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Optimizing Local Own-Source Revenue through PBB-P2: A Tax Justice and Good Governance Analysis within the Framework of Regional Autonomy and Fiscal Decentralization

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ABSTRACT

This article examines two questions: first, what constitutional and statutory basis authorizes local governments to optimize the Rural and Urban Land and Building Tax (PBB-P2) as an instrument of Locally Generated Revenue; second, how the 2025 wave of PBB-P2 rate increases across several Indonesian regions should be evaluated through the lenses of tax justice and good governance. Using a normative legal method that combines statutory, conceptual, and case-based approaches, the study draws on fiscal decentralization theory and tax justice theory. The findings show that PBB-P2 optimization rests on a sound constitutional and statutory basis. However, the public controversies in Pati, Jombang, Semarang Regency, Bone, Parepare, and Cirebon City were driven less by an absence of legal authority than by two deficits: a tax justice deficit, in which sharp tax increases were not matched by protections for taxpayers with limited ability to pay, and a governance deficit, marked by weak transparency in property valuation and limited public participation before policy changes took effect. By contrast, DKI Jakarta shows that revenue optimization and social protection can proceed together through instruments such as the non-taxable property value threshold (NJOPTKP), a tiered assessment ratio, and an annual increase cap. The study recommends periodic and transparent property valuation updates, fuller use of the fairness instruments already available under Indonesia's Regional Tax and Levy Law (Law No. 1/2022 on Fiscal Relations between the Central and Regional Governments), mandatory public consultation before major tax policy changes, and standardized procedures for objections and refunds.

Keywords: Property Tax, Locally Generated Revenue, Fiscal Decentralization, Tax Justice, Good Governance.

I. Introduction

The Rural and Urban Land and Building Tax (PBB-P2) occupies a highly strategic position in the architecture of regional finance, since it is one of the district/city taxes whose base is relatively immobile, closely tied to local service objects, and theoretically best managed at the subnational level of government. From the perspective of fiscal decentralization, this design is consistent with the principle that *finance should follow function*: local funding sources should support local functions, while property taxes link the tax burden to the benefit of public services enjoyed by residents in that area. The World Bank affirms that property tax is the one major revenue source that generally satisfies the strong criteria for assignment to local government (World Bank, 2022), while the OECD emphasizes that regional fiscal autonomy needs to be strengthened to improve accountability, though this benefit is only realized when accompanied by strengthened local

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administrative capacity (OECD, 2019). In the Indonesian context, PBB-P2 is important not only because of its function as *own-source revenue*, but also because it sits at the nexus of regional autonomy, tax legitimacy, and citizen protection. Arbas (2025) consistently positions PBB-P2 as an instrument for strengthening regional fiscal independence, while at the same time demanding fairness, proportionality, and good governance in both its assessment and its collection (Surya et al., 2026).

The problem is that the need to optimize Locally Generated Revenue (PAD) is frequently pursued through increases in the Sales Value of Taxable Objects (NJOP), changes in object classification, adjustments to land value zones, or even tariff policy revisions without adequate social transition (Hasbi et al., 2025). In 2025, several regions experienced sharp controversies: Pati planned an increase of up to 250 percent before cancelling it following public rejection; Jombang was met with protest after bills reportedly surged by up to 1,202 percent; Semarang Regency cancelled an increase that was reported to reach 400 percent for a number of taxpayers; Bone maintained that the actual increase was around 65 percent even though the public perceived it as higher; Parepare postponed billing after complaints of increases up to 800 percent; and Cirebon City ultimately revoked a policy linked to increases of up to 1,000 percent (Detik.com, 2025a; CNN Indonesia, 2025a; Detik.com, 2025b; Detik.com, 2025i; CNN Indonesia, 2025b; CNA, 2025). This sequence of events shows that the PBB-P2 problem is not merely a matter of legal authority, but also one of social legitimacy. On this basis, this article proceeds from the thesis that optimizing PAD through PBB-P2 is a legitimate objective in a decentralized state, but can only be justified constitutionally and ethically when carried out within a framework of tax justice, taxpayer protection, valuation transparency, meaningful public participation, and genuine administrative accountability. In other words, citizens must not be treated merely as objects of revenue collection, but as legal subjects and citizens whose dignity, ability to pay, and trust in government must be safeguarded (Republic of Indonesia, 1945).

Based on this background, this article seeks to answer two research questions. First, why and on what basis are local governments authorized to optimize PBB-P2 as an instrument of Locally Generated Revenue within the framework of regional autonomy and fiscal decentralization? Second, how should PBB-P2 rate-increase policies across various regions in 2025 be assessed from the perspective of tax justice and *(good governance)*?. This study is delimited to the normative-legal dimension of PBB-P2 optimization; it does not undertake econometric estimation of tax elasticity or revenue projection, nor does it survey taxpayer perceptions directly. Its contribution lies in mapping the legal-normative architecture of PBB-P2 authority against the empirical record of six 2025 regional controversies, and in evaluating that record through two theoretical lenses fiscal decentralization theory and tax justice theory in order to identify where the gap between legal authority and public legitimacy actually occurs.

II. Literature Review

2.1. PBB-P2 and Local Revenue Optimization: Administrative and Compliance-Oriented Studies

Most existing research on PBB-P2 approaches the tax from an administrative-compliance angle rather than a justice-and-governance angle. In Jambi Province, panel data analysis found that PBB-P2 revenue rose consistently alongside investment levels, economic growth, and the number of registered taxpayers, implicitly treating revenue growth as an unambiguous policy success without asking whether the resulting tax burden was distributed fairly (Setiawan et al., 2020). Similarly, a study of PBB-P2 receivable establishment in Medan found that the sales value of taxable objects (NJOP) is frequently set through an administrative process disconnected from actual market transactions, producing systemic under- or over-valuation depending on how recently a district last updated its data (Kadir & Angelia, 2020). Samudra (2024) extended this administrative lens using system dynamics simulation, showing that Indonesia's land and building tax revenue could be substantially increased through valuation-frequency reform alone but, like the Jambi and Medan studies, treated the increase itself as the desired outcome rather than asking how such an increase would be experienced by taxpayers with limited ability to pay (Bahl & Bird, 2008). This body of work explains *why* PBB-P2 revenue rises or falls, but it does not examine *whether* the manner of that rise is procedurally fair or socially legitimate precisely the gap this article addresses.

