



ASSESSING THE URGENCY AND FEASIBILITY OF WEALTH TAX IMPLEMENTATION IN INDONESIA

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Abstract

The growing economic inequality in Indonesia necessitates the adoption of fairer fiscal policies, including the implementation of a wealth tax. This study employs a qualitative case study approach to assess the potential of wealth taxation targeting High Net Worth Individuals (HNWIs). Data were obtained through comparative analysis of international wealth tax policies and interviews with government officials, academics, and tax practitioners. The findings reveal that a wealth tax could function as an effective instrument for economic redistribution, yet its implementation faces challenges such as resistance from affluent groups, risks of capital flight, and asset valuation complexities. Evidence from Switzerland, Japan, and Bolivia highlights that successful implementation depends on sound policy design, including appropriate wealth thresholds, progressive rates, and strong enforcement mechanisms. To ensure effectiveness in Indonesia, strategic measures involving regulatory clarity, administrative capacity building, and international cooperation are essential. A well-structured wealth tax may increase state revenue while reducing economic disparity sustainably.

Keywords: Economic Inequality; High Net-Worth Individuals; Wealth Redistribution; Wealth Tax.

INTRODUCTION

According to World Bank data, Indonesia's economic growth has continued to rise each year. However, this increase has been accompanied by a widening Gini Ratio, indicating that economic inequality in Indonesia has been steadily escalating over time.

The Quarterly Report of the Indonesia Deposit Insurance Corporation (Lembaga Penjamin Simpanan, LPS) for the third quarter of 2024, published on 14 November 2024, shows that 53.60% of total savings in Indonesia fall within the category of deposits exceeding Rp 5 billion. Meanwhile, the lowest share—12.07%—is held by accounts with balances below Rp 100 million. Notably, deposits above Rp 5 billion are owned by a very small segment of account holders, amounting to approximately 143,337 accounts, or around 0.02% of all bank accounts in Indonesia. In contrast, deposits below Rp 100 million are held by 586,310,431 accounts, representing 98.82% of total national accounts (LPS, 2024). These figures reveal a significant and progressively deepening level of economic inequality in the country.

Although economic inequality is also experienced by many other nations, including developed countries, the pace at which inequality grows in Indonesia is faster than that of most neighboring countries in East Asia (World Bank, 2015). Consequently, inequality has become a critical national issue that requires immediate and targeted policy intervention. Widening inequality not only reflects weakened social justice but also poses risks to social and political stability. Such instability may in turn affect governmental governance and potentially trigger a fiscal crisis. A fiscal crisis can exert pressure on labor markets, reduce incomes, and exacerbate inequality (Wibowo, 2017).

Addressing economic inequality is a collective imperative that cannot be resolved solely through market mechanisms; it therefore requires state intervention through taxation as a redistributive instrument (Wagner, 1876, as cited in Nentjes, 2018). Saez and Zucman (2019) argue that a well-designed wealth tax can effectively improve the distribution of income and wealth within a country. The implementation of a wealth tax alongside income taxation can stimulate economic activity and accelerate growth. When net wealth is not taxed while income is, unproductive assets tend to accumulate. Conversely, imposing a tax on net wealth encourages asset owners to reallocate their wealth into savings or investments in real assets,

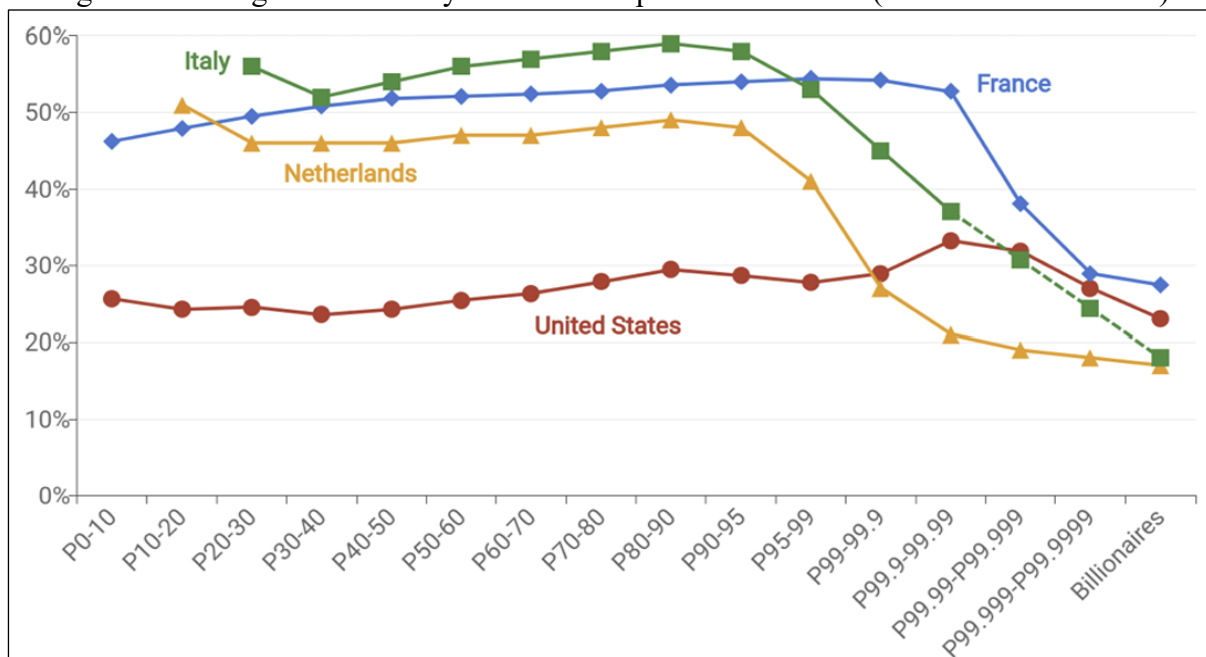


thereby creating employment opportunities and reducing the accumulation of unproductive assets (Harja et al., 2023).

Furthermore, according to The Wealth Report, the population of High-Net-Worth Individuals (HNWI) in Indonesia has consistently increased from year to year. In 2017, Indonesia recorded 24,958 HNWIs, rising to 36,472 in 2022. This number is projected to continue increasing, with estimates suggesting that the HNWI population may reach 56,436 by 2027 (Syaukat, 2023). While this trend reflects Indonesia’s robust economic expansion, it also carries inherent risks, particularly the potential intensification of social and economic inequality (Ibrahim, 2017). This concern is magnified by the fact that the rapid growth in the HNWI population has not been accompanied by a corresponding rise in tax revenues from individual taxpayers (Cahyadi, 2024).

