

THE EFFECT OF TAX REVENUE ON ECONOMIC GROWTH IN INDONESIA 2019-2022

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Abstract

This study aims to analyse the effect of local tax revenue, Consumer Price Index (CPI), and Gini Ratio on the economic growth of provinces in Indonesia during the 2019-2022 period. The background of this research is based on differences in development outcomes between regions, even though most regions have experienced an increase in tax revenue. This phenomenon raises questions about the effectiveness of tax revenue in promoting equitable economic growth, especially in the midst of economic pressures due to the COVID-19 pandemic. This study uses a quantitative approach with a panel data regression method. Data were obtained from 34 provinces with a total of 136 observations and analysed using STATA software. The model used is random effects, which is selected based on Chow, Hausman, and LM tests. The results showed that local tax revenue has a positive and significant effect on economic growth. Meanwhile, CPI has a negative but statistically insignificant effect, and Gini Ratio shows no significant effect. This finding confirms that local fiscal capacity plays an important role in supporting economic development, while price pressures and inequality have not had a dominant impact in the observation period. The implication of this study is the need to optimise local tax revenue and manage it to productive sectors. In addition, tax reforms and regional fiscal policies need to be directed towards promoting inclusive and equitable growth.

INTRODUCTION

Economic growth is one of the main measures to assess the extent to which development has succeeded in improving the welfare of the people in a region (Khotimah *et al.*, 2023). This indicator reflects the increase in the output of goods and services in a region within a certain period of time, and is a representation of the economic performance of a region in aggregate. Indonesia's economic growth experienced significant dynamics during the 2019-2023 period, affected by the COVID-19 pandemic and during the post-pandemic recovery process. In 2019, Indonesia's economy grew by 5.14%, reflecting relatively stable macroeconomic conditions before the global crisis. However, in 2020, economic growth contracted by -2.07%, the lowest in the last two decades due to the impact of the pandemic on consumption, investment, and trade (Macrotrends LLC, 2022). Entering 2021, the economy began to recover with growth of 3.70%, fuelled by the easing of social restrictions and a recovery in economic activity. This positive trend continued in 2022, where growth reached 5.31%, reflecting a stronger recovery in the industrial, trade, and investment sectors (Macrotrends LLC, 2022). In 2023, economic growth slowed slightly to 5.05%, but still showed the resilience of the national economy amid global pressures such as inflation and geopolitical uncertainty (Macrotrends LLC, 2022).

Positive economic growth indicates the progress of production activities, increased investment, job creation, and an increase in people's income (Febryani & Kusreni, 2017). In the context of the regional economy that has been operating in Indonesia since the early 2000s, the responsibility for development no longer rests solely with the central government (Sabara, 2022). Local governments, especially at the provincial level, are required to be more independent in managing finances and driving the economy of their respective regions (Puspita *et al.*, 2022). Therefore, understanding the dynamics of regional economic growth is important, especially in relation to the factors that influence it, such

as tax revenue, inflation (CPI), and income inequality (Gini Ratio) Ali & Asfaw (2023).

Local tax revenue is the main foundation of the country's financial system (Nasution & Syaputra, 2022). Tax is not just an instrument to collect revenue, but also an economic and social policy tool used to achieve equity, encourage investment, and maintain national economic stability (Tsaurai, 2021). In Indonesia, the contribution of taxes to state revenue is dominant, which makes it an important element in financing national development (Dalango, 2021). Di Indonesia, pajak mendominasi struktur penerimaan negara, dan perannya semakin krusial untuk mendanai pembangunan di sektor-sektor strategis seperti infrastruktur, pendidikan, dan layanan publik (Cahyadi, 2024). Namun, efektivitas sistem perpajakan Indonesia selama periode 2019-2022 menghadapi berbagai tantangan struktural dan situasional (Benkejjane *et al.*, 2024).