2.2. Property Valuation, Transparency, and Horizontal Equity

A second and more directly relevant strand of literature treats valuation accuracy itself as a justice problem. Hernandi et al. (2025), in a case study of Lebak Regency, found that Indonesia's SVTO/NJOP framework frequently deviates from actual land prices precisely because local governments inherited outdated valuation data and lacked the technical capacity to update it after fiscal decentralization the same mechanism this article identifies in the Jombang, Semarang Regency, and Bone disputes. In a 2026 follow-up study, the same research group introduced the Spatially Adaptive Land Value Determination (SALAD) model, which found empirically that community acceptance of an NJOP adjustment depended less on the technical accuracy of the valuation than on whether the adjustment process was transparent, phased according to a village's socioeconomic capacity, and accompanied by visible public benefit (Hernandi et al., 2026). Their field validation showed institutional trust scores dropping to a statistically significant "neutral" range in less-developed villages precisely where valuation adjustments were least accompanied by consultation a finding that mirrors this article's central claim that the 2025 PBB-P2 disputes were driven by a governance deficit rather than a legal one.

This pattern is not unique to Indonesia. In Brazil, evidence shows that property tax systems applying uniform market-value adjustments without income-sensitive calibration disproportionately burden low-income rural landowners (Junior & Cesare, 2022), while in South Africa, scholarship has questioned whether market value should remain the sole tax base for municipal property rates precisely because it can produce regressive outcomes when applied without complementary relief mechanisms (Franzsen, 2022). Morgan and Shahab (2023) similarly found that land value tax reforms improve planning-outcome equity only when reassessment is frequent and transparent; infrequent, opaque revaluation the pattern seen in Pati (14 years without revaluation) and Bone (14 years without ZNT adjustment) tends to produce exactly the kind of sudden, large corrective jump that this article's case matrices document.

2.3. Tax Justice Theory: Distributive and Procedural Dimensions

Tax justice theory itself has evolved beyond a narrow legality test into two distinguishable dimensions. Distributive justice concerns whether the tax burden is allocated according to ability to pay and horizontal/vertical equity; procedural justice concerns whether the process by which that burden is set and collected is transparent, consultative, and contestable (Nadirov & Dehning, 2023). Using World Values Survey data across 47 countries, Nadirov and Dehning (2023) found that citizens' trust in equitable public institutions is positively associated with their acceptance of redistributive taxation, while trust in preferential institutions correlates with the opposite a finding consistent with this article's observation that public acceptance of PBB-P2 increases collapsed precisely where local governments were perceived as acting unilaterally rather than in consultation with residents. At a more theoretical level, Sugin (2004) argues that Rawlsian distributive justice does not mandate any single tax design, but does require that a tax system's burden allocation be defensible against a baseline of fair background institutions a standard this article applies when it asks whether NJOPTKP, the tiered assessment ratio, and discretionary relief were actually used as protective instruments, or existed only on paper until public protest forced their activation.

Weigel's (2020) field experiment in the Democratic Republic of Congo offers a complementary insight from the participation side of procedural justice: citizens who were taxed also engaged more actively with the state attending town halls, monitoring local spending suggesting that taxation and civic participation can reinforce one another when the process is transparent, but can equally corrode trust when it is not. This dynamic is visible in the Indonesian cases examined here: Jombang's 12,864 valuation objections in 2024 and Amnesty International Indonesia's (2025) criticism of PBB increases enacted without meaningful public

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participation both illustrate procedural justice failing in real time, not merely as an abstract theoretical concern.

2.4. Good Governance and Fiscal Decentralization Theory

On the governance side, the literature converges on transparency, accountability, and participation as the three measurable pillars against which local tax policy can be assessed (Taufiqurokhman & Almuqsith, 2025). Comparative research on local government transparency indices has shown that municipalities with stronger information-disclosure practices exhibit measurably higher public trust rankings than those relying on minimal statutory disclosure (Araujo & Tejedo-Romero, 2016) a benchmark against which DKI Jakarta's published NJOP percentages and public exemption criteria can be favorably contrasted with the ad hoc, post-protest explanations offered in Pati, Semarang Regency, and Cirebon City. At the community level, participation research on PBB-P2 payment behavior in Brebes and Medan found that taxpayer willingness to comply rose measurably when local government demonstrated visible use of tax revenue and provided accessible channels for questions and objections before, rather than after, a bill was issued (Listiana et al., 2025; Pane et al., 2025). This is the same causal direction identified in this article's discussion of the Tanjak Lobam service innovation in Bintan (Surya et al., 2026) and the Makassar land tax incentive study (Hasbi et al., 2025): administrative reform succeeds when it is paired with active, early communication, not appended to it as an afterthought. On the decentralization side, Bahl and Bird's (2008) foundational analysis of subnational taxation in developing countries remains directly relevant: they argue that assigning property tax authority to local governments strengthens fiscal autonomy only where technical redesign of the tax base is matched by political consultation and phased implementation the precise combination that DKI Jakarta achieved and that Jombang, Semarang Regency, Bone, Parepare, and Cirebon City did not.

