



BACK TO BASICS: UPHOLDING FOUR FUNDAMENTAL TAX PRINCIPLES FOR INDONESIA'S FISCAL INDEPENDENCE

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Abstract

This paper revisits the four foundational principles of taxation—neutrality, simplicity, certainty, and equity—as the bedrock of a fiscally independent and socially just tax system in Indonesia. Despite commendable progress in post-pandemic fiscal consolidation, Indonesia's tax-to-GDP ratio has stagnated near 12 percent, far below the Asia-Pacific average of 19 percent. The study combines historical review, comparative analysis, and institutional assessment to argue that reaffirming these principles is essential to attain the country's Vision 2045 target of high-income status. Drawing on OECD, IMF, and DDTC data (2019–2025) and the most recent academic literature, the paper shows that distortionary incentives, administrative complexity, and uneven enforcement undermine revenue potential. The analysis culminates in a policy framework that aligns neutrality, simplicity, certainty, and equity with digital-era governance and sustainable fiscal independence.

Keywords: Certainty; Equity; Neutrality; Simplicity; Tax reform

INTRODUCTION

Fiscal policy serves as a nation's principal macroeconomic instrument for maintaining stability, spurring growth, and reducing inequality. In Indonesia, taxation functions as the backbone of public finance, yet persistent challenges limit its effectiveness. The country's tax ratio of 12.1 percent in 2022 lags well behind peers such as Thailand (16.7 percent) and the Philippines (18.4 percent) (OECD, 2024). This constraint narrows fiscal space, compels higher borrowing, and diverts resources from productive investment to debt service.

Indonesia's aspiration for Vision Indonesia Emas 2045—to become a high-income, developed economy—demands robust and sustainable revenue generation. Achieving this requires a return to the fundamentals of sound taxation. Reinforcing neutrality ensures that tax policy does not distort economic behavior; simplicity reduces compliance and administrative costs; certainty builds taxpayer confidence; and equity guarantees fairness in burden sharing. These four principles, long embedded in classical public-finance theory (Musgrave & Musgrave, 1989), form the normative foundation of modern tax systems worldwide.

Empirical evidence indicates that Indonesia's revenue shortfall stems less from tax rates than from structural inefficiencies and principle violations. Frequent regulatory changes compromise certainty; complex procedures impede simplicity; sectoral incentives breach neutrality; and a regressive indirect-tax structure undermines equity. Consequently, comprehensive reform anchored in these four tenets is indispensable to strengthen fiscal independence and social legitimacy.

This study aims to: (1) Identify the extent to which Indonesia's current tax policies align with the principles of neutrality, simplicity, certainty, and equity; (2) Analyze the empirical relationship between these principles and fiscal independence indicators, such as tax ratio and deficit performance; (3) Compare Indonesia's tax performance with other ASEAN economies to contextualize structural challenges; and (4) Propose strategic reforms that operationalize these four principles in support of sustainable fiscal independence and Vision Indonesia 2045.

Through these objectives, the paper contributes a comprehensive analytical framework for evaluating tax reforms in developing economies, emphasizing the integration of normative theory and policy practice.



LITERATURE REVIEW

Historical Evolution of Indonesia's Tax System (1983–2025)

Indonesia's tax reform trajectory can be divided into four major phases that reflect shifting economic priorities and institutional capabilities:

1. The 1983 Tax Reform Era — The first comprehensive overhaul replaced the colonial-era official assessment system with self-assessment, introducing the modern Income Tax (PPH) and Value Added Tax (PPN) structures. This reform marked a decisive shift toward voluntary compliance but left unresolved issues in enforcement and administration (Putra, 2014).
2. The 1990s–Early 2000s Consolidation — Revisions in 1994 and 2000 refined rates and broadened tax bases, while decentralization in 2001 transferred substantial fiscal authority to subnational governments. However, weak local tax capacity and overlapping regulations introduced new inefficiencies (Tambunan, 2021).
3. Post-2008 Global Financial Crisis Adjustments — To preserve competitiveness, the government reduced the corporate income tax rate from 30% to 25% in 2010 and launched various sectoral incentives. These efforts, while supporting investment, eroded neutrality and diminished effective progressivity (Wardhana, 2019).
4. The 2016–2025 Digitalization and Recovery Phase — Recent reforms emphasize administrative modernization through the Core Tax System, digital reporting, and international alignment under the BEPS and OECD Pillar Two frameworks (Cahyadini et al., 2023). Despite these strides, Indonesia's tax ratio remains nearly unchanged, revealing persistent structural bottlenecks.