In the context of developing countries, tax becomes the backbone to create fiscal stability as well as a tool to fund the development of social and physical infrastructure (Piancastelli & Thirlwall, 2020). Taxes are not just a source of revenue, but also an important pillar in creating accountable governance, macroeconomic stability, and reducing dependence on foreign aid (Eze, 2023). Thus, strengthening the tax base, especially from the non-oil and gas sector, is a vital strategy for many developing countries that want to achieve sustainable economic growth (Eze, 2023). Countries in West Africa, as exemplified in the study, still face structural challenges in tax collection such as the low professionalism of the tax apparatus, low tax literacy in the community, and the high practice of tax avoidance and evasion (Otu & Adejumo, 2024). These problems not only cause a low tax ratio, but also hinder the establishment of a fair and sustainable tax system (Joselin *et al.*, 2024). Taxes are still the main source of government revenue in many developing countries, including Nepal, which relies on these revenues to run development programs and support

public services (Thapa, 2023). Taxes serve as the main “fuel” of the state machine to finance infrastructure, education, health, and poverty alleviation.

During this period, Indonesia faced significant economic shocks due to the COVID-19 pandemic. Economic activity experienced a sharp slowdown, especially in productive sectors such as manufacturing, trade, and tourism (Yossinomita *et al.*, 2024). This economic contraction has led to a drastic decline in tax revenue, especially from sectors that are severely affected (Junejo *et al.*, 2021). This condition encourages the government to respond immediately through various policies, one of which is by providing fiscal incentives as outlined in regulations such as PMK-23/2020 and PMK-28/2020. The incentives are in the form of exemptions, reductions, and delays in tax obligations with the aim of maintaining business continuity and people's purchasing power (Onakoya *et al.*, 2017). However, the effectiveness of these tax incentives in the medium and long term has not been fully measured (D, 2025). Questions regarding their impact on private sector investment, MSME productivity, and fiscal sustainability are still being debated among academics and policymakers (Laura, 2022). On the one hand, incentive policies are necessary in a crisis situation. But on the other hand, these policies also reduce state revenues, increase the budget deficit, and potentially hamper the financing of various development programs (Rohima *et al.*, 2022). Some regions have managed to maximize their tax potential and show high economic growth, but others have not been able to achieve significant impacts despite increasing tax revenues (Suwanan & Sulistiani, 2009). Table 1 shows that this condition is a positive sign for efforts to reform the local taxation system, while opening up greater opportunities to encourage more optimal economic growth in the future.

Table 1. Provincial Tax revenue in Indonesia

no	Provinsi	Tahun			
		2019	2020	2021	2022
1	Aceh	1409251915	1275366715	1529610318	1540097650
2	Sumatera Utara	5058443945	5412948218	5730574819	6227774043
3	Sumatera Barat	1872933991	1956425000	2060852029	2014441883
4	Riau	2989749791	2741519226	3327500337	3600240763
5	Jambi	1345106684	1407858609	1558105417	1507600968
6	Sumatera Selatan	3224422159	1407858609	3523785342	3680900000
7	Bengkulu	622484622	912368194	778550698	786034669
8	Lampung	2627888230	2281574717	2721138046	2678859166
9	Bangka Belitung	760997424	850307138	813809912	698200594
10	Kepulauan Riau	1182117353	1149938350	1191202761	1150224138
11	DKI Jakarta	40298122505	50170000000	34575563219	45702554000
12	Jawa Barat	19626352312	23653633651	18847183713	19759612472
13	Jawa Tengah	11951919535	13440249764	11718378321	13995272893
14	DIY Yogyakarta	1773940605	1888896005	1688443844	1831695736
15	Jawa Timur	15522201423	15185000000	15400864402	14236045643
16	Banten	6720753612	7748115000	6670933203	7284405500
17	Bali	3463996394	3264953503	2458530859	2580452741
18	Sulawesi Tenggara	1404964803	1375107719	1418222759	1726235525
19	Sulawesi Tengah	908207118	1088050232	925862559	1486181102
20	Kalimantan Barat	1959341747	2096801056	2121967008	2343271581
21	Kalimantan Tengah	1438977523	1158361964	1415408749	1591549300
22	Kalimantan Selatan	2765973273	3113500000	2631763313	2935210000
23	Kalimantan Timur	4984520517	3009790000	4774890855	5444145000
24	Kalimantan Utara	417536962	480025963	430384171	411384171
25	Sulawesi Utara	1050089445	1082114965	1075924577	1136543856
26	Sulawesi Tengah	896321262	850200000	1074422295	985000000
27	Sulawesi Selatan	3710611600	2842270140	3846736300	4241919986
28	Sulawesi Tenggara	864165451	984253364	1052629511	1137269003
29	Gorontalo	387400917	247134443	400748368	376125487
30	Sulawesi Barat	291493654	234069622	346226492	337294866
31	Maluku	361093162	372554045	382358276	395554197
32	Maluku Utara	322556643	358357187	400027117	449209037
33	Papua Barat	369671612	396381519	370712649	368287477
34	Papua	1455869770	1007458360	1627366516	1024797716