Consistent with these findings, Zucman (2024) highlights a decline in tax progressivity among individuals with the highest incomes. This group tends to pay proportionally less tax compared to other social groups relative to the income they earn (see Figure 1). This phenomenon reflects the shortcomings of the current income tax system in effectively taxing the wealthiest individuals.

Figure 1. Average Tax Rates by Income Group and Billionaires (% of Pre-Tax Income)



Source : Zucman (2024)

This fact reinforces the assertion made by Cahyadi (2024), which states that the increase in the number of High-Net-Worth Individuals (HNWIs) does not necessarily translate into higher tax revenues. Individuals at the top of the wealth distribution tend to have a lower average effective tax rate compared to middle-income groups. This phenomenon highlights the need for a form of wealth taxation that directly targets HNWIs to ensure fairness in tax collection.

Several previous studies have recommended the implementation of a wealth tax in Indonesia as an instrument to reduce wealth inequality, enhance state revenue, and strengthen the redistributive function of taxation. Nevertheless, research that integrates both net wealth taxation and wealth transfer taxation on HNWIs within a single comprehensive analysis remains limited. Therefore, this study seeks to examine the urgency, challenges, and strategic approaches for implementing these two forms of taxation on High-Net-Worth Individuals (HNWIs) in Indonesia.



LITERATURE REVIEW

Principle of Taxation

In *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Adam Smith (1776) posits that an ideal taxation system must fulfill four fundamental criteria known as The Four Canons of Taxation. These principles consist of equality, certainty, convenience, and economy.

The first principle, equality, refers to the notion that taxes should be imposed fairly and proportionally according to a taxpayer's ability to pay. Individuals with greater financial capacity ought to contribute a larger share of taxes, reflecting the normative concept of justice and progressivity in taxation. This principle aims to ensure that the tax burden does not generate social inequity and that taxpayers' contributions correspond to their economic capacity.

The second principle, certainty, emphasizes that taxpayers must clearly understand the amount of tax they are required to pay, along with the timing and method of payment. Legal certainty allows taxpayers to plan their finances more effectively. In practice, this principle helps reduce opportunities for fraud or manipulation within the tax system, as tax rules are clearly defined and consistently enforced.

The third principle, convenience, concerns the ease with which taxes are collected. A well-designed tax system should be easily understood and implemented by taxpayers, without imposing excessive administrative burdens. Overly complex procedures can discourage compliance and increase operational costs for both the government and taxpayers. Therefore, an ideal tax structure is one that can be complied with smoothly by all segments of society.

The fourth principle, economy, asserts that tax collection should not result in significant additional costs for the government. The administrative cost of collecting taxes must be kept to a minimum so that the majority of tax revenue can be allocated to public services. An effective tax is one that does not impose undue fiscal burdens on the government and ensures that public revenue is optimally utilized for societal needs.

Collectively, these four principles reflect Adam Smith's view on how a taxation system should be constructed to support economic stability, social justice, and fiscal sustainability. They remain foundational to modern tax theory, offering guidance for countries in designing tax policies that align with Smith's framework (Alam, 2019).

Taxation as a Distribution Instrument

The purchasing power theory conceptualizes taxation as a "pump" that withdraws purchasing power from society for the state, which is then redistributed to the public in order to sustain societal welfare (Thian, 2021). Beyond its role in maintaining social functioning, taxation also serves as a regulatory instrument capable of directing economic behavior toward specific policy goals, such as stimulating consumption or investment, promoting a more equitable distribution of wealth, and limiting the consumption of harmful goods.

As an instrument for wealth distribution, taxation aims to address economic inequality. Nentjes (2018) explains that the redistribution of income and wealth constitutes a collective good, one that generates broad social benefits by mitigating economic disparities. According to Wagner (1876, as cited in Nentjes, 2018), addressing inequality is a collective necessity that cannot be fulfilled by market mechanisms alone; rather, it requires state intervention through taxation as a redistributive tool.

Within income-based tax systems, progressive income tax rates are a recognized mechanism through which individuals with higher earnings contribute a larger share of tax than those with lower incomes. According to the benefit theory, first developed by Adam Smith (1776), this principle arises because individuals who derive greater benefits from public services are expected to contribute proportionally more. Lindahl (1919) further argues that the



price of public goods tends to correspond to the marginal utility received by each individual; thus, the greater the marginal utility derived, the larger the tax contribution that should be paid.

Conversely, the faculty theory, advanced by Edwin R.A. Seligman, posits that differences in tax contributions should be based not on benefits received but on individuals' capacity to pay (Mehrotra, 2005). This concept aims to distribute the tax burden more equitably, reduce social inequality, and ensure that financially capable individuals bear a greater share of taxation.

Indonesia implements progressive tax rates in its income tax system as a key distributive instrument. A study by Oishi et al. (2012) demonstrates that progressive taxation has a positive impact on subjective well-being. Their analysis indicates that citizens' satisfaction with public goods—such as public transportation, school quality, affordable housing, and environmental conditions (air and water quality)—serves as the primary mediating factor linking progressive taxation to increased subjective well-being. In essence, progressive taxation enhances satisfaction with essential public services, which ultimately improves overall societal welfare.

In addition to progressive taxation, the use of taxation as a distributive instrument is further realized through the imposition of wealth taxes. The simultaneous application of wealth taxes and progressive income taxes has been shown to reduce wealth inequality over time (OECD, 2021). Such taxes are expected to redistribute concentrated wealth among a broader segment of the population and lessen the overall degree of wealth inequality (Jestl, 2021). In this manner, taxation fulfills its function as both a sustaining and regulatory mechanism for societal life, consistent with the principles outlined in the purchasing power theory.

Wealth Taxation

In his book *Government Finance in Developing Countries*, Goode (1984) classifies taxes based on their tax bases into three categories: Income-Based Taxes, Consumption-Based Taxes, and Wealth-Based Taxes. Income-based taxes refer to taxes imposed on income earned by individuals or entities within a specific period, such as income tax. Consumption-based taxes are imposed on the consumption of goods or services, such as Value Added Tax (VAT) and Luxury Goods Sales Tax. Meanwhile, wealth-based taxes are levied on the ownership of wealth or transactions related to wealth.

Hebous et al. (2024) further categorize wealth taxes into three main approaches: taxes on wealth ownership, taxes on capital income, and taxes on wealth transfers. Within this classification, taxes on wealth ownership are divided into two types: general wealth taxes and net wealth taxes (Darussalam et al., 2019).