Table 1 Summary of Indonesia's Major Tax Reforms, 1983–2025

Reform Period	Policy Focus	Principal Outcomes	Key Challenges
1983 Reform	Transition to self-assessment	Broader base; improved compliance framework	Weak audit and data integration
1994–2000	Decentralization, rate adjustments	Enhanced subnational autonomy	Overlapping local tax bases
2010	Corporate rate reduction	Investment stimulation	Eroded neutrality, lower revenues
2016–2025	Digitalization, global alignment	Improved monitoring, e-filing	Informal sector gap persists

Note. Data compiled from IMF (2024), OECD (2024), and Putra (2014).

Theoretical Foundations of the Four Principles

The conceptual roots of tax design trace back to Adam Smith's (1776) canons of taxation, refined by later scholars into the four modern principles: neutrality, simplicity, certainty, and equity.

Neutrality

Neutral taxation minimizes distortions in economic choices. As Amelia (2024) notes, deviations—such as preferential treatment for certain industries—misallocate capital and reduce total welfare. For instance, Indonesia's application of final income tax regimes to construction and shipping sectors exemplifies non-neutral design.

Simplicity

A simple tax code reduces administrative burdens and compliance costs. Empirical research shows that compliance costs can exceed 5% of tax liability for small and medium enterprises in complex jurisdictions (Hidayat & Sinaga, 2022). In Indonesia, multiple amendments and exemptions create regulatory clutter that discourages voluntary compliance.



Certainty

Certainty encompasses predictability and stability in law enforcement. Syafiq (2024) argues that arbitrary or frequent changes in tax policy, often driven by short-term political motives, undermine taxpayer trust and investment planning. Certainty requires consistency between statutory rules and administrative practices.

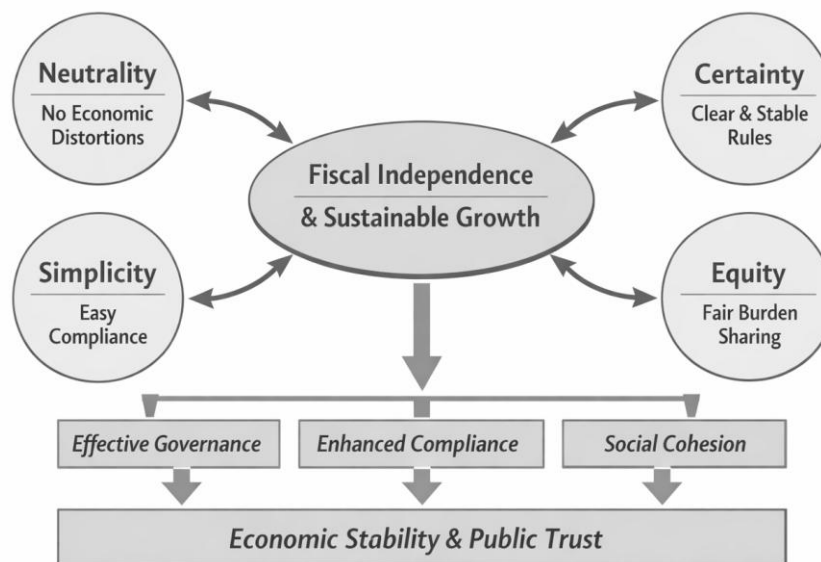
Equity

Equity, defined by the ability-to-pay principle, is the ethical pillar of taxation. It comprises vertical equity (those with higher incomes pay proportionally more) and horizontal equity (equal treatment for equals). Studies by Putro, Rizal, and Mayangsari (2024) emphasize that Indonesia’s current tax structure—heavily reliant on VAT—tends toward regressivity, burdening lower-income households disproportionately.