Source: BPS 2019-2022 (data Processed 2025)

Indonesia's tax-to-GDP ratio is still relatively low compared to other ASEAN countries (Maganya, 2020). During the 2019–2022 period, this ratio ranged from 10–12%, far below Thailand and the Philippines, which have reached 16–18%. This low ratio indicates that Indonesia's tax potential has not been fully utilised. (Gerson, 1998). This situation raises concerns about the country's fiscal capacity to fund sustainable development, particularly as outlined in the Medium-Term Development Plan (RPJM) document. (Purba & Salomo, 2024). Study from (Yunita & Indrawati, 2022) highlights that optimising tax revenue alone is not enough; it must be accompanied by budgetary policies that can direct tax funds to sectors that are truly productive and create a multiplier effect for the national economy. A study by (Nugroho, 2018) shows that the tax revenue ratio does not have a significant effect on Indonesia's economic growth. Instead, government spending has a strong positive effect, while interest rates have a negative impact. These findings confirm that fiscal policy cannot focus solely on increasing taxes, but it is also necessary to optimise public spending so

that it has a direct impact on economic growth. Research by (Edori, 2022) In Nigeria, it was also found that although taxes such as Petroleum Profit Tax (PPT), Company Income Tax (CIT), and Value Added Tax (VAT) contribute to state revenue, their impact on economic growth remains insignificant. This is due to inefficient tax management, where tax funds are often not optimally utilised to support infrastructure and public services. These findings emphasise the importance of fiscal management quality, not just revenue quantity, to ensure that taxes truly drive growth. Additionally, according to Expediency Theory, tax policies should be designed practically to directly support the country's economic and social objectives. (Oner, 2015).

Amidst this pressure, the government has also begun rolling out a digital-based tax reform agenda (Ramadhania & Gazali, 2022). The e-invoicing system, e-SPT, and the use of digital data in tax administration are expected to improve bureaucratic efficiency and increase taxpayer compliance (Syadullah & Wibowo, 2015). This digitisation is an important strategy in strengthening a more transparent and accountable taxation system (Orbaningsih & Sujianto, 2022). In addition to central taxes, the issue of local taxes has also begun to surface (Nwobodo *et al.*, 2022). With the increasing spread of fiscal decentralisation, the role of local governments in managing local revenue through local taxes has become increasingly important. However, to date, the effectiveness of local tax revenue in reducing interregional disparities and promoting equitable economic development has not been studied in depth (McNabb, 2018). Therefore, understanding of the contributions and challenges faced by the regional taxation system needs to be strengthened. Indonesia's low tax ratio is not only due to limited revenue, but also to low taxpayer compliance and a suboptimal tax administration system (Pasaribu *et al.*, 2023). In fact, the tax ratio plays an important role as an indicator of a country's fiscal capacity. Therefore, reform strategies

such as tax intensification and extensification, including tax amnesty programmes, need to be continuously optimised to expand the tax base and increase revenue in a sustainable manner (Usmansyah *et al.*, 2022).