This study focuses on analyzing net wealth taxes and wealth transfer taxes in Indonesia—two forms of taxation that are currently absent from the national tax system. The following sections provide a brief description of each type of wealth tax:

Net Wealth Tax

Net wealth tax is imposed directly on an individual's or entity's total net wealth within a specific period—typically on an annual basis (Darussalam et al., 2019). This tax is calculated based on the total value of assets after deducting liabilities or outstanding debts. In its study *The Role and Design of Net Wealth Taxes in the OECD*, the OECD (2018) outlines various design components commonly adopted by member countries. These include the tax administration unit, exemption thresholds, taxable assets, exclusions, reliefs, deductions, asset valuation methods, and the applicable tax rates.

According to the OECD (2018), taxable assets generally encompass both liquid assets—such as cash—and non-liquid assets, including real estate, luxury vehicles, shares, investments, and artwork. These assets may be located either domestically or abroad. However, for non-resident taxpayers, the net wealth tax applies only to assets situated within the taxing jurisdiction.



Several countries provide exemptions for certain categories of assets, including business assets, historically significant antiques, agricultural assets, and household goods below specific thresholds. These exemptions aim to preserve cultural heritage and encourage investment in productive assets. Nevertheless, they may introduce challenges such as diminishing horizontal equity and distorting investment decisions.

Liabilities deductible from total assets vary across countries as well. Some jurisdictions prohibit the deduction of debts used to finance the acquisition of exempt assets. This approach seeks to minimize tax avoidance strategies involving credit-financed purchases of excluded assets.

Before liabilities are deducted, asset values must be adjusted to their market value—the competitive market trading price of the asset. This valuation requirement is one of the major challenges in administering a net wealth tax. To address this issue, some countries have adopted a one-off wealth tax, in which individuals are taxed based on their wealth as of a specific date (Advani et al., 2020). The one-off wealth tax reduces administrative burdens and is typically used as a fiscal instrument to raise substantial revenue during major crises, such as the COVID-19 pandemic.

Adjusting asset values to market prices increases taxpayers' compliance costs. Moreover, the contribution of net wealth taxes to total tax revenue remains relatively small (OECD, 2018). Consequently, several countries have chosen to abolish net wealth taxes. In 1990, twelve OECD member states implemented this tax; by 2017, only four continued to do so—France, Norway, Spain, and Switzerland. As of 2024, according to PwC, four OECD countries still impose a net wealth tax: Norway, Switzerland, Spain, and Luxembourg. France abolished its net wealth tax in 2018 and replaced it with a property-based tax.

Indonesia previously implemented a form of net wealth taxation through the Ordonansi Pajak Kekayaan (PKk) 1932 (Mustaqiem, 2014). The taxable object comprised the total wealth owned by a taxpayer after subtracting debts and other liabilities, calculated based on the wealth position at the beginning of the tax year. Subjects of the tax included individual taxpayers as well as corporate taxpayers, such as companies, partnerships, or associations that acted as substitutes when the primary entity was unknown or uncertain.

After Indonesia gained independence, the government enacted Law Number 24 of 1964, which amended and expanded the Ordonansi Pajak Kekayaan 1932. Article 15 paragraph (1) of this law provides:

If net wealth amounts to less than thirty million rupiahs, no tax is due. If net wealth amounts to thirty million rupiahs or more, a tax is due in the amount of five rupiahs for every full one thousand rupiahs exceeding twenty-five million rupiahs.

However, the wealth tax was abolished following the enactment of Law Number 12 of 1985 on Land and Building Tax (Latif, 2004). The repeal was based on the assumption that imposing Land and Building Tax (PBB) as an object-based tax would result in an overlap (double taxation) with the wealth tax. Since then, a net wealth tax has never been reinstated in Indonesia.

Wealth Transfer Tax

Kessler & Pestieau (1991) explain that wealth transfer taxes are a component of wealth taxation imposed when assets are transferred due to death or inter vivos gifts. Unlike net wealth taxes, which are levied periodically on an annual basis, wealth transfer taxes are imposed only once—at the moment the transfer occurs. Wealth transfer taxes are also more widely recognized and more commonly implemented across jurisdictions than net wealth taxes. These taxes fall under the category of property taxes with subheading codes 4310 for inheritance taxes and 4320 for gift taxes (Aurélie, 2023).



According to Cremer and Pestieau (2011), wealth transfer taxes can be classified into two categories based on the party bearing the tax burden: transferor-based and recipient-based. The following table illustrates the types of taxes belonging to each category:

Tabel II. 1 Classification of Wealth Transfer Taxes Based on Tax Incidence

No	Category	Types of Taxes
1	Transferor based	Estate tax, gift tax, unified tax
2	Recipient based	Inheritance tax, gift tax, accessions tax

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In the transferor-based category, the tax burden is borne by the individual transferring or gifting the assets. The estate tax is a mechanism in which tax is levied on the estate of the deceased. This approach is considered administratively simpler because the estate cannot be distributed until the tax has been paid. Under the estate tax, the beneficiaries may include both individuals and institutions (Darussalam et al., 2019).

A gift tax, also known as an inter vivos transfer tax, is imposed on gifts given during the donor's lifetime. Some countries combine the estate tax and gift tax into a single system known as a unified tax, in which taxes on both gifts and inheritances are calculated together. Under this unified system, gifts made during a taxpayer's lifetime reduce the exemption threshold applicable to the estate tax upon death (Scott, 2023).

In the recipient-based category, the tax burden is borne by the individual receiving or inheriting the assets. The inheritance tax is a mechanism in which tax is imposed on the heirs. This system is considered more equitable because the tax paid corresponds to the proportion of assets received. Inheritance taxes generally allow transfers only to individuals (Darussalam et al., 2019).

In this category, gift tax may also apply, but the tax burden is imposed on the recipient of the gift. Some jurisdictions implement an accessions tax, which integrates inheritance and gift taxation into a single progressive system. Under this model, all wealth received—whether through inheritance or gifts—is aggregated, and the tax rate increases with the cumulative amount received by an individual (Dodge, 2008).

Inheritance tax regimes are often accompanied by gift tax provisions. This combined approach aims to prevent tax avoidance, where asset owners transfer property inter vivos to circumvent inheritance tax obligations (Wulandari, 2020). However, some countries—such as Lithuania, the Netherlands, and the United Kingdom—apply inheritance tax without a corresponding gift tax (PwC, 2024).

According to Price Waterhouse Coopers (PwC, 2024), 24 out of 38 OECD member countries have adopted inheritance tax systems. In Latin America and the Caribbean, 9 out of 27 countries impose inheritance taxes. In Africa, only 8 out of 36 countries have implemented such taxes. The region with the lowest rate of adoption is the Asia-Pacific, where only 6 out of 36 countries impose inheritance taxes.