Figure 1 illustrates the conceptual relationship between the four foundational tax principles—neutrality, simplicity, certainty, and equity—and Indonesia’s goal of achieving fiscal independence. The model depicts these principles as interconnected pillars that collectively sustain an efficient, fair, and credible taxation system. Neutrality ensures that tax policies do not distort economic decisions or resource allocation, thereby supporting productivity and competitiveness. Simplicity reduces administrative complexity and compliance costs, which in turn fosters voluntary participation. Certainty provides legal and procedural predictability, strengthening investor confidence and long-term fiscal planning. Finally, equity underpins social legitimacy by ensuring that taxpayers contribute proportionally to their ability to pay. Together, these principles reinforce fiscal independence, conceptualized in the model as the central outcome of balanced policy design and institutional integrity. The diagram highlights that a weakness in any one principle can erode the system’s overall effectiveness, underscoring the need for integrated reform strategies.

Figure 1 Conceptual Model of the Four Tax Principles and Fiscal Independence

Conceptual Model of the Four Tax Principles and Fiscal Independence



Note. Author’s conceptualization adapted from OECD (2024) and Musgrave & Musgrave (1989).

Interdependence and Trade-offs Among Principles

The four principles rarely operate in isolation. Policymakers frequently confront trade-offs—for instance, enhancing equity through progressive taxation may compromise simplicity,



while promoting neutrality via broad-based taxes can challenge equity objectives. Table 2 summarizes these tensions.

Table 2 Trade-offs Between the Four Fundamental Tax Principles

Principle Interaction	Example in Indonesia	Policy Trade-off	Recommended Balance
Equity vs. Simplicity	Progressive PPh layers vs. easy compliance	Higher fairness but complex filing	Use digital prefilled returns
Neutrality vs. Equity	Tax incentives for priority sectors	Economic growth vs. fairness	Link incentives to performance metrics
Certainty vs. Flexibility	Frequent rule changes	Policy adaptability vs. stability	Institutionalize periodic review cycles

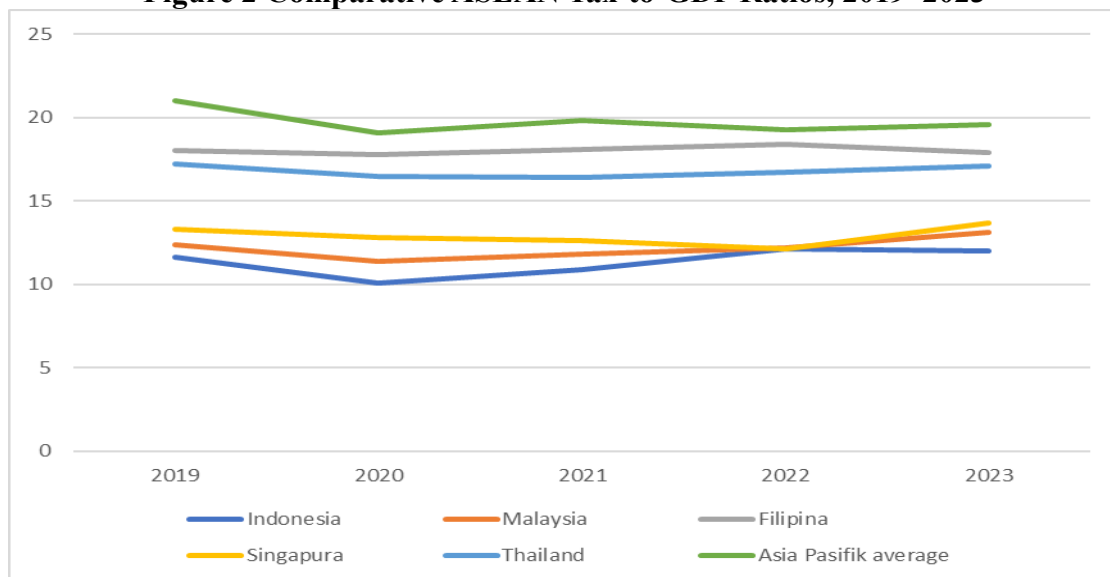
Note. Adapted from OECD (2023), IMF (2024), and Amelia (2024).