Other factors such as differences in economic potential between provinces, inconsistent fiscal policies, and unequal distribution of resources also contribute to these disparities Sari & Qibthiyyah (2022). Therefore, it is important to examine the extent to which increased local tax revenue can actually promote equitable economic growth across all provinces in Indonesia. In addition to tax revenue, two other macroeconomic indicators also play an important role in determining the rate of economic growth, namely the Consumer Price Index (CPI) and the Gini Ratio (Saputra & Soelistyo, 2023). The CPI is used as a measure of inflation that reflects price pressures in a region. When inflation is high, people's purchasing power can decline, which ultimately affects overall economic activity (Aisyah *et al.*, 2025).

Meanwhile, the Gini ratio is used to measure income inequality. Excessive inequality can hinder the benefits of development and even trigger social instability, even though the economy of a region may appear to be growing in aggregate terms (Handaulah, 2014). The increase in tax revenue is actually negatively correlated with economic growth in several provinces. Findings by (Samudro, 2024), emphasises the complexity of the relationship between regional fiscal policy and economic development outcomes. Previous studies have discussed the relationship between regional taxes and economic growth. One such study is by (Saragih, 2022) which found that local tax revenue contributes positively to economic growth in Indonesia. However, the study was limited to the period before the COVID-19 pandemic and did not take into account the major changes in the economic and fiscal structure resulting from the global health crisis. In addition, research by (Amri *et al.*, 2023) using the GMM method states that local tax intensity (tax effort) can weaken the

positive impact of capital expenditure on regional economic growth. This opens up the perspective that local tax and spending instruments must be balanced and adjusted to local conditions. Research from (Muzdalifah & Qibthiyyah, 2023) shows that financial inclusion, access to banking and digital financial services significantly boosts local tax revenue. This means that tax reform must be accompanied by improved access to financial services and education on citizens' tax obligations.

This creates an important (research gap) that needs to be addressed so that regional tax and fiscal policies can be more targeted and have a real impact on the welfare of the community. Against this backdrop, this study aims to analyse the effect of regional tax revenue, the Consumer Price Index, and the Gini Ratio on economic growth in 34 provinces in Indonesia during the period 2019–2022. This study uses a quantitative approach with panel data regression analysis, which allows researchers to capture variations in data between time and between regions in greater depth. Through this study, it is hoped that a more relevant and up-to-date empirical picture can be obtained regarding the extent to which fiscal and macroeconomic factors contribute to economic growth in the post-pandemic era. The results of this study are expected not only to enrich academic literature but also to serve as an important consideration in designing more adaptive, inclusive, and contextual regional fiscal policies, thereby fostering sustainable and equitable economic development across all regions of Indonesia.

In addition, the theoretical approach also reinforces the importance of this study. The Solow-Swan model emphasises that long-term growth is influenced by the accumulation of capital, labour, and technology. In this case, tax incentives can increase capital accumulation and encourage output growth (Solow, 1956). Meanwhile, Public Finance Theory suggests that taxes should be designed efficiently so as not to excessively suppress investment and consumption, but

sufficient to finance sustainable public services (Musgrave & Peacock, 1967). Finally, the Tax–Growth Nexus Theory through the Laffer Curve shows that there is an optimal tax rate, at which revenue and economic growth can go hand in hand (Vazquez, 2023). If taxes are too low, the state will lack revenue; conversely, if they are too high, productivity will decline and revenue will also decrease due to a decline in economic activity and an increase in tax avoidance. In the context of Indonesia, particularly from 2019 to 2022, the government implemented various tax incentive policies in response to the economic pressures caused by the COVID-19 pandemic. For example, the issuance of PMK 23/2020 and PMK 44/2020 provided a 0% final income tax facility and VAT exemption for affected sectors (Suleiman & Mustapha, 2024). This policy is actually part of a fiscal strategy to shift tax rates closer to GMTR, with the hope of reviving public consumption and investment and promoting economic recovery (Profile, 2022).

