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ANALYSIS OF LOCAL TAX GOVERNANCE IN INCREASING LOCALLY GENERATED REVENUE AND FISCAL INDEPENDENCE IN JEMBER REGENCY

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ABSTRACT

Local fiscal independence represents the ability of local governments to independently finance development and public services by optimizing Local Own-Source Revenue (Pendapatan Asli Daerah or PAD). This study aims to analyze the level of fiscal independence of Jember Regency in 2025 based on the contribution of local taxes to PAD. The research employs a qualitative approach with a descriptive research design. The data used consists of secondary data obtained from regional budget execution reports (APBD), PAD data, government publications, journals, books, and relevant online media. Data analysis was conducted qualitatively and descriptively using the fiscal independence ratio, which is calculated by dividing PAD by total regional revenue and then multiplying by 100 percent. The result of this ratio calculation is then interpreted into levels of fiscal independence, ranging from very low to high or independent. The results of the study show that Jember Regency has experienced a significant increase in PAD in recent years. Local taxes have become the main component contributing to this increase, primarily through the Street Lighting Tax, Motor Vehicle Tax, and other tax sectors. Based on the analysis of the fiscal independence ratio, Jember Regency falls into the medium or participatory category. This indicates that the local government has developed a reasonably good capacity to finance its regional needs independently, although some dependence on transfer funds from the central government remains. This condition encourages the local government to continuously optimize local tax revenues through the digitalization of tax services, improving taxpayer compliance, as well as strengthening the supervision and management of regional finances. Consequently, the increase in PAD is expected to strengthen the fiscal independence of Jember Regency sustainably in the future.

Keywords: Fiscal Independence; Regional Taxes; Locally-Owned Revenue; Fiscal Decentralization

ABSTRAK

Kemandirian fiskal daerah merupakan kemampuan pemerintah daerah dalam membiayai pembangunan dan pelayanan publik secara mandiri melalui optimalisasi Pendapatan Asli

Daerah (PAD). Penelitian ini bertujuan untuk menganalisis tingkat kemandirian fiskal Kabupaten Jember tahun 2025 berdasarkan kontribusi pajak daerah terhadap PAD. Penelitian menggunakan pendekatan kualitatif dengan jenis penelitian deskriptif. Data yang digunakan berupa data sekunder yang diperoleh melalui laporan realisasi APBD, data PAD, publikasi pemerintah, jurnal, buku, dan media daring yang relevan. Analisis data dilakukan secara deskriptif kualitatif dengan menggunakan rasio kemandirian fiskal, yaitu PAD dibagi total pendapatan daerah kemudian dikalikan 100 persen. Hasil perhitungan rasio tersebut diinterpretasikan ke dalam kategori tingkat kemandirian fiskal, mulai dari sangat rendah hingga tinggi atau mandiri. Hasil penelitian menunjukkan bahwa Kabupaten Jember mengalami peningkatan PAD yang cukup signifikan dalam beberapa tahun terakhir. Pajak daerah menjadi komponen utama yang berkontribusi terhadap peningkatan PAD, terutama melalui Pajak Penerangan Jalan, Pajak Kendaraan Bermotor, dan sektor pajak lainnya. Berdasarkan hasil analisis rasio kemandirian fiskal, Kabupaten Jember berada pada kategori sedang atau partisipatif. Hal ini menunjukkan bahwa pemerintah daerah telah memiliki kemampuan yang cukup baik dalam membiayai kebutuhan daerah secara mandiri, meskipun masih terdapat ketergantungan terhadap dana transfer dari pemerintah pusat. Kondisi tersebut mendorong pemerintah daerah untuk terus meningkatkan optimalisasi penerimaan pajak daerah melalui digitalisasi layanan perpajakan, peningkatan kepatuhan wajib pajak, serta penguatan pengawasan dan pengelolaan keuangan daerah. Dengan demikian, peningkatan PAD diharapkan mampu memperkuat kemandirian fiskal Kabupaten Jember secara berkelanjutan di masa mendatang.