Regional Tax Ratio Comparisons

Empirical comparison across ASEAN countries reveals Indonesia’s structural disadvantage in fiscal capacity. According to the OECD Revenue Statistics in Asia and the Pacific (2024), Indonesia’s average tax-to-GDP ratio during 2019–2023 stood at 11 to 12 percent, compared with the regional mean of 19 percent. Only Malaysia, with a comparable ratio, approaches Indonesia’s level; others—Thailand, the Philippines, and Vietnam—consistently surpass it.

Figure 2 compares the tax-to-GDP ratios of major ASEAN economies between 2019 and 2023, highlighting Indonesia’s structural gap in domestic revenue mobilization. Throughout this period, Indonesia’s ratio fluctuates near 11–12 percent, while the regional average remains close to 19 percent, with Thailand, the Philippines, and Vietnam maintaining consistently higher levels of fiscal capacity. The minimal upward slope of Indonesia’s line contrasts with the steeper, more stable trajectories of neighboring countries, suggesting that its tax performance has improved only marginally despite ongoing reforms. This stagnation reflects enduring issues such as a narrow tax base, limited personal income taxpayer coverage, and substantial reliance on consumption-based taxation. The comparative trends emphasize that Indonesia’s fiscal independence remains constrained relative to peers and that aligning its tax ratio closer to the ASEAN average is essential for sustainable public finance and equitable development.

Figure 2 Comparative ASEAN Tax-to-GDP Ratios, 2019–2023





Note. Data from OECD (2024). Chart illustrates Indonesia's persistent gap in revenue mobilization relative to regional peers.

This disparity underscores a limited revenue base relative to economic size. Although the post-pandemic recovery lifted Indonesia's nominal receipts, underlying elasticity remains weak due to narrow coverage of personal income taxpayers and heavy reliance on consumption taxes.

Table 3 compares tax-to-GDP ratios across selected ASEAN economies from 2019 to 2025, showing Indonesia's persistent lag in revenue mobilization relative to its regional peers. Indonesia's ratio fluctuates between 10.3 and 12.8 percent, consistently below the ASEAN average of 15–16 percent and far from the levels recorded by Thailand ($\approx 17\%$), the Philippines ($\approx 18\%$), and Vietnam ($\approx 19\text{--}20\%$). This pattern underscores the structural constraints of Indonesia's tax base, including limited personal income tax coverage, a large informal sector, and high dependence on indirect taxes such as VAT. While Malaysia maintains ratios close to Indonesia's, its broader base and administrative efficiency yield steadier growth. The modest upward projection for Indonesia—from 11.8 percent in 2019 to 12.8 percent by 2025—suggests incremental improvement following post-pandemic reforms, digitalization, and enhanced compliance initiatives. Nevertheless, without substantial broadening of the taxpayer base and reduction of exemptions, Indonesia's tax capacity will remain below the regional benchmark necessary for achieving long-term fiscal independence and financing its Vision 2045 development agenda.

Table 3 Tax-to-GDP Ratios in Selected ASEAN Countries, 2019–2025 (Projected)

Year	Indonesia	Malaysia	Thailand	Philippines	Vietnam	ASEAN Avg.
2019	11.8	12.5	16.9	17.8	19.1	15.6
2020	10.3	11.4	15.2	15.9	18.3	14.2
2021	11.0	11.9	16.1	16.7	18.8	14.9
2022	11.5	12.2	16.5	17.2	19.0	15.3
2023	12.1	12.8	17.0	18.1	19.4	15.9
2024 (proj.)	12.4	13.1	17.2	18.3	19.7	16.1
2025 (proj.)	12.8	13.4	17.5	18.6	20.0	16.5

Note. Data compiled and projected from OECD (2024), IMF (2024), and national finance ministries (as cited in OECD Revenue Statistics in Asia and the Pacific).

Composition of Indonesia's Revenue Base

Indonesia's tax structure is dominated by indirect taxes (mainly VAT and excises), which account for roughly 45 percent of total receipts. Income taxes contribute around 35 percent, while property and other taxes remain under 5 percent (IMF, 2024). Such composition poses long-term equity concerns, as indirect taxation tends to burden lower-income households disproportionately.