METHODOLOGY

This study uses a quantitative approach with an explanatory design that aims to empirically test the effect of tax revenue on national economic growth. The analysis was conducted using panel data regression techniques for each province in Indonesia from 2019 to 2022, as this method is capable of combining time series and cross-sectional data characteristics, even though in the context of this study, the unit of analysis is only one, namely Indonesia, which is analysed annually over a specific period (Cornevin *et al.*, 2024). The advantage of this method lies in its ability to capture the dynamics of inter-variable relationships over time, as well as to take into account control variables that also influence economic growth (Utami & Murti, 2025).

This study is based on Endogenous Growth Theory, which explains that fiscal policy, including tax revenue, plays an important role in influencing long-term economic growth (Ho *et al.*, 2023). In this theory, state revenue from taxation not only

functions as a means of financing the state, but can also be an instrument for driving economic growth through the allocation of budgets to productive sectors such as education, health, and infrastructure. In addition, this study also considers the aspect of price stability through the inflation variable, and the aspect of income distribution through the inequality indicator, namely the Gini ratio (Iraman, 2023). By including these control variables, the analysis is expected to provide a more comprehensive picture of the factors that influence real GDP as an indicator of economic growth.

This study focuses on Indonesia's aggregate macroeconomic performance, with a particular emphasis on the dynamics of tax revenue and real GDP growth. The unit of analysis in this study is Indonesia's annual data from 2019 to 2022. The selection of this period is based on contextual reasons, namely covering the pre-COVID-19 pandemic period, the peak of the pandemic with a sharp economic contraction, and the beginning of the national economic recovery period (Nabilah & Setiawan, 2016). With this time frame, the study seeks to capture variations in tax revenue and economic growth caused by crisis conditions and responsive fiscal policies implemented by the government during that period.

The type of data used in this study is secondary data in the form of annual time series. The data sources were obtained from official government agencies, namely:

1. Directorate General of Taxes (DJP) – for national tax revenue data,
2. Central Statistics Agency (BPS) – for real Gross Domestic Product (GDP) data, Consumer Price Index (CPI), and Gini Ratio.

All data were collected in numerical format and have been published openly, so that they are accountable in terms of both validity and reliability.

Research Variables

This study involves one dependent variable and three independent variables:

Dependent Variables:

1. Indonesia's real Gross Domestic Product (GDP), as an indicator of economic growth.

Independent variables:

1. National tax revenue, which reflects the fiscal capacity of the state,
2. The Consumer Price Index (CPI), as an indicator of inflationary pressure,
3. The Gini ratio, which describes the level of income inequality.

Analysis Techniques

The first step in the analysis is to perform descriptive statistics to determine the basic characteristics of each variable, such as the mean, minimum, maximum, and standard deviation. Next, a classical assumption test is performed to ensure that the regression model meets the BLUE (Best Linear Unbiased Estimator) requirements (Data *et al.*, 2013).

Included:

1. Multicollinearity test, to determine whether there is a high correlation between independent variables,
2. Heteroscedasticity test, to detect whether the error variance is constant,
3. Autocorrelation test, to determine whether errors are correlated between years.
4. Once the assumptions are met, the best regression model is selected from among the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM) (Bell *et al.*, 2019). The selection is conducted through:
5. Chow test (to determine between CEM and FEM)
6. Hausman test (to determine between FEM and REM),
7. LM test (to determine between CEM and REM).

8. The selected model is then estimated, and the results are analysed based on:
9. T-test, to assess the significance of each variable
10. F-test, to assess the significance of the model simultaneously,
11. Adjusted R^2 , to see the extent to which independent variables can explain the variation in dependent variables.

If endogenous symptoms are found, such as a possible two-way relationship between taxes and economic growth, an alternative approach such as the Generalised Method of Moments (GMM) is used to ensure that the estimates remain consistent and unbiased.

This study tests the following hypotheses:

H_0 : Tax revenue has no significant effect on Indonesia's economic growth.

H_1 : Tax revenue has a significant impact on Indonesia's economic growth.