Kata Kunci: Kemandirian Fiskal; Pajak Daerah; Pendapatan Asli Daerah; Desentralisasi Fiskal

INTRODUCTION

Locally Generated Revenue (Pendapatan Asli Daerah, PAD) is an important indicator for measuring the level of fiscal independence of a region. PAD reflects the capacity of a local government to finance development programmes and public services independently without excessive dependence on the central government. The greater the contribution of PAD to total regional revenue, the stronger the capacity of the region to implement regional autonomy effectively. Within the framework of fiscal decentralisation, local governments are required to optimise regional revenue sources, particularly local taxes and service charges. In order to tax, the government must be able to identify the tax base (Okunogbe & Santoro, 2023). This policy direction is reinforced by Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments, which emphasises the importance of strengthening regional fiscal capacity through more effective revenue management. In this context, local taxes constitute a strategic instrument for supporting regional development and reflecting the effectiveness of local government governance. Local taxes are also one of the main sources of Local Own-Source Revenue (PAD), which plays a strategic role in achieving fiscal autonomy and supporting the financing and implementation of development in the region (Insyira et al., 2026).

Jember Regency is one of the regions in East Java Province that has experienced a significant increase in PAD in recent years. In 2025, Jember Regency recorded PAD of more than IDR 1 trillion, placing it among the regions with the highest levels of PAD in East Java. This achievement indicates that Jember Regency possesses considerable local economic potential, particularly in the trade, service, and community economic activity sectors. Nevertheless, the fact that PAD realisation has not fully achieved the established target indicates that regional revenue management continues to face several challenges. These include low taxpayer compliance, the limited optimisation of tax service digitalisation, and inadequate supervision of potential regional revenue sources. In addition, reductions in transfer funds from the central government have placed further pressure on regional fiscal capacity. Consequently, the Government of Jember Regency is required to become more financially independent in funding regional development. However, these challenges also stem from infrastructure limitations, as not all taxpayers have adequate internet access to use the online tax system (Vientiany et al., 2024). Although one can not clearly define the boundaries of the digital economy, the transactions in the digital economy can be categorised as follows: ‘electronic services, supply over the Internet of services other than electronic services and supply of goods ordered online’ (Hadzhieva, 2016). However, such technology is still very limited in Indonesia, so the potential for tax revenue from the digital sector has not been fully optimized (Rizqiyanto et al., 2025).

Previous studies have shown that increases in PAD have a positive effect on the level of regional fiscal independence. Research on fiscal independence in several regencies in East Java indicates that most regions remain in the low to moderate category because of their continuing dependence on central government transfers. These studies emphasise the importance of optimising local tax revenue and introducing innovations in taxation services to strengthen regional fiscal independence. Furthermore, Kholik et al. (2025) explain that strengthening human resource capacity and digitalising public services are important factors in improving the effectiveness of local government governance and the quality of services provided to the public.

Although many studies have examined fiscal autonomy, there remains a research gap regarding Jember Regency, particularly concerning its fiscal condition in 2025 following the implementation of Law No. 1 of 2022 on Financial Relations between the Central Government and Local Governments. Most previous studies have focused only on the contribution of local revenue (PAD) in general and have not specifically examined the role of local taxes as a key component in strengthening fiscal autonomy. Local revenue (PAD) is a crucial component of the regional budget (APBD) and serves as a primary indicator for measuring a region’s level of autonomy (Kamala et al., 2025). Furthermore, previous studies generally relied on data collected before changes in the financial relations between the central and local governments took effect. Consequently, these studies do not fully reflect the current fiscal conditions following the reduction in transfer funds from the central government. This study is therefore significant as it provides an up-to-date assessment of Jember Regency’s fiscal autonomy based on the contribution of local taxes to PAD.

This study aims to analyse the level of fiscal independence of Jember Regency in 2025 by focusing on the contribution of local taxes to PAD. The findings indicate that local taxes constitute the main component driving the increase in PAD in Jember Regency, particularly revenue derived from the Street Lighting Tax and Motor Vehicle Tax. Based on the calculation of the fiscal independence ratio, Jember Regency falls within the moderate or participatory category. This classification indicates that the local government has developed a sufficient capacity to finance part of its regional needs independently, although it remains dependent on transfer funds from the central government. The study also finds that the digitalisation of tax services and stronger tax supervision are important factors in supporting increased regional revenue and strengthening the fiscal independence of Jember Regency in the future.

RESEARCH METHOD

This study employed a qualitative approach with a descriptive research design. According to Sugiyono (2008), qualitative research is a method used to examine natural settings in which the researcher serves as the key instrument, and the findings place greater emphasis on meaning than on generalisation. Qualitative research is used to understand social phenomena in depth through observation, documentation, and the interpretation of collected data. This approach was applied to analyse the level of regional fiscal independence based on the contribution of local taxes to Locally Generated Revenue (Pendapatan Asli Daerah, PAD) in Jember Regency in 2025.