Table 4 Structure of Indonesia's Tax Revenue, 2022 (Percent of Total)

Tax Type	Share of Total Revenue	Trend Since 2019	Distributional Impact
Value-Added Tax (VAT)	45 %	↑ rising	Regressive
Income Taxes (PPh)	35 %	→ stable	Progressive
Excise Duties	10 %	↑ moderate	Neutral to mild regressivity



Tax Type	Share of Total Revenue	Trend Since 2019	Distributional Impact
Property Taxes	5 %	→ flat	Progressive
Others (Import, Fees)	5 %	↓ slightly	Neutral

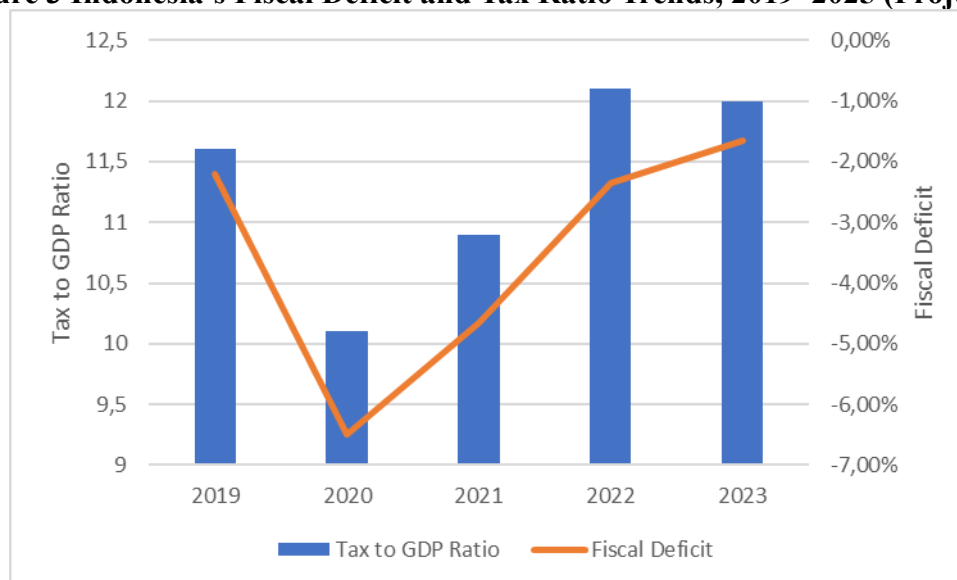
Note. Source: IMF (2024); OECD (2023).

Fiscal Balance and Debt Sustainability

Fiscal consolidation after the COVID-19 crisis demonstrates improved discipline. The budget deficit narrowed from 6.1 percent of GDP in 2020 to 1.7 percent in 2023 (Ministry of Finance, 2025). However, the relatively stagnant tax ratio implies that expenditure compression, rather than revenue expansion, drove this outcome—a strategy unsustainable for long-term growth financing.

Figure 3 presents Indonesia’s fiscal deficit and tax ratio trajectories from 2019 to 2025, illustrating the post-pandemic transition toward fiscal normalization. The chart reveals a sharp deficit expansion in 2020 (–6.1 percent of GDP), driven by emergency health and economic measures, followed by a steady decline to an estimated –1.5 percent by 2025. In contrast, the tax-to-GDP ratio exhibits a slow yet positive recovery, increasing from 10.3 percent in 2020 to a projected 12.8 percent in 2025. The divergence between these two lines—rapid deficit correction versus gradual revenue improvement—indicates that consolidation has been achieved primarily through expenditure restraint rather than significant tax mobilization. While the reduction in public debt and deficit reflects improved fiscal discipline, the modest rise in tax ratio suggests that structural reforms, digitalization, and base broadening remain crucial for sustaining fiscal independence. Overall, the figure underscores Indonesia’s progress toward stability, but also highlights the fragility of its fiscal resilience without deeper tax policy realignment.

Figure 3 Indonesia’s Fiscal Deficit and Tax Ratio Trends, 2019–2025 (Projected)



Note. Compiled from IMF (2024) Article IV Consultation Report and OECD (2024).

Table 5 illustrates Indonesia’s fiscal performance and debt sustainability trajectory between 2019 and 2025, highlighting a gradual post-pandemic stabilization of public finances. The fiscal deficit widened sharply in 2020 to –6.1 percent of GDP due to expansive stimulus measures amid the COVID-19 crisis, while public debt rose to 39.3 percent of GDP. Subsequent fiscal consolidation, supported by spending restraint and modest revenue gains, reduced the deficit to –1.7 percent in 2023 and is projected to fall further to –1.5 percent by 2025.