RESEARCH METHOD

The model used in this study is formulated in the form of panel data regression (Saptono & Mahmud, 2021). As follows:

$$\ln PDB_t = \alpha + \beta_1 \ln LTR_{it} + \beta_2 CPI_{it} + \beta_3 Gini_{it} + \mu_t + \varepsilon_{it}$$

Description:

- $\ln PDB_t$ = Real Gross Domestic Product in year t
- $\beta_1 Pajak_t$ = national tax revenue in the year
- $\beta_2 CPI_t$ = consumer price index
- $\beta_3 Gini_t$ = gini ratio
- ε_{it} = error term (random error component)

RESULT AND DISCUSSION

Based on the results of the descriptive statistics in Table 2, it can be seen that the average value of $\ln RGDP$ (logarithm of real GDP) shows that there

are variations in economic growth rates between provinces. Its moderate standard deviation indicates that the distribution of the data is quite varied, although not too extreme. The difference between the smallest and largest values is quite large, which suggests that there are disparities in economic levels across regions during the observation period. For the $\ln LTR$ variable, which represents local tax revenue, the spread of the data is also wide. This suggests that there are inequalities in fiscal capacity between provinces, possibly due to differences in local revenue potential or different fiscal policies in each region. The average value of the Consumer Price Index (CPI) is above the base value of 100, meaning that in general all provinces experienced inflationary pressures during the study period. The modest standard deviation indicates that the difference in inflation rates between provinces is not that striking. Meanwhile, the Gini Ratio, which describes the level of income inequality, has a fairly high average. The maximum value almost touches 1, indicating significant income inequality in some provinces. The difference between the minimum and maximum values also shows that this inequality is uneven, with some provinces being much more unequal than others. Overall, the data illustrates that there are considerable regional differences in economic, fiscal, inflation and income distribution. It is important to study these variations further using a panel data approach to better understand the factors that influence regional inequality and economic growth.

Table 2. Descriptive Statistics of Research Variables

Variable	Obs	Average	Std. Dev	Minimum	Maximum
$\ln RGDP$	136	18.9421	1.1845	17.0960	23.0430

InLTR	13	21.32	1.11	19.27	24.41
R	6	70	09	10	90
CPI	13	106.2	3.57	101.2	114.0
GR	6	455	90	800	800
	13	0.696	0.07	0.491	0.898
	6	8	74	0	0

Source: Author's data processing with STATA 16.0

Table 3 shows the final regression results of the research model. The InLTR variable has a positive coefficient of 0.7620 and is statistically significant ($p < 0.01$). This indicates that a 1% increase in local tax revenue will increase economic growth (lnRGDP) by approximately 0.76%. This finding is consistent with the theory that optimal tax revenue can encourage economic growth if it is used for productive spending.

Table 3. Regression Results of the research model

Variabel	Coef.	Prob
Cons	4.3639	0.025*
InLTR	0.7602	0.000*
CPI	-0.0199	0.071
GR	0.6856	0.536
N= 136; $R^2 = 71.90\%$	Wald Chi = 93.90	Prob.+ 0.000
		Signifik an pada 5%

Source: Author's data processing with STATA 16.0

The CPI (Consumer Price Index) variable shows a negative coefficient of - 0.0199 with a significance level close to

