative for national economic recovery. Given the challenging economic conditions, particularly in Makassar City, which has been significantly affected, this tax relaxation initiative is expected to reduce taxpayer non-compliance and help maintain the regularity of tax payments, which are mandatory for all citizens.

Despite these efforts, inadequate public dissemination and education regarding the incentives are a significant obstacle. Many taxpayers remain unaware of the benefits provided by these tax relief policies. Some are willing to comply but are uninformed about the procedures or their obligations when registering for the incentive schemes. Additionally, many taxpayers are still uncertain about how to apply the incentives in practice. According to data from the Ministry of Finance, as of September 28, 2020, the realization of tax stimulus had reached IDR 27.61 trillion, which accounts for 22.9% of the total budget ceiling of IDR 120.61 trillion. This emphasizes the importance of distributing tax incentives in a targeted and measurable manner to mitigate potential risks. To ensure the effectiveness of the land and building tax relaxation policy, active engagement and communication from local governments are crucial. This can be achieved through consistent dissemination using both print and electronic media. Moreover, formulating these relaxation efforts requires a more solid regulatory framework, rather than relying solely on existing mayoral regulations. A structured and comprehensive approach will enhance the impact and sustainability of tax incentive policies, particularly in encouraging greater tax compliance and awareness among the public.

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