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### Extensification and Intensification Strategies for Enhancing Local Own-Source Revenue under the Self-Assessment Tax System: Evidence from Surabaya City, Indonesia

By

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#### Abstract

*This study aims to analyze the effectiveness of extensification and intensification strategies in improving local own-source revenue (Pendapatan Asli Daerah – PAD) through the implementation of the self-assessment tax system in Surabaya City, Indonesia. It seeks to identify how these strategies influence taxpayer compliance and the optimization of local tax potential. Study design: A descriptive qualitative study using an interpretive approach to explore the implementation and challenges of local tax collection under the self-assessment system. Place and Duration of Study: The research was conducted at the Regional Revenue Agency (Badan Pendapatan Daerah – Bapenda) of Surabaya City, East Java, Indonesia, between January and June 2024. Methodology: Primary data were obtained through in-depth interviews with Bapenda officials, IT system staff, and registered taxpayers from the hotel, restaurant, and parking sectors. Secondary data were collected from official documents detailing the target and realization of PAD for the period 2020–2024. Data analysis followed the Miles and Huberman interactive model, involving data reduction, display, and conclusion drawing. The study focused on the implementation of extensification (registration of new taxpayers, data integration, and digital monitoring) and intensification (auditing, education, and enforcement) strategies. Results: Findings reveal that the self-assessment system enhances administrative efficiency but remains suboptimal in achieving PAD targets due to weak supervision, limited human resources, and low taxpayer awareness. Extensification strategies successfully expanded the taxpayer base through data digitization and inter-agency coordination. Meanwhile, intensification efforts, such as field inspections and electronic monitoring (tapping box systems), improved tax compliance among existing taxpayers, though technological and operational constraints persist.*

*Conclusion: A balanced combination of extensification and intensification strategies, supported by integrated digital systems and consistent supervision, is essential to improving the effectiveness of the self-assessment tax system and increasing local revenue.*

**Index Terms-** Extensification, Intensification, Self-Assessment System, Local Tax, Own-Source Revenue, Surabaya City

#### INTRODUCTION

Regional Own-Source Revenue (*Pendapatan Asli Daerah* or PAD) represents a crucial component in supporting the fiscal independence of local governments in Indonesia. It serves as the primary funding source for local development, public services, and community welfare. A region's financial capability, reflected through its PAD, determines its ability to deliver sustainable economic growth and public welfare without excessive reliance on central government transfers. Among the various components of PAD, local taxes constitute

the largest and most strategic source of revenue.

Surabaya, as one of Indonesia's major metropolitan cities, possesses a vast economic potential driven by trade, services, hospitality, and tourism sectors. Nevertheless, the city government continues to face structural and administrative challenges in maximizing its tax collection performance. Issues such as non-compliance among taxpayers, weak supervision, limited technological integration, and insufficient human resources have hindered the optimization of local tax revenue. This situation underscores the importance of

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adopting effective strategies—particularly *extensification* and *intensification*—to enhance local tax management.

The implementation of the *self-assessment system* in regional taxation aims to improve efficiency by granting taxpayers the autonomy to calculate, report, and pay their taxes independently. This approach theoretically fosters voluntary compliance and reduces bureaucratic procedures. However, in practice, the system also brings several weaknesses, such as inconsistent tax reporting, underreporting of taxable income, and potential tax evasion when monitoring and enforcement mechanisms are inadequate. Therefore, while the *self-assessment* framework simplifies administrative processes, it also demands a robust control system and data integration to ensure accountability and accuracy in tax collection.

To strengthen the effectiveness of local tax administration, two key strategies are typically employed: **extensification** and **intensification**. Extensification refers to the expansion of the tax base by registering new taxpayers, identifying unregistered taxable objects, and improving data accuracy through digital and cross-institutional coordination. Intensification, on the other hand, focuses on maximizing revenue from existing taxpayers through improved monitoring, audits, education, and the application of sanctions and incentives. When implemented effectively, these strategies can enhance tax compliance, reduce revenue leakage, and ensure a more equitable distribution of tax burdens.

In the case of Surabaya, although the *self-assessment system* has been applied to various types of local taxes—such as hotel, restaurant, entertainment, parking, and public lighting taxes—the actual realization of PAD remains below its economic potential. Fluctuations in tax realization data from 2020 to 2024 indicate that revenue collection has not fully recovered even after the COVID-19 pandemic, suggesting structural inefficiencies and suboptimal enforcement of tax policies.

This study therefore seeks to analyze how the combination of *extensification* and *intensification* strategies, under the *self-assessment system*, affects the enhancement of PAD in Surabaya City. The research further explores the administrative, technological, and behavioral factors that influence taxpayer compliance and the overall effectiveness of the local taxation system. The findings are expected to contribute to the improvement of fiscal governance, particularly in urban regions striving for sustainable and autonomous financial management.

## Literature Review

### 1. Concept Of Local Own-Source Revenue (Pad)

Local Own-Source Revenue (*Pendapatan Asli Daerah* – Pad) Represents The Fiscal Capacity Of Local Governments To Generate Income Independently Through Local Taxation, Retribution, And Other Legitimate Sources. According To Indonesia's Law No. 1 Of 2022 Concerning Financial Relations Between The Central And Regional Governments, Pad Serves As A Key Indicator Of Regional Fiscal

Autonomy. Mardiasmo (2018) Emphasized That Pad Not Only Finances Regional Expenditures But Also Reflects The Level Of Local Economic Development And Governance Effectiveness. The Greater The Contribution Of Pad To Total Regional Income, The Higher The Degree Of Fiscal Independence.