At present, Indonesia does not levy taxes on inheritances. Under Article 4(3)(b) of the Income Tax Law, inherited assets are excluded from taxable income. Similarly, gifts received by individuals in a direct vertical bloodline, or by religious, educational, and social institutions—including foundations, cooperatives, or individuals operating micro and small enterprises—are also exempt from tax. These exemptions apply provided that the gifts are not associated with business, employment, ownership, or control relationships between the parties involved.

METHODS

This study employs a qualitative research method using a case study approach. Qualitative research is a methodological design that focuses on developing an in-depth



understanding of social phenomena by examining natural, holistic, complex, and detailed real-life conditions (Murdiyanto, 2020). This research centers on the implementation of wealth taxation—specifically net wealth taxes and wealth transfer taxes—in various countries, as well as the urgency, imposition schemes, challenges, and strategies associated with their potential application in Indonesia.

The study utilizes both primary and secondary data. Primary data refers to information obtained directly from original sources without intermediaries. The collection of primary data is conducted through interviews with key informants representing government institutions, academics, research organizations, and tax consultants as practitioners in the field of taxation, as described below.

Table 2 List of Research Informants

Institution	Position	Role	Code
Fiscal Policy Agency	Senior Expert Policy Analyst, Center for State Revenue Policy	Policy Analyst	OF-01
Directorate of Tax Regulations II	Technical Policy Reviewer Level II	Regulation Drafter	OP-01
	Technical Policy Reviewer Level I	Regulation Drafter	OP-02
Directorate of Potential, Compliance, and Revenue	Industrial Sector Potential Analyst	Regulation Drafter	OP-03
	Industrial Sector Potential Analyst	Regulation Drafter	OP-04
Prakarsa Association	Economic Policy Officer	Research and Policy Advocacy Institution	LP-01
	Program Assistant and Research on Economic and Fiscal Policy	Research and Policy Advocacy Institution	LP-02
	Researcher on Research & Knowledge Manager	Research and Policy Advocacy Institution	LP-03
Danny Darussalam Tax Center	Manager of DDTC Fiscal Research & Advisory	Research and Policy Advocacy Institution	LP-04
Institute for Public Finance and Tax Law Studies	Secretary	Research and Policy Advocacy Institution	LP-05
Universitas Indonesia	Lecturer, Tax Administration Study Program, Vocational Education Program	Academic	AK-01
Indonesian Tax Consultants Association	Head of Focus Group Discussion Department / Tax Consultant	Practitioner	KP-01
	Researcher, Research & Development Department / Tax Consultant	Practitioner	KP-02

Source: Author (2025)

Secondary data were collected from various literature sources, including books, OECD reports, scientific journals, and official websites. To ensure data validity, the researcher applied



data triangulation and theoretical triangulation. Data triangulation was conducted by comparing findings obtained from different informants and relevant literature sources. Meanwhile, theoretical triangulation involved the use of multiple theoretical perspectives to analyze the same data, thereby enabling a more comprehensive and multidimensional understanding of the researched phenomenon.

RESULTS AND DISCUSSION

Urgency of Implementing Wealth Taxation in Indonesia

As an instrument for wealth distribution, taxation is intended to address economic inequality. The government has introduced various tax policies to realize the distributive function of taxation, encompassing measures within income-based taxes, consumption-based taxes, and wealth-based taxes.

From the perspective of income-based taxes, there are two key components for optimizing tax revenue from High Net Worth Individuals (HNWIs): the application of progressive tax rates and the treatment of in-kind benefits (*natura*) as taxable income. Following the enactment of the Harmonized Tax Law (Undang-Undang Harmonisasi Peraturan Perpajakan, UU HPP), the individual income tax schedule (PPH OP) was expanded from four to five brackets (Table 3). This reform aims to strengthen the progressivity of the tax system, particularly for HNWIs in Indonesia.

Table 3 Individual Income Tax Rate Structure

No	PPH 21 Rate	Taxable Income (Annual)
1.	5%	Up to Rp 60.000.000
2.	15%	Above Rp60.000.000 up to Rp250.000.000
3.	25%	Above Rp250.000.000 up to Rp500.000.000
4.	30%	Above Rp500.000.000 up to Rp5.000.000.000
5.	35%	Above Rp5.000.000.000

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A further reform concerns the treatment of in-kind benefits (*natura*) as taxable income. Prior to the UU HPP, in-kind benefits were excluded from taxable objects, meaning that recipients were not liable to pay tax on such benefits. At the same time, providers of *natura* were not allowed to deduct these expenses in their financial statements.

The previous non-deductible–non-taxable treatment of *natura* created various loopholes that could be exploited as tax avoidance schemes. Informant AK-01 noted that HNWIs often received extensive facilities and perks from their employers—or even from companies they themselves owned—without being taxed at all. This aligns with the findings of Firmansyah & Wijaya (2022), who show that top executives, such as managers and directors, tend to reduce their cash salaries while increasing in-kind benefits and perks provided by companies. This arrangement reduces the individual tax burden of high-income earners and shifts the tax liability to corporations. Given that the corporate income tax rate is relatively lower than progressive individual income tax rates, this strategy may reduce total state tax revenue and undermine the redistributive function of taxation as well as the principle of vertical equity.

From the perspective of consumption-based taxes, the distributive role of taxation is reflected in policies such as the increase of Value Added Tax (VAT) to 12% on luxury goods, including private jets, yachts, luxury vessels, and high-end residences such as apartments and condominiums with a minimum selling price of Rp 30 billion. In addition, the Luxury Goods Sales Tax (PPnBM) applied to luxury goods predominantly consumed by high-income individuals is also a form of tax optimization targeting HNWIs (OF-01).