Concurrently, the debt-to-GDP ratio is expected to decline from 41.0 percent in 2021 to 37.2 percent in 2025, reflecting improved fiscal discipline and nominal growth effects. Tax revenue shows a gradual recovery—from 10.3 percent of GDP in 2020 to a projected 12.8 percent in 2025—although still below the regional average, indicating persistent structural weaknesses in revenue mobilization. Real GDP growth rebounded strongly after the 2020 contraction, averaging around 5 percent annually, suggesting that Indonesia’s fiscal adjustment has not significantly constrained economic expansion. Collectively, these trends reveal cautious but steady progress toward fiscal sustainability, contingent upon continued adherence to tax reform and sound macroeconomic management.

Table 5 Indonesia: Fiscal Balance and Debt Ratios, 2019–2025 (Projected)

Year	Fiscal Deficit (% of GDP)	Public Debt (% of GDP)	Tax Revenue (% of GDP)	Real GDP Growth (%)
2019	-2.2	30.2	11.8	5.0
2020	-6.1	39.3	10.3	-2.1
2021	-4.6	41.0	11.0	3.7
2022	-2.4	39.6	11.5	5.3
2023	-1.7	38.1	12.1	5.0
2024 (proj.)	-1.6	37.8	12.4	5.1
2025 (proj.)	-1.5	37.2	12.8	5.2

Note. Data compiled from [IMF \(2024\)](#) and [OECD \(2024\)](#). Fiscal deficit values represent central government balance, and public debt ratios include both domestic and external components.

Informal Sector and Compliance Gap

The informal economy, estimated at around 44 percent of GDP, remains the principal obstacle to fiscal broadening (World Bank, 2023). Although the formal compliance rate reached 85.75 percent among registered taxpayers (DDTC News, 2025), only 7–8 million individuals actually remit taxes out of a population exceeding 270 million. This “coverage gap” reflects limited integration between tax administration and national identification systems.

Moreover, the prevalence of cash-based microenterprises complicates enforcement. Simplified presumptive regimes could encourage voluntary compliance without excessive administrative cost, aligning with the simplicity principle.

METHODS

Research Design

This study employs a qualitative-descriptive design with comparative and analytical components, focusing on the interpretation of fiscal data and tax policy structures in Indonesia relative to other ASEAN economies. The approach integrates normative tax theory, empirical trend analysis, and institutional evaluation to assess how well Indonesia’s tax system embodies the four fundamental principles—neutrality, simplicity, certainty, and equity.

The research framework is grounded in public finance theory (Musgrave & Musgrave, 1989) and contemporary fiscal governance literature from the OECD (2024) and IMF (2024). This combination of theoretical and empirical lenses allows for a multidimensional assessment of fiscal independence through both normative and evidence-based criteria.

Data Sources

The analysis draws on secondary data collected from reputable institutional and academic sources. Key datasets include:



- OECD Revenue Statistics in Asia and the Pacific (2024) — providing tax-to-GDP ratios and structural revenue data for Indonesia and comparator economies.
- IMF Article IV Consultation Reports (2023–2024) — containing fiscal balance, public debt, and macroeconomic projections.
- World Bank (2023) and Asian Development Bank (2023) publications — offering supplementary indicators on public expenditure and governance efficiency.
- Directorate General of Taxes (DGT) Annual Report (2024) — providing administrative and compliance data.
- Peer-reviewed journal articles and legal analyses concerning Indonesia’s tax reform, BEPS participation, and digital transformation (Amelia, 2024; Hidayat & Sinaga, 2022; Syafiq, 2024).

Analytical Framework

The analytical process follows three stages:

1. **Descriptive Analysis:** Summarizing the evolution of Indonesia’s tax system from 1983 to 2025, including structural ratios, reform chronology, and institutional milestones.
2. **Comparative Analysis:** Benchmarking Indonesia’s fiscal indicators against selected ASEAN countries (Malaysia, Thailand, the Philippines, and Vietnam) using tax-to-GDP and fiscal balance ratios (see Tables 1 and A1).
3. **Principle-Based Evaluation:** Assessing Indonesia’s adherence to the four tax principles by mapping empirical indicators (simplicity, neutrality, certainty, and equity) to corresponding policy variables—such as regulatory frequency, compliance cost, and progressivity indices.