This study was based on the fiscal decentralisation theories of Wallace Oates and Richard Musgrave, which emphasise the importance of local governments’ capacity to manage financial resources independently. Oates’ theory of fiscal decentralisation explains that local governments possess a better understanding of the needs and characteristics of local communities than the central government. Therefore, local governments should be granted authority to manage their own financial affairs (Oates, 1999). Meanwhile, Musgrave emphasises that the management of public finances by local governments plays an important role in supporting development, promoting equitable public service delivery, and improving community welfare (Musgrave & Musgrave, 1976). Based on these concepts, fiscal decentralisation is expected to encourage local governments to become more independent in mobilising regional revenue potential, particularly through the optimisation of local taxes as a principal source of PAD.

The study used secondary data obtained through a documentation review of regional budget realisation reports, PAD data, government publications, journal articles, books, and online media relevant to the research topic. Data were collected through documentation and the examination of various written sources concerning the fiscal condition of Jember Regency.

The data were analysed using qualitative descriptive analysis by identifying, classifying, and interpreting information related to the contribution of local taxes to PAD and the level of regional fiscal independence. The study also applied the fiscal independence ratio, calculated by dividing PAD by total regional revenue and multiplying the result by 100 per cent. The resulting ratio was interpreted according to four levels of fiscal independence: 0% to 25% was classified as very low, 25% to 50% as low, 50% to 75% as moderate, and 75% to 100% as high or fiscally independent.

RESULT AND DISCUSSION

1. Realisation of Jember Regency's Locally Generated Revenue in 2025

Based on the 2025 budget realisation report, Jember Regency demonstrated significant regional financial performance in terms of the relationship between revenue targets and actual revenue collection. The Locally Generated Revenue (Pendapatan Asli Daerah, PAD) target of IDR 1.1 trillion reflected the local government's ambition to strengthen fiscal independence. By August 2025, PAD realisation had reached approximately 50% to 60% of the annual target, amounting to IDR 690 billion. This figure indicated challenges in revenue collection during the earlier period of the fiscal year and highlighted the need to accelerate revenue collection strategies during the remaining budget period. According to the latest economic performance report, Jember Regency successfully recorded PAD of IDR 1 trillion by the end of 2025. This achievement positioned Jember Regency as one of the regions with the highest PAD levels in East Java Province. It also established Jember as a major contributor to regional revenue within the Sekarkijang area, indicating a relatively stronger regional economic structure compared with the surrounding regions.

Revenue realisation data as of November 2025 provided a more detailed picture of the growth pattern, with PAD reaching IDR 805.4 billion. This figure suggests that Jember Regency's revenue realisation cycle tends to peak toward the end of the fiscal year, as tax revenue collection generally increases substantially during the final quarter.

Comparison of Locally Generated Revenue and Transfer Funds

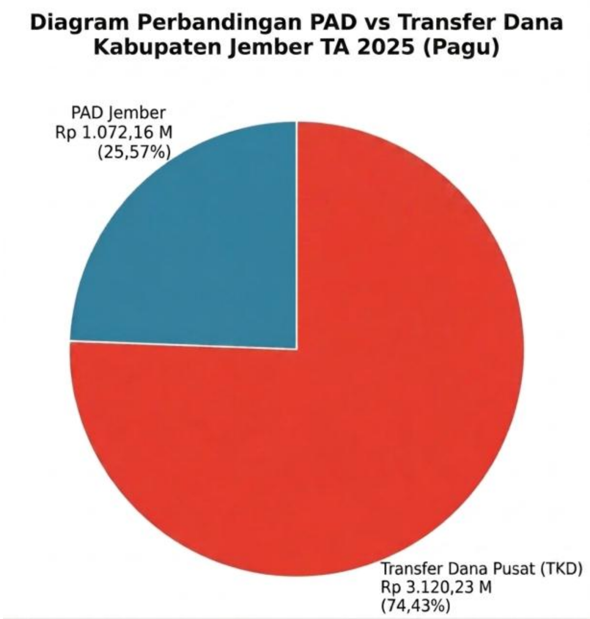

Figure 1. Comparative Diagram of Locally Generated Revenue and Transfer Funds in Jember Regency, 2025