The imposition of higher tax rates on luxury goods reflects the principle of distributive justice in taxation, whereby individuals with greater economic capacity bear a higher tax



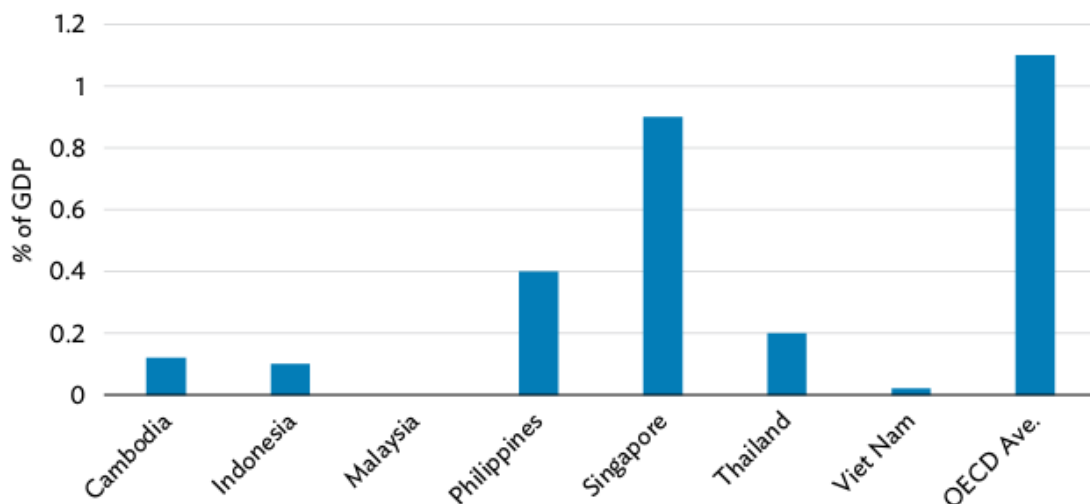
burden. In this way, the Indonesian tax system can more closely embody the principle of vertical equity, ensuring proportional contributions based on income and wealth levels (Firda & Furqon, n.d.). Nevertheless, these policies have not yet been sufficient to reduce economic inequality in an optimal manner.

From the perspective of wealth-based taxes, Indonesia currently applies general wealth taxes in the form of Motor Vehicle Tax (Pajak Kendaraan Bermotor, PKB) and Land and Building Tax (Pajak Bumi dan Bangunan, PBB). In addition to general wealth taxes, Indonesia also applies a form of wealth transfer taxation administered by the central government. However, this tax applies only to gifts that do not fall under the exemptions listed in Article 4(3) of the Income Tax Law. Meanwhile, taxes on capital income are imposed on various forms of passive income, such as interest, rent, dividends, capital gains, and royalties.

PBB is imposed on the ownership or control of land and/or buildings and is classified into two main categories: Land and Building Tax for Rural and Urban Sectors (PBB-P2) and Land and Building Tax for Plantation, Forestry, and Mining Sectors (PBB-P3). Motor Vehicle Tax (PKB), in turn, is levied on the ownership and/or control of motor vehicles.

However, in terms of contribution, general wealth taxes in Indonesia have not yet functioned optimally. According to an assessment by the Asian Development Bank (ADB), Indonesia's property tax contribution to GDP is still far below the average of other Southeast Asian countries.

Figure 2. Contribution of Property Tax to GDP



Source: Asian Development Bank (2020)

Furthermore, there is currently no mechanism that directly taxes the ownership or control of other wealth assets, such as financial investments, jewelry, and works of art. Taxation occurs only upon realization or transfer of assets through sale or donation, except for those excluded under Article 4(3) of the Income Tax Law. This situation may lead to the accumulation of wealth among high-income groups and, in turn, exacerbate wealth inequality in Indonesia.

Wealth transfer taxation is also implemented only partially. In practice, inheritance—as a form of income arising from wealth transfer—is not considered a taxable object under the Income Tax Law. Likewise, gifts received by individuals in a direct vertical bloodline, religious institutions, educational institutions, social institutions including foundations, cooperatives, or individuals operating micro and small enterprises are exempt from tax, provided that the gift is not related to business, employment, ownership, or control relationships between the parties.

However, to qualify as non-taxable income, transfers of land and/or buildings by way of gift require taxpayers to submit a Surat Keterangan Bebas (SKB, tax exemption certificate) before the title transfer is processed by the National Land Agency (BPN). If the transfer of



rights to land and/or buildings does not meet the criteria for exemption under Article 4(3) of the Income Tax Law, taxpayers must provide proof of tax payment when processing the title transfer at BPN. In this context, BPN functions as a filtering institution to ensure compliance with final income tax under Article 4(2) of the Income Tax Law.

A loophole arises when gifts that constitute taxable objects involve assets other than land and/or buildings. In such cases, there is no third party acting as a control mechanism, unlike in transfers of land and buildings involving BPN. This creates uncertainty in tax compliance related to gifts of assets other than land and/or buildings.

These conditions indicate that wealth taxation in Indonesia has not yet operated optimally. Based on the principle of equality, individuals with greater wealth should bear a higher tax burden than those with fewer assets.

Wealth Taxes in Various Countries

Although some countries have opted to abolish wealth taxes due to concerns over their potential negative impact on macroeconomic stability, other jurisdictions have retained such taxes to uphold the redistributive function of taxation. According to PwC (2024), 119 countries currently implement some form of wealth taxation, either partially or comprehensively.

To safeguard equity and strengthen the redistributive function of taxation, several countries adopt low exemption thresholds—or even no threshold at all. Jurisdictions that set low thresholds tend to collect higher revenues from wealth taxes compared to those applying high thresholds.

For illustration, Switzerland—a high-income European country—has applied a net wealth tax since the 18th century. This tax is imposed on both individuals and legal entities, with relatively low thresholds that vary across cantons and municipalities. In Zurich, for example, tax applies when taxable wealth exceeds CHF 80,000 (approximately Rp 1.4 billion) for individuals and CHF 159,000 (approximately Rp 2.8 billion) for married couples. Meanwhile, data from the Global Wealth Report Databook show that average adult wealth in Switzerland reached CHF 685,226 (approximately Rp 11.64 billion) in 2022. This indicates that net wealth tax in Switzerland is not limited to ultra-high net worth individuals but also extends to upper-middle-class households with substantial accumulated wealth.

Japan adopts a different approach by not applying a minimum threshold for wealth transfer taxes. Wealth transfer tax in Japan applies universally to all residents, irrespective of their wealth level. Accordingly, any individual receiving a gift or inheritance is subject to tax based on the value of wealth acquired, consistent with the principle of equity in Japan's national tax system.

To further enhance equity, many countries apply progressive rates to wealth taxes. Inheritance and gift taxes are generally imposed at higher rates than net wealth taxes. For instance, the top marginal inheritance tax rate in Japan is 55%, whereas the highest net wealth tax rate in Switzerland is only 0.3%, and in Bolivia 2.4%. Nevertheless, not all inheritance transfers are taxed; in many cases, transfers within the nuclear family are often exempt.

Among the three commonly recognized forms of wealth tax—net wealth tax, inheritance tax, and gift tax—the net wealth tax is the least widely adopted. According to PwC (2024), only four OECD member countries still apply this tax: Norway, Switzerland, Spain, and Luxembourg. France, by contrast, abolished its net wealth tax in 2018 and replaced it with a property-based tax. Meanwhile, wealth transfer taxes are implemented by 24 out of 38 OECD member states.