To ensure analytical rigor, this study also integrates policy triangulation, comparing government claims with independent assessments from international organizations and academic sources.

Scope and Limitations

The scope of this study encompasses the period 2019–2025, aligning with the most recent tax reform initiatives and data availability. The focus remains on central government taxation, excluding subnational levies due to limited comparative data.

Limitations include potential discrepancies in cross-country reporting standards and the use of projected figures for 2024–2025, which may change as new fiscal data become available. Despite these constraints, the triangulation of OECD, IMF, and domestic datasets enhances the validity of findings.

RESULT AND DISCUSSION

Principle Violations in Practice

Cross-analysis of Indonesia’s empirical data against the four principles highlights recurring misalignments:

- **Neutrality:** Sectoral incentives—such as final income-tax schemes for construction—distort market allocation and lower overall efficiency (Amelia, 2024).
- **Simplicity:** Multiple overlapping regulations and frequent amendments increase compliance costs; SMEs often require professional assistance merely to file correctly (Hidayat & Sinaga, 2022).
- **Certainty:** Ad-hoc rule changes undermine taxpayer confidence, especially regarding VAT base adjustments and incentive sunset clauses (Syafiq, 2024).
- **Equity:** Heavy reliance on VAT and flat-rate final taxes limits vertical progressivity (Putro et al., 2024).

Each violation compounds the next, weakening public trust and constraining fiscal independence.



Strategic Priorities for Restoring the Four Principles

Indonesia's fiscal independence depends on simultaneous reform across policy design, administration, and public accountability. The OECD (2024) and IMF (2024) recommend that middle-income economies like Indonesia adopt broad-based, equitable, and technology-enabled tax frameworks. This requires aligning the four tax principles with measurable policy initiatives.

Reinforcing Neutrality and Fair Competition

Neutrality demands that tax incentives and exemptions be critically reviewed for their economic justification. Current sector-specific privileges—such as tax holidays for particular industries—should transition toward performance-based incentives, where eligibility depends on tangible outcomes (employment generation, export growth, or R&D spending).

A reform modeled on the “sunset clause plus impact evaluation” mechanism used in South Korea could ensure that every incentive undergoes renewal only after empirical performance review. This practice mitigates rent-seeking, supports horizontal equity, and preserves fiscal neutrality.

Furthermore, neutrality requires strengthening the ease of doing business environment. Simplified regulatory procedures and predictable enforcement reduce reliance on preferential tax treatments as compensatory measures.

Simplifying the Tax System and Lowering Compliance Costs

Administrative simplicity can be achieved through:

1. **Unified Filing and Payment Portals.** The ongoing Core Tax Administration System should integrate income tax, VAT, and excise obligations through a single digital interface.
2. **Standardized Small-Taxpayer Regime.** Micro and small enterprises could be subject to a turnover-based presumptive tax capped at 0.5% of revenue—simple enough to encourage participation but adequate for revenue mobilization.
3. **Stable Legal Drafting.** Frequent revisions to tax laws, sometimes exceeding three per year, must be curtailed. Instead, Parliament should adopt a five-year tax code stability rule, ensuring predictability consistent with the certainty principle.

Hidayat and Sinaga (2022) found that simplification directly correlates with improved compliance and audit efficiency. A well-structured digital ecosystem also allows the Directorate General of Taxes (DGT) to automate data matching across banks, employers, and e-commerce platforms—reducing both underreporting and administrative costs.

Strengthening Certainty Through Legal and Institutional Integrity

Certainty in taxation requires more than clear laws; it depends on consistent enforcement and taxpayer confidence. To achieve this:

- **Codify Interpretation Rules:** Establish an Official Tax Interpretation Registry to avoid contradictory rulings.
- **Institutionalize Advance Rulings:** Taxpayers should be able to obtain binding rulings before transactions, reducing post-assessment disputes.
- **Professionalize the Tax Court:** Specialization and digital case management would expedite decisions, ensuring fair and predictable adjudication.