2.5. Positioning This Study: The Research Gap

Read together, this literature reveals a persistent asymmetry: administrative and compliance-oriented studies (Setiawan et al., 2020; Kadir & Angelia, 2020; Samudra, 2024) explain how PBB-P2 revenue is generated but not how its increase should be judged as fair; valuation and cadastre studies (Hernandi et al., 2025, 2026; Junior & Cesare, 2022; Franzsen, 2022; Morgan & Shahab, 2023) identify transparency and phased implementation as the operative fairness variables but do not connect this finding to Indonesia's specific constitutional and statutory architecture; and tax justice and governance theory (Nadirov & Dehning, 2023; Sugin, 2004; Weigel, 2020; Taufiqurokhman & Almuqsith, 2025; Araujo & Tejedo-Romero, 2016; Bahl & Bird, 2008) supplies the analytical vocabulary distributive justice, procedural justice, transparency, accountability, participation without applying it to a live, multi-region Indonesian policy episode. This article's contribution is to close that gap: it uses the 2025 PBB-P2 disputes in Pati, Jombang, Semarang Regency, Bone, Parepare, and Cirebon City, contrasted against DKI Jakarta, as a structured test of whether Indonesia's PBB-P2 legal architecture is sound (Section 2.4 and the fiscal decentralization theory discussed below suggest it is) and whether its implementation meets the distributive and procedural justice standards the literature has established (Section IV shows, largely, that it does not not because the law is absent, but because its protective instruments were activated reactively rather than by design).

III. Research Method

This article uses a normative legal research method employing a statutory approach (statute approach), a conceptual approach (conceptual approach), and a case approach (case approach). The primary legal materials used include the 1945 Constitution of the Republic of Indonesia, Law No. 23 of 2014 on Regional Government, Law No. 1 of 2022 on Fiscal Relations between the Central Government and Regional Governments, Government Regulation No. 35 of 2023 on General Provisions for Regional Taxes and Levies,

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and Law No. 30 of 2014 on Government Administration. Secondary materials are drawn from the 2022–2025 literature, international institutional reports, and policy case studies from various regions. The case selection followed a purposive, non-probability logic characteristic of normative legal case studies: regions were included where a PBB-P2 rate or valuation increase became a matter of public record and produced a documented policy response (cancellation, postponement, or revision) within 2025, namely Pati, Jombang, Semarang Regency, Bone, Parepare, and Cirebon City, with DKI Jakarta included as a contrasting case of a more calibrated policy design. This selection criterion public controversy plus a traceable government response was chosen because it allows the study to observe both the trigger (the tax increase) and the corrective mechanism (the policy reversal or adjustment), which is precisely the relationship the research questions ask about. Regions where no comparable public dispute was reported in 2025 were excluded, since the study's unit of analysis is the policy-and-response pair, not PBB-P2 administration in general.

Two categories of data were used. Primary legal materials (bahan hukum primer) consist of binding legal instruments the 1945 Constitution, Law No. 23/2014, Law No. 1/2022, Government Regulation No. 35/2023, and Law No. 30/2014 which were read for their normative content on taxing authority, valuation procedure, and taxpayer protection. Secondary materials (bahan hukum sekunder) consist of two sub-types: (a) academic and institutional literature from 2019–2025 on fiscal decentralization and tax justice, used to build the analytical framework; and (b) documented case records of the 2025 regional disputes, drawn from official regional government statements (e.g., Bapenda DKI Jakarta, Badan Pendapatan Daerah Provinsi Jawa Barat) and verified news reporting from at least two independent outlets per case where available, used to reconstruct the factual sequence of each dispute. Verification across outlets was applied specifically to contested figures such as the percentage increase reported for each region since several cases show a discrepancy between the percentage cited by aggrieved taxpayers and the percentage acknowledged by local government (this discrepancy is itself analyzed in Section IV.2, not treated as a data error to be resolved).

Operationalization of the two theories proceeds as follows. Fiscal decentralization theory is operationalized through three observable indicators drawn directly from the legal materials: (i) the constitutional and statutory basis for local taxing authority (Section IV.1.1); (ii) the specific normative instruments available to local government under Law No. 1/2022 NJOPTKP, the 20–100 percent assessment ratio, and the maximum rate ceiling (Section IV.1.2); and (iii) the central government's evaluative and corrective powers under Articles 97–100 of Law No. 1/2022 (Section IV.1.1). Tax justice theory is operationalized through four indicators drawn from the literature discussed in Section II: ability to pay, horizontal and vertical equity, procedural fairness (transparency, participation, and access to objection mechanisms), and post-dispute accountability. Each of the six 2025 case regions and the DKI Jakarta comparison case is assessed against these same four indicators, which is the basis for the two comparative matrices presented in Section IV.2.

This article's methodological contribution is the pairing of a normative-legal reading of PBB-P2's statutory design with a structured, indicator-based comparison of documented 2025 case outcomes an approach not previously applied to this specific policy episode. Because the analysis is qualitative and document-based, it does not use statistical software or a fixed instrument; the analytical tools are the four tax-justice indicators and three fiscal-decentralization indicators listed above, applied consistently across all seven cases to produce the matrices in Section IV.2. The presentation of results follows this same structure: Section IV.1 establishes the legal basis for PBB-P2 authority, Section IV.2 applies the tax justice and governance indicators to each 2025 case in two comparative matrices, and Section IV.3 synthesizes the pattern across cases before the Conclusion draws policy implications.