One key reason why wealth transfer taxes are more widely adopted than net wealth taxes is their administrative simplicity. Wealth transfer taxes are collected only upon the transfer of ownership, whereas net wealth taxes are periodic and generally levied annually. This creates



recurring valuation challenges, thereby increasing administrative burdens and compliance costs for taxpayers.

Consistency with Principles of Taxation

According to Mehrotra (2005), differences in tax contributions should be based not on the benefits received but on individuals' ability to pay. This ability is determined not only by income but also by the total wealth held by an individual. Thus, imposing higher taxes on individuals with larger wealth holdings can be considered normatively legitimate.

However, the implementation of wealth taxation in Indonesia has yet to function optimally. Various legal loopholes in the current framework of wealth taxation, as discussed previously, reduce the effectiveness of tax collection from high-income and high-wealth individuals. Wealth taxation can therefore serve as an alternative instrument to address these gaps, provided that its implementation adheres to the principles of equity and efficiency and is embedded within a carefully designed policy framework.

Informant LP-05 emphasizes that wealth taxation on individuals with very high levels of wealth, or HNWI, can satisfy Adam Smith's canons of taxation.

First, the principle of equality, since those with greater wealth should pay more tax than those with fewer assets. Aligning tax payments with the ability to pay can help reduce economic inequality and enhance justice.

Second, the principle of convenience. LP-05 notes that individuals with substantial wealth typically possess the capacity to engage in efficient tax planning. A wealth tax must therefore be designed to ensure procedural convenience in fulfilling tax obligations. If filing, payment, and administrative processes are overly complex, resistance among those subject to wealth taxation is likely to rise.

Third, the principle of certainty. LP-05 stresses that wealth taxation requires clear regulations to provide certainty to taxpayers. Key elements include clear definitions of tax subjects and objects, and rules on how to calculate net assets, inheritances, and capital. Legal certainty is essential to prevent tax disputes between the government and taxpayers.

Fourth, the principle of economy. LP-05 highlights that wealth taxation must carefully consider its macroeconomic impact, particularly the risk of capital flight. Capital flight can lead to a decline in investment and an increase in tax avoidance practices.

Furthermore, LP-05 argues that wealth taxation has a strong justification for promoting economic and social equality. Wealth taxes can function as instruments to reduce economic inequality by curbing excessive concentration of wealth in the hands of a small number of individuals. By doing so, wealth distribution becomes more balanced and social disparities can be mitigated. In addition, wealth taxation can reinforce and optimize the role of income taxation.

Taxation Schemes

To introduce a new type of tax, it is necessary to design the tax scheme in a manner that aligns with the Four Canons of Taxation. The following subsections outline alternative wealth tax designs suitable for potential implementation in Indonesia.

Threshold

The determination of thresholds is closely linked to the target group of wealth taxation. Informants emphasize that tax targets must be aligned with policy objectives—whether the priority is to increase state revenue or to reduce economic inequality. If the main objective is to maximize tax revenue, wealth taxation may be applied broadly to all segments of society, although this may trigger social resistance. Conversely, if the primary aim is to reduce inequality, the tax should be targeted specifically at upper-income groups or HNWI.

A further issue concerns the definition of HNWI. Informants OF-01 and AK-01 note that Indonesia does not yet have a clear and consistent definition of HNWI, thus requiring



further clarification to determine relevant tax subjects. The Wealth Report 2024 by Knight Frank and the Global Wealth Databook by UBS (2023) define HNWIs as individuals with net wealth of at least USD 1 million. Converted at current exchange rates, this corresponds to approximately Rp 16 billion—higher than the threshold stated in ND-1900/PJ.08/2021 by roughly Rp 6 billion.

Informant KP-01 suggests that net wealth tax and wealth transfer tax should apply only to individuals with assets exceeding Rp 100 billion, such that the tax would target only the “super rich.” According to this view, “super rich” refers to individuals whose wealth suffices not only to support their children but their descendants for several generations, without depleting their assets. This position is consistent with a survey conducted by Glocalities and Millionaires for Humanity in 2021 involving 1,051 Indonesian respondents, which found that 79% support a wealth tax on individuals with assets exceeding Rp 140 billion (approximately USD 100 million at the time) (Harja et al., 2023).

Tax Subject

For net wealth tax, tax subjects depend on the threshold level. For inheritance tax, the designation of tax subjects also depends on the taxation model adopted by a country. Broadly, there are two models of inheritance taxation: estate tax and inheritance tax.

Under the estate tax model, the tax is borne by the decedent’s estate. Tax is imposed on the total net wealth of the deceased before distribution to heirs, regardless of the number of heirs or their respective shares. Under the inheritance tax model, the tax is borne by the heirs as recipients of the inheritance and is calculated based on the value of the assets each heir receives. In international practice, inheritance tax is more commonly imposed on the heirs. The choice between these models has different implications for tax equity, wealth distribution, and administrative efficiency.

Tax Unit

Clear regulation on the tax unit is essential in the context of net wealth taxation (LP-04). The main debate is whether taxation should be applied on an individual basis or on the combined wealth of a family. OECD (2018) reports that most countries with wealth taxes adopt the family tax unit, in which tax is calculated on the combined wealth of spouses and dependents. This approach is intended to prevent artificial fragmentation of wealth among family members and to ensure that the tax burden is distributed fairly within a single economic unit.

In Indonesia, the tax system already recognizes the concept of a family tax unit, where the tax rights and obligations of family members are consolidated under the responsibility of the head of household (DDTC, 2024).

Jurisdiction

According to OECD (2018), OECD member countries generally apply worldwide taxation to residents in the context of wealth taxes. Under this system, residents are taxed on their net wealth regardless of whether the assets are located domestically or abroad. Non-residents, however, are taxed only on assets situated within the taxing country’s jurisdiction (source-based taxation).

The main rationale for residence-based wealth taxation is that the ability to pay tax is determined not only by domestic assets but also by wealth held abroad (Rudnick & Gordon, 1996). If wealth taxation were limited only to domestic assets, the risk of capital flight would increase, as wealthy individuals could easily shift assets to countries with more favorable tax regimes (Iara, 2015).

Taxable Object

Before designating an asset as a taxable object, several factors must be considered, including liquidity, cultural value, and ancestral heritage. These considerations aim to avoid



inequities and ensure that taxable assets accurately reflect a taxpayer's economic capacity. Informant LP-04 stresses the need for exemptions for specific works of art or historical artifacts that embody cultural and ancestral heritage. However, such exemptions must rest on strong legal justification and be subject to expert verification to ensure horizontal equity and prevent misuse as a tax avoidance loophole.