International comparisons show that certainty directly influences investment attractiveness. In the World Bank Doing Business 2020 study, economies with stable tax regimes recorded higher FDI inflows. Indonesia's frequent regulatory amendments erode this advantage.

Achieving Equity and Fairness in Burden Sharing

To enhance vertical and horizontal equity:

- **Introduce Continuous Progressive Rate Structure.** Replace stepwise income brackets with a smooth marginal rate formula to prevent abrupt tax jumps.



- **Reform Personal Exemptions (PTKP).** Index thresholds to inflation and family size rather than static nominal values.
- **Explore Inheritance and Property Taxation.** Inheritance tax can mitigate wealth concentration without discouraging productive investment, provided rates remain moderate (<10%).
- **Broaden Wealth Disclosure Programs.** Voluntary asset reporting linked to financial data integration can expand the tax base without punitive enforcement.

The government must also consider the regressive impact of VAT increases. Putro et al. (2024) emphasize the need for targeted consumption subsidies for low-income households when adjusting indirect tax rates. These compensatory measures uphold equity without compromising revenue goals.

Digitalization and the Role of Technology

Digitalization sits at the intersection of all four tax principles. The new Core Tax System—expected to be fully operational by 2025—integrates taxpayer data across institutions via application programming interfaces (APIs). According to Cahyadini et al. (2023), such integration reduces compliance time by 40% and improves enforcement consistency.

Big data analytics enable the DGT to perform risk-based audits rather than blanket examinations, optimizing resources while maintaining fairness. Moreover, e-invoicing and e-reporting systems can capture real-time VAT flows, closing loopholes in the informal sector.

Public Trust and Fiscal Legitimacy

Beyond technical efficiency, fiscal independence depends on public trust. The relationship between taxpayers and the state functions as a social contract—citizens comply voluntarily when they perceive fair treatment and transparent utilization of tax revenue.

Empirical studies from Scandinavian countries demonstrate that perceived equity and transparency explain up to 60% of voluntary compliance variance (OECD, 2023). Indonesia's government can replicate this by:

- Publishing annual Tax Expenditure Reports detailing forgone revenue from incentives.
- Implementing participatory budgeting platforms that allow citizens to track local spending outcomes.
- Strengthening the Anti-Corruption Commission's oversight of fiscal agencies.

These initiatives reinforce both certainty and equity, closing the trust gap that currently weakens compliance culture.

Broader Macroeconomic Implications

A tax system aligned with these four principles does not merely raise revenue—it stabilizes the macroeconomy and enhances investment confidence.

- **Neutrality** encourages efficient capital allocation.
- **Simplicity** lowers transaction costs, stimulating enterprise formation.
- **Certainty** reduces risk premiums and borrowing costs.
- **Equity** fosters social cohesion and political stability.

Model simulations by the IMF (2024) suggest that increasing Indonesia's tax ratio to 15 percent of GDP by 2030 could reduce public debt by 5 percentage points and create fiscal space equivalent to 2 percent of GDP annually for infrastructure and human-capital investment.

CONCLUSION

Re-establishing the four foundational tax principles—neutrality, simplicity, certainty, and equity—is indispensable for Indonesia's fiscal transformation. Decades of reforms since 1983 have built a solid institutional foundation, yet policy drift, administrative complexity, and narrow coverage continue to limit performance.



By reinforcing neutrality, Indonesia can remove distortions that misallocate capital and reduce efficiency. Through simplicity, compliance costs and administrative burdens fall, improving voluntary participation. Certainty enhances predictability, investment planning, and institutional trust, while equity ensures that the tax burden is distributed according to the ability to pay—preserving social legitimacy.

Fiscal independence requires more than new regulations; it calls for an ecosystem that combines policy coherence, technological integration, and public accountability. The convergence of these reforms will enable Indonesia to raise its tax ratio toward the regional average, reduce debt dependence, and fund inclusive development consistent with Vision 2045. Ultimately, taxation is not merely a technical instrument but a reflection of the social contract between state and citizen. A fair, efficient, and transparent tax system becomes both the means and the measure of Indonesia's maturity as a fiscally sovereign nation.

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