According to the 2025 Jember Regency Regional Budget structure, a considerable gap remained between Locally Generated Revenue (Pendapatan Asli Daerah, PAD) and transfer funds received from the central government. Although the contribution of local taxes to PAD showed a positive trend, the total amount of PAD had not yet been sufficient to offset the region's dependence on the General Allocation Fund (Dana Alokasi Umum, DAU) and the Special Allocation Fund (Dana Alokasi Khusus, DAK). Transfer funds continued to dominate the regional revenue structure, accounting for more than 70% of total revenue. This condition indicates that Jember Regency's internal fiscal capacity had not yet achieved full independence and continued to rely substantially on financial support from the central government.

Under the 2025 budget simulation, Jember Regency faced a reduction in transfer funds amounting to IDR 270 billion. Such a substantial reduction placed the region in a vulnerable fiscal position. Without an improvement in the fiscal independence ratio through the intensification of local tax collection, the loss of these funds could directly affect the continuation of several strategic infrastructure projects and reduce the quality of public services. The reduction in transfer fund allocations required the local government to optimise its independent revenue sources to address the resulting fiscal gap. The decline in Regional Financial Transfers (TKD) has the potential to create significant fiscal pressure on local governments, particularly those with relatively high levels of fiscal dependence (Ratih et al., 2025). Nevertheless, Jember Regency was able to mitigate this gap and maintain budgetary stability without excessive dependence on central government funding.

The regional fiscal independence ratio is measured by calculating the proportion of PAD to total regional revenue in the Regional Revenue and Expenditure Budget. As local taxes consistently constituted the largest component of PAD, Jember Regency possessed greater fiscal flexibility in determining its development priorities without being entirely dependent on the central government's financial policies. The larger the PAD, the more capable a region is of implementing fiscal decentralization and reducing its dependence on the central government (Aisyah et al., 2025). This condition provided the local government with greater capacity to independently finance capital expenditure and public service expenditure identified as regional development priorities in 2025.

Indicators of the Contribution of Local Taxes to Locally Generated Revenue or PAD

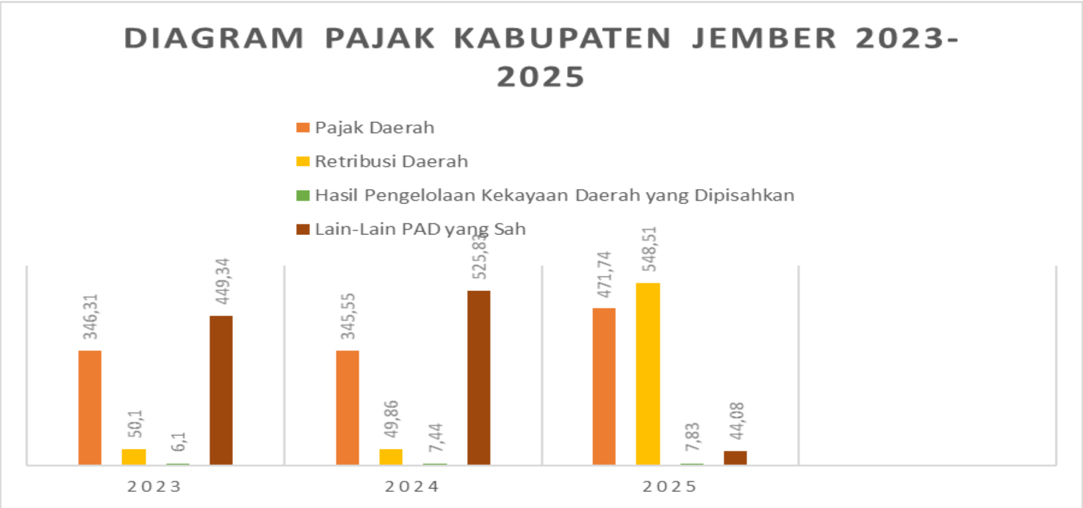

Figure 2. Jember Regency Tax Revenue Chart, 2023–2025

Based on the diagram above, which was obtained from the Regional Financial Information System (SIKD) Data Portal, Jember Regency's Locally Generated Revenue (Pendapatan Asli Daerah, PAD) increased gradually each year. In 2023, Jember Regency recorded total PAD of IDR 851.85 billion, comprising IDR 346.31 billion from local taxes, IDR 50.10 billion from regional levies, IDR 6.10 billion from returns on the management of separated regional assets, and IDR 449.34 billion from other legitimate PAD sources.