The theories used are, first, Fiscal Decentralization Theory, which holds that fiscal decentralization ideally aligns the division of government functions with the assignment of appropriate revenue sources. The World Bank affirms that good local revenue assignment should be consistent with the principle of subsidiarity and is most appropriate for tax bases that can be efficiently managed at the local level, particularly property tax. The Organization for Economic Co-operation and Development (OECD), an organization whose membership comprises both developed and developing countries, adds that strengthening regional fiscal

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autonomy must be accompanied by measures to strengthen accountability and build local government capacity, since the outcomes of decentralization, in terms of both efficiency and accountability, depend heavily on how it is designed and implemented (OECD, 2019). Using this theory, the researcher analyzes whether the management of PBB-P2 genuinely strengthens regional fiscal autonomy or instead generates resistance because its policy design is immature.

Second, Tax Justice Theory. Tax justice is understood not merely as the formal legality of collection, but as encompassing both distributive justice and procedural justice. The IMF affirms that a well-designed property tax can mobilize revenue fairly and efficiently, but still requires exemptions or deferrals based on economic circumstances so as not to burden taxpayers who are asset-rich but cash-poor. James Alm frames tax justice as a design that is both implementable and distributively effective, while Nathan et al.'s experiment shows that perceptions of the fairness of others' contributions influence households' willingness to pay property tax. At the compliance level, Appiah et al. likewise show that tax knowledge, perceptions of fairness, and trust in government are associated with voluntary compliance (IMF, 2024; Alm, 2024; Nathan et al., 2025; Appiah et al., 2024). This theory is therefore used to assess whether PBB-P2 increases satisfy ability to pay, proportionality, horizontal equity, vertical equity, and protection for vulnerable taxpayers. This research assesses not only the legality of authority, but also the ethical and administrative quality of the PBB-P2 policy itself.

IV. Results and Discussion

4.1. Local Government Authority and PBB-P2

a. Local Government Authority in Managing PBB-P2 from the Perspective of Regional Autonomy Law and Fiscal Decentralization

Constitutionally, local government authority to manage PBB-P2 rests on Article 18(2), (5), and (6) of the 1945 Constitution of the Republic of Indonesia, which grants regions the right to regulate and administer government affairs according to the principle of autonomy and the right to enact regional regulations. This construction is reinforced by Article 18A(2), which mandates that fiscal relations between the central government and regional governments be regulated and implemented fairly and harmoniously under statute, as well as Article 23A, which affirms that taxes and other compulsory levies must be regulated by statute. Accordingly, regional tax authority is not a standalone absolute authority, but a constitutional authority that is delegated and bounded by national law (Republic of Indonesia, 1945). At the statutory level, Article 286(1) of Law No. 23 of 2014 stipulates that regional taxes and levies are established by statute, with their implementation in each region further regulated by regional regulation (Republic of Indonesia, 2014b). Meanwhile, Article 94 of Law No. 1 of 2022 requires that all provisions on regional taxes and levies be consolidated into a single regional regulation that serves as the basis for local collection (Republic of Indonesia, 2022). This means that the basis of local government authority in managing PBB-P2 operates through two layers: national attribution of which types of tax may be collected, and local delegation in the form of a regional regulation as the concrete basis for its collection.

As specifically regards PBB-P2, Law No. 1 of 2022 defines the tax subject as any individual or entity holding rights to, controlling, or benefiting from land and/or buildings. Its tax base is the NJOP established through a valuation process; the Non-Taxable Sales Value of Taxable Objects (NJOPTKP) is set at a minimum of IDR 10,000,000 per taxpayer; the NJOP used to calculate PBB-P2 may be set at a minimum of 20 percent and a maximum of 100 percent of the NJOP after deducting the NJOPTKP; and the NJOP amount is determined by the regional head. The same Law also sets the maximum PBB-P2 rate at 0.5 percent, with rates for food- and livestock-production land required to be lower than for other land (Republic of Indonesia, 2022). Conceptually, this norm creates room for local discretion, while at the same time providing a social safety brake through the NJOPTKP, the assessment ratio, and rate differentiation for productive land.

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The implementation of this authority is further detailed in Government Regulation No. 35 of 2023. This Regulation affirms that the PBB-P2 NJOP is set by the regional head and calculated based on the average price of fair sale-and-purchase transactions; where market data is unavailable, comparison with similar objects, replacement cost, or substitute sale value may be used. The same Regulation also stipulates that the PBB-P2 payable is established based on the Tax Object Notification Letter (SPOP) using the Tax Due Notice (SPPT), and provides an administrative mechanism for correction and reassessment where data discrepancies exist (Republic of Indonesia, 2023). Administratively, this means that the authority to set PBB-P2 requires adequate data collection, mapping, and valuation quality; without these, the exercise of authority can easily lose its legitimacy. Central-regional fiscal relations in the management of PBB-P2 also do not stop at delegation. Articles 97 through 100 of Law No. 1 of 2022 give the central government room to adjust regional tax policy in the interest of national fiscal policy, ease of doing business, equitable protection, and the evaluation of regional regulations that conflict with the public interest, higher-level regulation, or national fiscal policy. Regions may even be sanctioned through the suspension or reduction of the General Allocation Fund (DAU) and/or Revenue-Sharing Fund (DBH) if they violate these evaluation provisions (Republic of Indonesia, 2022). This shows that Indonesia's fiscal decentralization is a form of regulated autonomy: regions are given room to act, but that room sits within a framework of national fiscal integration.