10% ($p = 0.071$). Although not significant at the 5% level, the direction of the coefficient indicates that rising consumer prices tend to have a contractionary effect on economic growth, which is consistent with the hypothesis that inflation can reduce purchasing power and economic efficiency. Meanwhile, the Gini Ratio has a positive coefficient of 0.6856 but is not statistically significant ($p = 0.536$), indicating that income distribution inequality has not had a clear influence on economic growth in this observation period and region. This could be due to the uneven distribution of growth benefits, or the presence of other intermediary factors such as social spending or institutional quality that have not been accommodated in the model. This finding is in line with previous studies by Febriyani & Anis (2022) ; Azizah (2022) on inclusive development in Java. In his research, he found that the Gini Ratio is not always significant in influencing the inclusive development index, especially when other variables such as the Human Development Index (HDI) and per capita expenditure are analyzed. This suggests that income inequality is not the only important factor in determining the success of a region's development. At the international level, similar results were found Mdingi & Ho (2021) in a cross-country review study concluded that the relationship between income inequality and economic growth tends to be inconclusive. In many cases, the effect is not even statistically significant. They emphasized that the results of the relationship are highly dependent on the institutional conditions, time period, and analytical methods used in each study. Then the study by (Ali & Asfaw, 2023) who used the Vector Error Correction Model (VECM) on Ethiopian data from 1980 to 2022, also found that in the short run, neither inflation nor income inequality has a significant effect on economic growth. Only in the long run does this relationship start to look significant. This suggests that in developing countries, the relationship between inflation, inequality and growth is dynamic, and highly

influenced by structural changes in the economy over time.

The R^2 value of 71.90% indicates that the independent variables in this model are able to explain about 72% of the variation in economic growth variables between provinces in Indonesia. The remaining 28.1% is influenced by other variables not included in this model, such as regional spending, public investment, or other institutional variables. In addition, the Wald χ^2 test was used to assess the significance of each independent variable on the dependent variable. At the 5% significance level, the *lnTax* variable shows a positive and significant influence on *lnRGDP*, with a probability value of 0.000 < 0.05. This means that a 1% increase in local tax revenue is expected to increase economic growth by around 0.76%, *ceteris paribus*.

Based on these findings, it can be concluded that the main factor driving variations in economic growth between provinces is local tax revenue, while the CPI and Gini ratio variables have not shown a statistically dominant role in this model. Adriansyah (2014); Soli *et al.* (2008); Stoilova (2017); Adkisson & Mohammed (2014) Overall, this indicates that tax revenue contributes positively to economic growth. The positive effect of tax revenue on economic growth can be examined from several perspectives. From the perspective of the public policy process, the regression results show that local tax revenue has a significant impact on regional economic growth. This shows that the stages of policy analysis, starting from agenda formulation, policy formulation, implementation, to evaluation, have led to adaptive and productive regional fiscal policies. In this context, tax reform at the regional level appears to make a real contribution to the acceleration of regional economic development. When viewed through the lens of agency theory, the relationship between the government as the agent and the community as the

principal can be said to be relatively stable if local tax revenue reaches or even exceeds the predetermined target. This reflects a high level of compliance from taxpayers, so the potential for agency conflict is low. When agency conflict is reduced, the effectiveness of tax policy increases, and in turn, this will strengthen the contribution of taxes to economic growth. The stability of this agency relationship is also reflected in the increasing trend in local tax revenue over the observation period. This trend strengthens the argument that tax optimization not only impacts the fiscal revenue side, but also contributes to the achievement of sustainable economic development goals. Therefore, the strengthening of fiscal institutions and synergy between the local government and the community need to be maintained so that tax revenues can be mobilized effectively and used to fund productive sectors that provide multiplier effects on welfare.

CONCLUSION

This study shows that local tax revenue has a positive and significant effect on economic growth in Indonesia, while the Consumer Price Index (CPI) and Gini Ratio show no statistically significant effect. This finding confirms that local taxes have a strategic role in sustaining economic development, but the impact of inflation and income inequality tends to be indirect or influenced by other intermediate variables. Therefore, optimization of tax revenue must be accompanied by efficient budget management and allocation of expenditure to priority sectors such as infrastructure, education, and health.

In addition, it is important for local governments to broaden the tax base, encourage taxpayer compliance through fiscal education, and utilize digital technology to create a transparent and responsive tax system. Strengthening the local taxation system in the future also needs to be directed at sectoral data integration so that revenue potential can be maximized in a targeted manner. However, the limitation of this study lies in the

unexamined contribution of each type of tax. Therefore, further research is recommended to empirically explore the types of taxes that are most effective in supporting sustainable regional economic growth.

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