Liabilities as Deductions

Net wealth tax is imposed on the total value of a taxpayer's assets after deducting liabilities, meaning that debt may function as a deductible factor. According to LP-04, this mechanism could create avoidance opportunities through artificial borrowing arrangements. Thus, the reasonableness of debt must be closely monitored to prevent manipulation. Clear rules are required to determine which liabilities qualify as deductible in calculating net wealth.

Tax Rates

Countries apply different rate structures, including flat rates and progressive rates. Informant LP-01 recommends the use of progressive and adaptive rates to maintain tax equity, so that individuals with higher wealth contribute more than those with fewer assets. LP-05 emphasizes that wealth tax rates should be set at relatively low levels to minimize the risk of capital flight by HNWIs. This view is consistent with OECD (2018), which recommends low but progressive wealth tax rates.

Valuation

Clear and detailed rules are required for asset valuation methods, including whether book value or market value is used and whether valuation is carried out by the tax authority (DJP) or third-party professionals. Comprehensive regulation is crucial to minimize disputes between taxpayers and the government. In practice, net wealth taxation in OECD countries generally relies on market value, which is considered more accurate in reflecting current economic conditions (OECD, 2018).

Another factor is the valuation date. Valuing assets on 1 January may change consumption behavior, as taxpayers might accelerate asset purchases before year-end to reduce their net wealth tax liability. Conversely, valuing assets at year-end can risk double taxation on wealth accumulated throughout the tax year (OECD, 2018).

LP-04 recommends that asset valuation should not be based solely on a single date such as 1 January or 31 December, but instead be conducted periodically throughout the fiscal year. This would allow the government to assess whether a taxpayer's wealth has exceeded a given threshold at any point during the year, thereby preventing avoidance strategies that exploit timing.

Assessment Period

Informants LP-04 and AK-01 consider annual assessment of net wealth tax to be the most appropriate option. LP-04 adds that extending the assessment period could encourage tax planning strategies by taxpayers. Therefore, annual assessment remains the most effective mechanism for optimizing state revenue while mitigating economic inequality.

Tax Filing and Payment

OECD (2018) recommends aligning the filing deadline for wealth taxes with that of income tax to enhance reporting accuracy, reduce administrative costs, and simplify compliance for taxpayers. With respect to payment, most countries do not offer deferral or installment options for wealth taxes. OECD further suggests that allowing installment payments could improve administrative efficiency, increase taxpayer compliance, and reduce the burden on both taxpayers and government. Payment flexibility is expected to help taxpayers fulfill their obligations without facing severe liquidity constraints.



Gift Tax as a Complement to Inheritance Tax

Informant OF-01 underscores the necessity of gift tax as a complement to inheritance tax, to prevent tax avoidance through the transfer of assets during the donor's lifetime. Without gift tax, individuals may shift their assets early to avoid inheritance tax, thereby undermining the redistributive objective of inheritance taxation.

Several countries have harmonized inheritance and gift taxes within a single system known as a Lifetime Wealth Transfer Tax. Under this regime, tax is imposed on the total wealth received by an individual over their lifetime, whether through inheritance or gifts. This approach is considered more equitable because it ensures that all wealth transfers are taxed comprehensively, leaving no room for avoidance. However, it is administratively complex, as it requires a robust system to track all wealth transfers received by individuals throughout their lives (OECD, 2021).

Challenges in Implementing Wealth Taxation

From the perspective of its sources, the challenges to wealth tax implementation can be divided into two broad categories: internal challenges (originating within the tax administration) and external challenges (arising from the broader environment).

Adequate Databases

In the context of wealth taxation, a robust database is crucial for exploring tax potential, asset inventory, validation, and ensuring accurate information on taxpayers' assets. However, several challenges hinder the development of an adequate database.

Beneficial Ownership

From a beneficial ownership perspective, the person whose name is formally registered as the asset owner is not always the person who effectively controls or benefits from it. Many wealthy individuals hold substantial assets registered in the names of others, making it easier for them to disperse ownership.

Currently, identifying the true beneficial owners of assets remains a significant challenge for the Directorate General of Taxes (DJP), even though this information is essential for tax administration. Inaccurate asset ownership records may distort policy decisions and undermine optimal tax collection.

Limitations in Data Exchange

Data exchange in taxation faces obstacles regarding both financial and non-financial data. On the financial side, DJP has instruments such as Exchange of Information (EOI) and Automatic Exchange of Information (AEOI), yet these still face constraints: low reporting frequency, non-standard formats, and inconsistent information, all of which hinder effective analysis and utilization.

For non-financial data, the main challenge lies in the lack of integration between government agencies. Informant OF-01 argues that as public administration bodies responsible for population management, government institutions should maintain comprehensive records of taxpayers and their assets. In reality, however, data remain fragmented across agencies and are not fully integrated. The "One Data Indonesia" (SDI) initiative launched under President Joko Widodo's administration has not yet fully achieved its primary objective of establishing a credible, accountable, and up-to-date national database.

Political willingness

According to OF-01, although HNWIs represent a numerical minority, they play a significant role in the economy and wield considerable political influence. Economically, HNWIs are key capital owners, so taxing their wealth can affect their economic decisions. From a political perspective, LP-04 notes that HNWIs possess substantial political power, a view supported by KP-01, who states that HNWIs generally operate within circles of power. Since



legislation is a political product shaped by various interests, HNWI's indirectly influence regulatory outcomes.

Meanwhile, the following are challenges that arise from the external environment:

Tax Avoidance

Informant KP-02 warns that introducing a new tax type may create new tax loopholes, particularly in the context of HNWI's as the main target group. Common tax avoidance patterns in countries that have implemented wealth taxes include:

Asset Concealment

According to OP-04, the self-assessment system—under which taxpayers are responsible for calculating, reporting, and paying their tax obligations—may create opportunities for non-compliant taxpayers to conceal their assets. In several countries with wealth taxes, authorities face difficulties because taxpayers hide assets, leaving insufficient evidence to support assessments.

Capital Flight

KP-01 notes that wealth taxes may encourage taxpayers to move their assets abroad and invest in countries without wealth taxes. Sweden, for example, experienced capital outflows as taxpayers shifted assets to jurisdictions without inheritance or wealth taxes.

Investment Shifting

KP-01 further explains that imposing net wealth and wealth transfer taxes on HNWI's may prompt tax avoidance through shifting assets to corporate entities controlled by these individuals, thereby shielding wealth from personal wealth tax. Another strategy is to transfer assets into categories exempt from the tax base. OF-01 cautions that broad exemptions may induce taxpayers to redirect investments to exempt assets.