From the perspective of fiscal decentralization theory, this design is, in principle, appropriate. Property tax is indeed recognized as the tax base best suited to local government because its object is immobile, the benefit of local services is reflected in property values, and there is a Wicksellian connection between local taxation, local spending, and local accountability. The Wicksellian connection is a concept originating from the Swedish economist Knut Wicksell, which emphasizes that decisions about government expenditure should be directly linked to who pays for it (Bird & Slack, 2014). PBB-P2 creates a strong Wicksellian connection because residents pay tax to local government and, at the same time, can judge whether the services, infrastructure, and development they receive are commensurate with the tax they pay. However, World Bank (2022) also cautions, citing OECD findings, that a high share of subnational spending and revenue is not always identical to high fiscal autonomy, since many local governments remain constrained by centrally determined transfers, weak technical capacity, and limited cadastre data. For this reason, local government authority over PBB-P2 must be understood not merely as a license to collect tax, but as an obligation to build a reliable valuation and administrative system.

b. Optimizing Locally Generated Revenue through PBB-P2 Assessment and Rate-Increase Policy

By statute, PAD is defined as regional revenue derived from regional taxes, regional levies, returns from separated regional asset management, and other legitimate PAD (Ministry of Finance, n.d.). Among these components, regional tax is the primary pillar of fiscal independence. Data from the Directorate General of Fiscal Balance show that, at the district/city level, PBB-P2 remains a leading contributor to regional tax revenue, accounting for roughly 24 to 30 percent over the 2019–2023 period. The Directorate General of Fiscal Balance (DJPK) also notes that since 2021 the share of the Land and Building Rights Acquisition Duty (BPHTB) has begun to exceed that of PBB-P2, which is interpreted as an indication that property market prices in many areas have far outpaced NJOP, making NJOP updates a genuine fiscal necessity (Directorate General of Fiscal Balance, n.d.). The urgency of increasing PAD through PBB-P2 should therefore not be viewed as a deviation from regional autonomy. On the contrary, it is inherent to the need to finance local affairs. The IMF affirms that a broad-based property tax assessed according to market value can mobilize revenue fairly and efficiently (IMF, 2024). The World Bank likewise identifies property tax as the major revenue source most appropriately assigned to the local level (World Bank, 2022). The Directorate General of Fiscal Balance (DJPK) even considers that strengthening PBB-P2 through NJOP updates and rate adjustments is one way to close the gap between market value and the tax assessment base, provided that the social burden of the increase is properly managed (Directorate General of Fiscal Balance, 2024). Normatively, the rationale for raising NJOP or adjusting rates becomes strong when an object's assessed value has fallen far behind market reality and when a region needs healthier fiscal space for public services.

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However, fiscal rationality is not the same as policy rationality. The crucial point lies in the transition instrument. Law No. 1 of 2022 introduced an assessment ratio through an NJOP percentage of 20–100 percent. The DJPK explicitly explains that this scheme is designed to cushion the shock of a higher tax burden caused by NJOP updates and/or rate changes, and to encourage local governments to update NJOP regularly (Republic of Indonesia, 2022; Directorate General of Fiscal Balance, 2024). Under the new formula the PBB-P2 principal is determined by the rate multiplied by a certain percentage of NJOP after deducting NJOPTKP local governments in fact have a fairly fine-grained instrument for raising the tax base without having to pass the entire market-value increase through to the tax bill in the same year. This is precisely where the difference lies between careful optimization and excessive optimization.

An example of a relatively more calibrated policy can be seen in DKI Jakarta. In 2024, the DKI Jakarta Regional Revenue Agency (Bapenda) explained that the NJOP percentage used to calculate PBB-P2 was set at 40 percent for residential objects and 60 percent for non-residential objects, with an NJOPTKP of IDR 60,000,000. In the same year, the DKI Provincial Government granted a 100 percent PBB-P2 exemption for residences with an NJOP of up to IDR 2,000,000,000, for one object per individual taxpayer meeting the National ID (NIK) data requirement. In 2025, this policy was continued and even accompanied by an automatic reduction ensuring that the PBB-P2 increase payable would not exceed 50 percent of the previous year's amount, alongside payment relief and exemption from administrative sanctions (DKI Jakarta Regional Revenue Agency, 2024). This example matters because it shows that revenue optimization can proceed hand in hand with social protection, more precise targeting, and control over sudden billing increases.

By contrast, practice in several regions in 2025 shows that the term “PBB-P2 increase” in the field is often the result of a combination of several variables at once, not simply a nominal rate increase. In Semarang Regency, for instance, the local government explained that the increase stemmed from an NJOP adjustment that also referred to the Land Value Zone (ZNT) data from the National Land Agency (BPN) (Kompas.com, 2025); in Bone, the government cited a BPN ZNT adjustment after 14 years without an update; in Parepare, a review was carried out because land function and object classification were considered to affect billing, prompting the city government to re-survey more than 9,000 affected tax objects; and in Jombang, the billing surge was tied to the regime of Regional Regulation No. 13 of 2023 on Regional Taxes and Levies, implemented through Jombang Regent Regulation No. 51 of 2024, effective since 2024, based on the 2022 NJOP appraisal (Pemerintah Kabupaten Jombang, 2023; Detik.com, 2025i; CNN Indonesia, 2025b; Detik.com, 2025g). For this reason, analysis of PBB-P2 optimization must distinguish between a rate increase, a valuation update, an assessment ratio, and a correction of the tax object's underlying data. When this differentiation is blurred, what grows is not only the bill, but also public distrust.

This finding extends rather than contradicts earlier PBB-P2 studies. Research on Jambi Province found that PBB-P2 revenue rose steadily alongside investment and economic growth, implicitly treating revenue increase as an unambiguous policy success; the 2025 cases analyzed here show that the same revenue-increasing mechanisms valuation updates and assessment ratio changes produce sharply different public reactions depending on whether they are phased and communicated (as in DKI Jakarta) or applied abruptly (as in Jombang and Semarang Regency). Likewise, studies on PBB-P2 census effectiveness in Bekasi attributed under-collection to taxpayer awareness and administrative capacity; the present cases show the inverse problem over-collection relative to public tolerance driven by the same underlying data and communication gaps. Read together, these studies and the present findings suggest that PBB-P2's central challenge is not a single direction of failure (too little revenue or too much), but the absence of a transparent, staged process connecting valuation change to taxpayer notice and consultation, regardless of which direction the revenue is moving. Accordingly, PBB-P2 optimization should not be narrowed down to raising bills, but should instead involve building a data, valuation, service, and social-mitigation ecosystem that allows revenue to rise both lawfully and acceptably.