In 2024, Jember Regency's PAD increased to IDR 928.68 billion. This amount consisted of IDR 345.55 billion from local taxes, IDR 49.86 billion from regional levies, IDR 7.44 billion from returns on the management of separated regional assets, and IDR 525.83 billion from other legitimate PAD sources. In 2025, Jember Regency's PAD increased further to IDR 1.072 trillion, reportedly the highest figure in East Java. This amount comprised IDR 471.74 billion from local taxes, IDR 548.51 billion from regional levies, IDR 7.83 billion from returns on the management of separated regional assets, and IDR 44.08 billion from other legitimate PAD sources.

The Street Lighting Tax and the Motor Vehicle Tax Surcharge (Opsen Pajak Kendaraan Bermotor, Opsen PKB) were among the dominant sources of local tax revenue in Jember Regency in 2025. The Street Lighting Tax was initially targeted at IDR 102 billion, of which IDR 64.6 billion had been realised. Meanwhile, the Opsen PKB was initially targeted at IDR 108 billion, with realised revenue reaching IDR 61 billion. These figures were among the highest compared with other local tax categories and had approached a substantial proportion of their respective targets. Consequently, based on data as of August 2025, these two taxes represented the dominant sources of local tax revenue in Jember Regency, as stated by the Chair of Commission C, Ardi Pujo Prabowo.

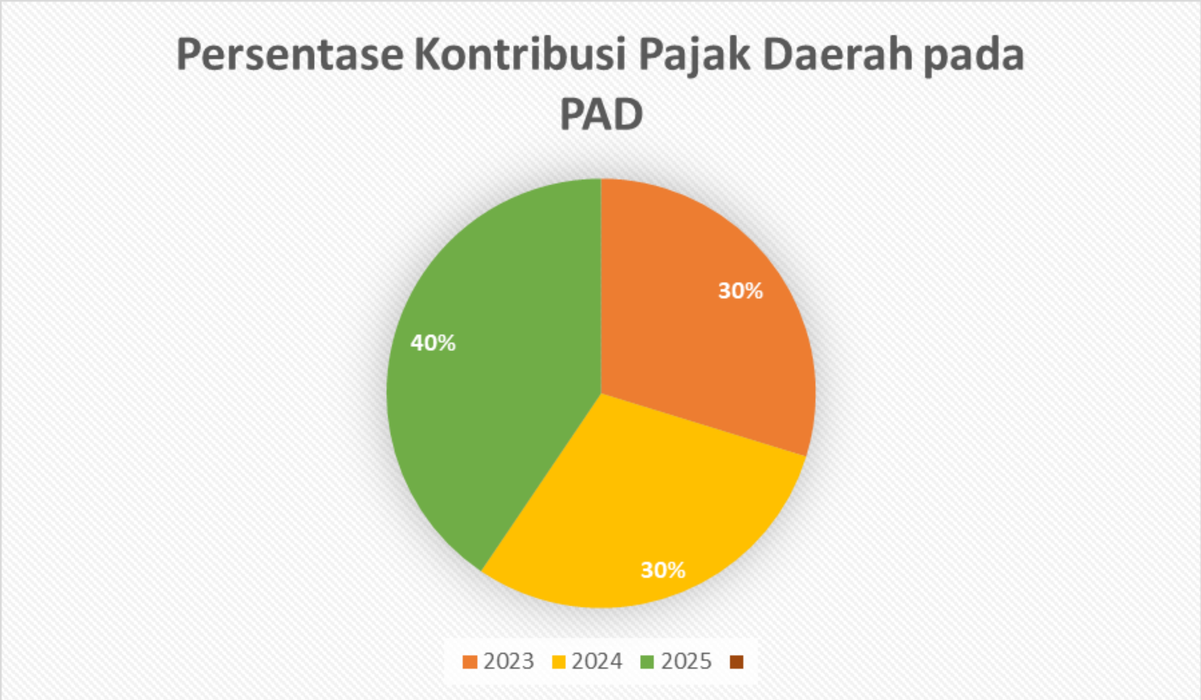

Figure 3. Percentage Contribution of Local Taxes to Jember Regency's Locally Generated Revenue