Valuation Manipulation

Taxpayers may exploit the complexity of valuing certain assets—such as family businesses, unique properties, or artworks—by colluding with appraisers to report values below market levels, thereby reducing tax liabilities.

Charitable Contribution Schemes

Some individuals engage in avoidance by transferring assets to private foundations or Donor-Advised Funds (DAFs). These mechanisms allow individuals to retain effective control over the use of funds, even though assets are legally donated.

Use of Trusts to Conceal Wealth

Taxpayers may use trust structures to retain control over assets while avoiding inheritance or wealth taxes. In such schemes, the settlor formally transfers ownership to a trustee who manages the assets on behalf of beneficiaries. Since the assets are no longer registered in the settlor's name, tax liabilities may be reduced or eliminated.

Freezing Techniques

These techniques allow taxpayers to “freeze” asset values at a particular point in time to avoid taxation on subsequent appreciation. Strategies often involve Family Limited Partnerships (FLPs) or closely held businesses, where wealth is transferred to family members at artificially low valuations.

Investment Climate

Although net wealth and inheritance taxes target a relatively small group—HNWI's—their side effects can be far-reaching. Such taxes may reduce the attractiveness of the domestic investment climate, particularly because HNWI's typically control substantial capital and investment assets. Wealth taxes may distort investment decisions and encourage capital relocation to countries with lower or no wealth taxes.



Strategies for Implementing Wealth Taxation

Strategies for implementing wealth taxes can be grouped into internal and external strategies. Internal strategies consist of:

Building a Mature Ecosystem

Informants highlight three key aspects that must be considered before introducing new tax rules or a new tax type: regulation, human resources, and tax instruments. From a regulatory perspective, two main elements are required. First, a specific legal framework governing wealth taxation, including provisions on tax subjects, tax objects, thresholds, procedures, payment methods, and reporting mechanisms. Second, regulations addressing tax avoidance, to ensure effective implementation. As previously discussed, multiple avoidance strategies are commonly employed by taxpayers, making robust anti-avoidance rules indispensable.

Commitment

Government commitment is crucial, given that implementing wealth taxation requires complex regulatory and administrative readiness and cannot be achieved instantaneously. Political commitment will largely determine the success of wealth tax reforms. Commitment is needed not only from the tax authority but also from policymakers and other stakeholders. This is especially important as wealth taxes primarily target HNWIs, who possess substantial economic power and influence over political and regulatory processes.

Law Enforcement

Informants AK-01 and LP-04 stress that, following policy design, strong law enforcement against tax avoidance—particularly by HNWIs—is essential. Sinaga (2016) finds that tax sanctions in Indonesia have not been applied consistently and firmly. Yet certainty and firmness in sanctioning are necessary to create a deterrent effect and prevent future violations. Weak enforcement risks generating legal uncertainty and may encourage more taxpayers to seek loopholes if they perceive that serious consequences are unlikely.

Road map

LP-04 emphasizes that wealth taxation in Indonesia requires careful planning through a structured road map to ensure phased and effective implementation. Meanwhile, the following external strategies may be implemented:

Earmarking

One strategy is to demonstrate clearly the direct social impact of wealth taxes through earmarking. Earmarking can convey a social message of solidarity, whereby high-income groups support marginalized communities. This approach may encourage HNWIs to comply when they see that tax revenues are used effectively. McGee (2004) notes that earmarking can increase public acceptance of new tax policies and reduce the risk of revenue misallocation to low-priority projects.

Public Communication

Effective public communication is crucial for socializing wealth tax policies (AK-01 & OF-01). Information disseminated to the public must clearly explain that such taxes target only individuals with very high levels of wealth (HNWI), based on specific criteria. This is necessary to prevent public misunderstanding and to minimize resistance..

Strengthening Global Commitment

International coordination is needed to prevent capital flight to low-tax jurisdictions and to reduce disparities in wealth tax rates that may distort global capital flows.

Improved Tax Services

To enhance tax administration, informants highlight three key aspects: administrative simplicity, synergy between government agencies and HNWIs, and recognition for compliant HNWIs. Synergy is needed not only in data provision but also in building a mature ecosystem



for implementing wealth taxation as a new tax type. Policy formulation should involve HNWIs, academics, and other relevant stakeholders to ensure optimal outcomes (AK-01).

Accountability and Transparency

Public distrust of government is a major factor behind resistance to taxation and reluctance to comply. When tax revenues are managed transparently and accountably, citizens are more willing to participate in tax payment as a contribution to national development (AK-01). This is consistent with Scholz & Lubell (1998), who conclude that governments can improve tax compliance by building public trust through transparency, accountability, and fair distribution of public benefits.

CONCLUSION

Summary

Based on the findings of this study, it can be concluded that although the redistributive function of taxation has contributed significantly to state revenue and the financing of social programs, its effectiveness in reducing inequality remains limited due to suboptimal budget allocation. Efforts to optimize tax revenues from High Net Worth Individuals (HNWIs) have been undertaken through regulatory strengthening, technological innovation, and the exploration of new policy instruments, including the potential introduction of a wealth tax.

Wealth taxation is viewed as a strategic tool to reinforce vertical equity and enhance fiscal capacity; however, its implementation faces substantial structural and political challenges, such as data limitations, risks of tax avoidance, and resistance to reform. Therefore, a comprehensive strategy—encompassing internal system enhancement, public communication, inter-agency coordination, and learning from international best practices—is essential to support the successful, equitable, and sustainable adoption of wealth taxation in Indonesia.

Recommendations

Future research is encouraged to broaden its scope by integrating analyses of general wealth taxes and taxes on capital income in accordance with the International Monetary Fund (IMF) framework, as well as incorporating cross-country comparisons to obtain a more comprehensive understanding of the design and effectiveness of wealth tax policies. Such comparative approaches would enrich the analysis, offer broader perspectives on policy challenges and opportunities, and increase the relevance of research findings.

In addition, incorporating legislative perspectives—particularly from the House of Representatives (DPR)—is crucial for understanding the political and regulatory dynamics that shape the formulation and implementation of wealth taxation. Equally important is examining the attitudes and behaviors of High Net Worth Individuals (HNWIs) as the primary subjects of this tax, as their responses, compliance levels, and tax planning strategies significantly influence policy effectiveness and the risk of economic distortions.

By simultaneously integrating normative, political, and practical dimensions, future research will become more comprehensive and capable of generating more applicable and impactful policy recommendations within the national context.

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