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4.2. Tax Justice Analysis of PBB-P2 Rate-Increase Policy in the Regions

Theoretically, a PBB-P2 increase is not automatically contrary to tax justice. If the assessment base is accurate, the increase is implemented in stages, vulnerable taxpayers are granted exemptions or deferrals, and the benefit of public services can be explained, then the adjustment can be justified both fiscally and morally. The IMF emphasizes that property tax can be built on the benefit principle while still retaining correction instruments based on economic circumstances (IMF, 2024). In the Indonesian context, Law No. 1 of 2022 has likewise provided its normative instruments: NJOPTKP, an NJOP percentage of 20–100 percent, a maximum rate, lower rates for food- and livestock-production land, and the regional head's authority to grant relief, reduction, exemption, or deferral of payment in consideration of a taxpayer's and/or tax object's circumstances (Republic of Indonesia, 2022). Injustice therefore more often arises not because the law fails to provide the instruments, but because those instruments of fairness are not adequately used. From a distributive-justice perspective, the most problematic policies are those that pass a sudden administrative value increase on to taxpayers without regard to ability to pay. This is highly relevant to cases of inherited family homes, elderly parents' residences, or land whose value rises due to area development while the owner's income does not rise proportionately. This is where the warning from recent literature becomes important: perceptions of fairness affect willingness to pay tax, and the perception that others are paying "their fair share" also affects the legitimacy of collection (Nathan et al., 2025). Accordingly, a large billing surge, even when it legally arises from an NJOP or ZNT update, must still be tested against the sense of substantive fairness that lives within the community.

In practice, this test of substantive fairness falls hardest on three identifiable groups: owners of inherited family homes whose administrative value rises with neighborhood development despite no change in household income; elderly taxpayers on fixed pensions whose property has appreciated due to surrounding commercial growth; and taxpayers who are asset-rich but cash-poor holding a valuable property without the liquid income to absorb a sudden tax increase. None of the six 2025 disputes examined here included a distinct policy provision targeted at these three groups before the increase was announced; protective measures (deferral, phased implementation, refunds) were introduced only after public objection, which is the reactive pattern this article identifies as a governance deficit rather than a justice deficit in the strict legal sense. From the perspective of procedural justice and good governance, an equally important measure is whether a policy is formed and implemented transparently, participatorily, accountably, and in a manner compatible with the General Principles of Good Governance (AUPB). Law No. 30 of 2014 establishes openness, care, the public interest, and good service as principles governing the exercise of authority (Republic of Indonesia, 2014a). Law No. 1 of 2022 and Government Regulation No. 35 of 2023 also provide administrative mechanisms for data collection, assessment, correction, cancellation, objection, litigation, and write-off of receivables (Republic of Indonesia, 2022, 2023). Accordingly, a PBB-P2 increase policy should be preceded by an explanation of the valuation methodology, a channel for verifying tax object data, access to check the SPPT, a reasonable transition period, and an easily accessible avenue for objection. When corrective procedures only begin operating after a wave of protest, the governance involved is, in essence, already reactive rather than preventive.

The pattern observed on the ground does indeed reveal this procedural deficit. Amnesty International Indonesia, for example, openly criticized PBB increase policies enacted without meaningful public participation (Amnesty International Indonesia, 2025). In the Jombang case, Bapenda received 12,864 NOP objection filings throughout 2024 and 4,171 more up to August 2025, a figure indicating a large volume of administrative disputes (Detik.com, 2025d). Meanwhile in Pati, social rejection was so strong that the local government cancelled the policy in order to accommodate public aspirations and maintain social order (Detik.com, 2025a). These facts show that the legitimacy of regional tax policy depends heavily on the quality of its communication: residents can accept a tax increase, but find it far harder to accept a tax that arrives suddenly, whose assessment basis is unclear, and that appears to leave no room to be heard.

The following two matrices map the gap between the ideal regulatory provisions and field practice.

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Table 1. Comparison Between Ideal Regulatory Provisions and Field Practice in PBB-P2 Policy, 2025

Aspect	Ideal Provision under Regulation	What Actually Happened	Recommended Solution
Basis of authority and limits of discretion	Regional autonomy is exercised under the 1945 Constitution; taxes must be grounded in statute; regional taxes and levies (PDRD) are set out in a single regional regulation; that regulation may be evaluated by the central government if it conflicts with the public interest, higher-level law, or national fiscal policy (Republic of Indonesia, 1945, 2022).	In a number of regions, the increase was perceived as purely the local government's own fiscal discretion, even though that room for action is in fact bounded and must be accountable both legally and socially (Detik.com, 2025a).	Every major change should be preceded by a legal impact assessment, an academic paper, and a public explanation that local government authority is derivative, not absolute.
NJOP valuation and tax-base accuracy	NJOP must be established through a valuation process; it may use fair market prices, comparison with similar objects, replacement cost, or substitute sale value; updates are carried out periodically (Republic of Indonesia, 2023).	Much of the turmoil arose precisely when the data-base update was delayed for years and then “corrected” all at once, so the public experienced a billing surge that felt sudden. The DJPK itself considers NJOP updates genuinely necessary, since market prices are often far above NJOP (Directorate General of Fiscal Balance, 2024).	NJOP updates should be carried out regularly and in stages, announced well in advance, accompanied by an open ZNT/NJOP map and facilities for mass verification of tax objects.
Proportionality of burden and ability to pay	The HKPD Law provides for NJOPTKP, an NJOP percentage of 20–100 percent, lower rates for food/livestock-production land, and relief/reduction/exemption/deferral in consideration of a taxpayer's or object's circumstances (Republic of Indonesia, 2022).	In several cases, billing surges of up to several hundred percent were not preceded by adequate social safeguards, leaving primary residences, inherited objects, or fixed-income taxpayers feeling disproportionately burdened (Central Java Audit Board, 2025a).	Apply a tiered assessment ratio, a maximum annual increase cap, deferral for taxpayers facing liquidity difficulty, and a local circuit breaker for primary residences.
Transparency, outreach, and participation	The AUPB principles require openness, care, the public interest, and good service; good governance requires transparency, accountability, and citizen	Public criticism across several regions shows that explanations of the basis for an increase often arrive only after conflict has emerged.	Public consultation must precede any major change, together with published billing simulations, an online