Local taxes have made a substantial contribution to Jember Regency's Locally Generated Revenue (Pendapatan Asli Daerah, PAD). Local tax revenue amounted to IDR 346.31 billion in 2023, IDR 345.55 billion in 2024, and IDR 471.74 billion in 2025. These figures indicate that local tax collection contributed significantly to the increase in Jember Regency's regional revenue. To improve the effectiveness of local tax collection, the Jember Regency Government has undertaken several measures. These include conducting public information and awareness programmes on local taxation to optimise regional revenue, improving technology-based tax services so that tax payments can be completed more quickly and efficiently, and enhancing the quality of the J-MBAKO application (Jember Mbayar Pajak Online). These improvements are intended to ensure that the application's features function properly and provide taxpayers with a more accessible payment system.

Despite these achievements, local tax collection continues to face several challenges and constraints. These include the limited number of human resources involved in tax administration, the need to improve the competence of tax personnel, low public awareness of taxation as an important source of regional revenue, insufficient supervision of the implementation of the taxation system, and public information activities that have not yet produced a significant effect on taxpayer behaviour. These factors hindering oversight in increasing local tax revenue are also present in other regions (Nawir et al., 2026). To address these challenges, the Jember Regency Government may adopt several optimisation strategies, including maximising the potential of local taxes and regional levies, improving taxpayer compliance, expanding the digitalisation of tax services, strengthening supervision and law enforcement, and increasing transparency in revenue management. These strategies were outlined by Bagas Wahyudi, Secretary of the Jember Regional Revenue Agency.

2. Fiscal Independence Ratio of Jember Regency in 2025

This study applies the fiscal independence ratio to measure the extent to which a region is capable of financing its fiscal needs independently. The fiscal independence ratio is calculated by comparing Locally Generated Revenue (Pendapatan Asli Daerah, PAD) with total regional revenue. A higher ratio indicates a higher level of regional fiscal independence. The resulting ratio is interpreted according to the following classifications: 0% to 25% is categorised as very low, with an instructive relationship pattern; 25% to 50% is categorised as low, with a consultative relationship pattern; 50% to 75% is categorised as moderate, with a participatory relationship pattern; and 75% to 100% is categorised as high or fiscally independent. Therefore, the fiscal independence ratio of Jember Regency is calculated using the following formula:

$$Rasio = \frac{Total\ PAD}{DAU + DAK + DBH}\ x\ 100\%$$

$$Rasio = \frac{1.072.160.000.000}{1.580.000.000.000 + 140.823.000.000 + 175.900.000.000}\ x\ 100\%$$

$$Rasio = \frac{1.072.160.000.000}{1.896.732.000.000}\ x\ 100\%$$

$$Rasio = 56\%$$

Therefore, the fiscal independence ratio of Jember Regency is classified as moderate, with a participatory relationship pattern. This represents a relatively significant achievement, as the ratio of 56% falls within the moderate category and is slightly higher than that of several other regions in Indonesia.

CONCLUSION

Based on the findings and discussion, it can be concluded that Jember Regency demonstrated a significant improvement in regional financial performance throughout 2025 by achieving Locally Generated Revenue (Pendapatan Asli Daerah, PAD) of IDR 1.072 trillion. This achievement positioned Jember Regency as the regency with the highest PAD in East Java Province. Local taxes constituted one of the main contributors to this growth, generating IDR 471.74 billion.Despite this substantial increase, Jember Regency remained highly dependent on financial support from the central government, as transfer funds continued to dominate its regional revenue structure. The calculation of the fiscal independence ratio produced a figure of 56%. This result indicates that Jember Regency's fiscal independence was within the moderate or participatory category. In practical terms, the local government had developed the capacity to finance part of its development programmes and public expenditure independently, although it had not yet achieved full fiscal autonomy.

The increase in local tax revenue was also supported by the implementation of a technological innovation known as J-MBAKO (Jember Mbayar Pajak Online). The local government introduced this application to facilitate tax payments for residents of Jember and to promote public adaptation to digital tax services. Nevertheless, Jember Regency continued to face several challenges that constrained the optimisation of regional revenue. These challenges included weaknesses in tax collection, limited human resource capacity, low public awareness of tax payment obligations, and insufficient supervision of the taxation system. Therefore, the local government is expected to address these constraints by improving tax administration, strengthening human resource capacity, increasing taxpayer awareness, and enhancing supervision of the local taxation system. These measures are necessary to optimise PAD and strengthen the fiscal independence of Jember Regency.

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