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	participation (Republic of Indonesia, 2014a).	Amnesty even highlighted policies made without meaningful participation (Amnesty International Indonesia, 2025).	calculator, public hearings with the regional legislature (DPRD), and individual notice before the SPPT is issued.
Taxpayer protection and due process	The HKPD Law and Government Regulation 35/2023 open up mechanisms for data collection, assessment, correction, cancellation, objection, litigation, and data-based collection; the PBB-P2 SPPT is issued on the basis of the SPOP (Republic of Indonesia, 2022, 2023).	In Jombang, the large volume of objections shows that the administrative channel was widely used, but policy correction only truly moved once social and political pressure had risen (Detik.com, 2025d).	Provide an objection service that is simple, low-cost, fast, digitally based and available at the village/sub-district level, with fixed resolution deadlines and reviewable reasons for each decision.
Accountability after rejection	Local governments may change policy, grant incentives, and refund overpayments; the central government may evaluate the regional regulation or its implementing rules (Republic of Indonesia, 2022).	Pati cancelled the increase and promised to refund the difference; Semarang cancelled it and prepared a refund mechanism; Parepare postponed billing and promised a refund; Bone, by contrast, emphasized an administrative defense of the policy (Detik.com 2025a; Detik.com, 2025b; CNN Indonesia, 2025b; Detik.com, 2025i).	Accountability should take the form of a policy audit trail, official announcements, a reliable refund mechanism, DPRD evaluation, and periodic public reporting on the number of objections, corrections, and refunds.

Table 2. Regional Case Patterns in PBB-P2 Tax Increases and Government Responses, 2025

Region	Form of the PBB Increase	Local Government's Rationale	Public Reaction	Policy After Rejection
Pati Regency	Planned PBB-P2 increase of up to 250 percent; described as the first increase in around 14 years (Central Java Audit Board, 2025b).	The Regency Government said the adjustment was needed to raise PAD for infrastructure development and public services (Central Java Audit Board, 2025b).	Rejection spread widely, including fundraising for protest action, demands for cancellation, and even growing political pressure on the Regent (Detik.com, 2025c).	The increase was cancelled; billing reverted to 2024 levels; the difference for those who had already paid was promised a refund (Detik.com, 2025a).

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Jombang Regency	For a number of objects/payers, bills were reported to have surged by up to 1,202 percent; another example rose from IDR 300,000 to IDR 1.3 million (CNN Indonesia, 2025a).	The regional head stated that the increase policy stemmed from a regional regulation/change in effect since 2024; Bapenda also recorded a jump in PBB-P2 realization compared with 2023 (Detik.com, 2025f).	Resident protests, a symbolic "pay with coins" action, and thousands of NOP objection filings in 2024–2025 (CNN Indonesia, 2025a).	The DPRD and Regency Government revised the regulation to take effect from 2026; no increase was promised for 2026, with relief, penalty waivers, and other incentives made available (Detik.com, 2025g).
Semarang Regency	For some taxpayers, the increase was reported to reach around 400–441 percent (Central Java Audit Board, 2025a).	The Regency Government attributed the increase to an NJOP adjustment, among others for objects located along provincial road corridors/tourism access routes (Central Java Audit Board, 2025a).	Residents complained strongly that inherited homes and ordinary residences were suddenly billed far higher (Central Java Audit Board, 2025a).	The NJOP and PBB increase was cancelled; billing reverted to 2024 levels; those who had already paid were promised a refund (Detik.com, 2025b).
Bone Regency	The public cited increases of up to 300 percent; the Regency Government denied this and stated the total increase was around 65 percent, resulting from a BPN ZNT adjustment after 14 years (Detik.com, 2025h,i).	The Regency Government stressed that this was not a tax-rate increase but a ZNT adjustment; the 2025 PBB-P2 revenue target was projected to rise from IDR 30 billion to IDR 50 billion (Detik.com, 2025i).	Student and resident demonstrations, physical scuffles, and continued rejection (Detik.com, 2025h).	After a demonstration turned unruly on 19 August 2025, the Regency Government ultimately postponed the increase and reverted PBB-P2 bills to the old SPPT value (Detik.com, 2025i; Tribun Timur, 2025).
Parepare City	Resident complaints pointed to surges of up to 800 percent for some objects	The Mayor stated that only around 17 percent of taxpayers were affected by an increase; the city government	Residents were caught off guard, the DPRD pressed for postponement/review, and the issue became a	Billing was postponed; 66 officers were deployed for re-surveying; the city government

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	(Detik.com, 2025j)	subsequently reviewed the matter due to issues with land classification/function and object data (Detik.com, 2025k).	public flashpoint (Detik.com, 2025j).	stated that overpayments would be refunded (CNN Indonesia, 2025b).
Cirebon City	The PBB increase was linked to surges of up to 1,000 percent (CNA, 2025).	The policy was traced to a 2024 mayoral regulation issued under the previous officeholder (West Java Provincial Revenue Agency, 2025).	A residents' association strongly rejected the policy and threatened larger action if it went unaddressed (CNA, 2025).	The Mayor agreed to revoke the 2024 regulation; rates were reverted to 2023 levels starting in 2026 (West Java Provincial Revenue Agency, 2025).

The percentages cited in the news coverage of the cases above, for several regions, refer to billing surges for particular objects/taxpayers, not always to a nominal rate increase alone. In PBB-P2 practice, a billing surge is often the combined result of an NJOP or ZNT update, the use of the NJOP percentage (assessment ratio), a change in object classification, and/or a correction of tax object data. Accurately reading a "PBB-P2 increase" therefore requires transparency about the components that make up the bill (Directorate General of Fiscal Balance, 2024). The percentage figures cited for each region in Table 2 are drawn from public statements and news reporting rather than from primary tax administration data, and this study treats that limitation transparently: the figures represent the percentage increase as perceived and reported by affected taxpayers and local media, cross-checked where possible against the percentage subsequently acknowledged by the relevant local government. Where the two figures diverge as in Bone, where public reporting cited up to 300 percent while the district government maintained the actual increase was approximately 65 percent both figures are retained in the analysis, because the divergence itself is evidence of a transparency and communication gap, which is one of the governance deficits this article identifies. This approach prioritizes documenting the dispute as it was publicly experienced over resolving which single figure is "true," since resolving that question would require primary valuation data this study does not have access to.

From the two matrices above, one major pattern can be drawn. First, local governments are indeed normatively authorized to optimize PBB-P2. Second, substantively, many policies have not yet fully passed the fairness test, because ability to pay and protection for vulnerable taxpayers were not part of the initial design, but emerged only after rejection. Third, in terms of governance, the biggest problem is not simply the "increase" itself, but a governance gap: data that is not fully trusted, low methodological transparency, weak participation, and correction mechanisms that tend to arrive late. These four observations map directly onto the two theories guiding this study: fiscal decentralization theory is confirmed at the level of legal design (local governments do hold legitimate, delegated taxing authority) but exposed at the level of implementation (administrative capacity and data quality remain uneven); tax justice theory is confirmed in its procedural dimension (the law provides adequate instruments) but contradicted in practice, since ability-to-pay protections were applied reactively, after public rejection, rather than built into the initial policy design as the theory would prescribe Fourth, the DKI Jakarta case shows that an alternative path is in fact available: the tax base can be updated while still providing targeted relief, an increase ceiling, and administrative relief (DKI Jakarta Regional Revenue Agency, n.d.). The core issue, therefore, is not a lack of legal basis, but the quality with which that authority is exercised.

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V. Conclusion

Based on the analysis above, it can be concluded, first, that optimizing PAD through PBB-P2 is a legitimate objective within the legal framework of regional autonomy and fiscal decentralization. The 1945 Constitution, the Regional Government Law, and the Fiscal Relations Law (HKPD) have provided a sufficiently clear basis of authority for local governments to manage PBB-P2. *Property tax* is the instrument best suited to financing local functions. NJOP adjustments and rate policy therefore cannot automatically be judged wrong. What matters is how that authority is used: whether it is based on accurate data, set out in valid legal instruments, implemented in stages, and accompanied by genuine protection for taxpayers. Second, the main problem behind the wave of PBB-P2 increase controversies across various regions does not lie in the absence of a legal basis, but in a tax justice deficit and a good governance deficit. On the justice side, very large surges without a social *shock absorber* tend to conflict with the principles of proportionality and *ability to pay*, particularly for primary residences, fixed-income families, elderly taxpayers, or property owners who are asset-rich but cash-poor (IMF, 2024). On the governance side, weak valuation transparency, limited public participation, and slow administrative correction pathways cause tax policy to lose legitimacy, forcing government to make reactive corrections only after rejection emerges.

Building on these findings, five recommendations follow. First, local governments should update NJOP periodically and early, rather than allowing valuations to lag for years and then correcting them in a single sharp adjustment the pattern behind nearly every 2025 dispute examined here. Second, local governments should make full use of the fairness instruments Law No. 1/2022 already provides: an adequate NJOPTKP, a tiered assessment ratio, lower rates for food- and livestock-production land, and discretionary relief, reduction, exemption, or deferral for taxpayers in demonstrated hardship applied prospectively, before a rate change takes effect, not retrofitted after protest. Third, any major valuation or rate change should be preceded by public consultation, published valuation methodology, a public billing simulator, and individualized notice in plain language. Fourth, objection, correction, and refund mechanisms should be standardized with fixed resolution deadlines, replacing the current pattern in which correction only accelerates once political pressure builds. Fifth, local governments should strengthen data integration through SISMIOP and geographic information systems, since several 2025 disputes trace back to outdated or unverified property data rather than the rate structure itself.

Beyond these policy recommendations, three directions for future research follow directly from this study's normative-legal scope. First, an empirical study using household survey data could test whether the "ability to pay" gap identified here through case documentation actually corresponds to measurable financial hardship among affected taxpayers, which this normative-legal design cannot verify directly. Second, a comparative study across a larger sample of Indonesian regencies and cities beyond the six controversy cases and one contrasting case examined here could establish whether DKI Jakarta's calibrated approach is replicable in areas with weaker administrative capacity and smaller fiscal space. Third, future research could examine the fiscal-transfer dimension this study set aside: how DAU and DBH adjustment mechanisms under Law No. 1/2022 interact with local governments' incentives to raise or restrain PBB-P2 rates, a question this article's case-based method was not designed to answer. Indonesia's path toward a healthier PBB-P2 regime, in short, is not a tax that always rises, but one that is measured, transparent, proportional, and accountable to the citizens who pay it.

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