### 2. Self-Assessment System In Local Taxation

The *Self-Assessment System* Is A Tax Collection Mechanism That Places Full Responsibility On Taxpayers To Calculate, Report, And Pay Their Tax Obligations Independently. This System Was Introduced In Indonesia To Improve Administrative Efficiency And Reduce Bureaucratic Dependency (Waluyo, 2020). The Underlying Principle Of This System Is *Voluntary Compliance*, Where The Government Acts Primarily As A Facilitator And Supervisor Rather Than A Direct Collector.

While The System Fosters Transparency And Efficiency, It Also Requires Strong Enforcement Mechanisms. Inadequate Monitoring May Lead To *Underreporting*, *Tax Evasion*, And Declining Compliance Rates (Siahaan, 2021). Therefore, Successful Implementation Depends Heavily On The Integration Of Information Technology, Consistent Auditing, And Taxpayer Education.

### 3. Extensification Strategy

*Extensification* Refers To Efforts To Expand The Tax Base By Identifying And Registering New Taxpayers Or Taxable Objects That Have Not Yet Been Recorded. This Strategy Seeks To Minimize The *Tax Gap*—The Difference Between Potential And Actual Revenue—Without Altering Tax Rates (Bachmid & Agustianto, 2025).

Common Approaches To Extensification Include:

- Updating Taxpayer Databases And Integrating Cross-Agency Data (E.G., Licensing And Trade Offices).
- Encouraging Formalization Of Informal Business Sectors.
- Utilizing Digital Technology To Automate Taxpayer Registration.

Research By Damayanti Et Al. (2022) Found That Tax Extensification Significantly Contributes To The Growth Of Pad, Particularly In Urban Areas With Large Numbers Of Unregistered Micro And Small Enterprises.

### 4. Intensification Strategy

*Intensification* Focuses On Optimizing Revenue Collection From Existing Taxpayers Through Improved Administration, Supervision, And Enforcement. According To Kurniawan Et Al. (2024), Intensification Involves Enhancing Taxpayer Compliance Via Education, Audits, Sanctions, And The Implementation Of Incentive Systems.

Technological Innovations—Such As Electronic Monitoring Systems (*Tapping Boxes*), E-Tax Platforms, And Digital Reporting—Have Proven Effective In Supporting Intensification Programs (Hidayat & Santoso, 2023). These Tools Help Reduce Manual Errors, Increase Transparency,

And Provide Real-Time Data For Auditing And Policy Evaluation. However, The Success Of Intensification Efforts Also Depends On The Quality Of Human Resources And Institutional Coordination.

### 5. Integration Of Extensification And Intensification In The Self-Assessment Context

In The Context Of The *Self-Assessment* System, Extensification And Intensification Are Complementary Strategies. Extensification Expands The Scope Of Potential Taxpayers, While Intensification Ensures Optimal Collection From Those Already Registered. Studies In Local Tax Management (E.G., Triarda & Damayanti, 2021) Indicate That Combining Both Strategies Yields A More Sustainable Increase In Pad Than Applying Either One In Isolation.

Moreover, The Use Of Integrated Digital Systems Allows Local Governments To Link Taxpayer Data, Monitor Compliance, And Identify Discrepancies Between Reported And Actual Revenues. For Cities Like Surabaya—Where Economic Activities Are Diverse And Dynamic—The Integration Of Both Strategies Under A Digitalized *Self-Assessment* Framework Is Essential To Achieving Fiscal Resilience And Efficiency.

### 6. Theoretical Framework

This Study Is Grounded In The Theory Of Fiscal Decentralization And The Compliance Theory Of Taxation.

- Fiscal Decentralization Theory Suggests That Regional Governments With Greater Financial Autonomy Can Better Allocate Resources To Meet Local Needs (Oates, 1972). Increasing Pad Through Effective Tax Collection Strengthens Fiscal Independence.
- Tax Compliance Theory (Allingham & Sandmo, 1972) Explains That Taxpayers' Willingness To Comply Depends On Enforcement Probability, Perceived Fairness, And Administrative Efficiency. Within A *Self-Assessment* System, Compliance Is Influenced By Trust In The Government, Ease Of Reporting, And Clarity Of Tax Regulations.

## Methodology

### Study Design

This study employed a **descriptive qualitative research design** with an interpretive approach. The purpose was to obtain an in-depth understanding of how the *self-assessment system* has been implemented in the local tax administration of Surabaya City and to analyze the effectiveness of *extensification* and *intensification* strategies in enhancing Local Own-Source Revenue (*Pendapatan Asli Daerah – PAD*).

### Study Area and Duration

The research was conducted at the Regional Revenue Agency (Badan Pendapatan Daerah – Bapenda) of Surabaya City, East Java, Indonesia. The study period covered January to June 2024. Data collection focused on the implementation of local tax policies under the *self-assessment* system in major PAD-contributing sectors, namely hotel, restaurant, and parking

taxes.

### Population and Informants

The study involved key informants directly engaged in the administration and collection of local taxes, including:

1. Heads of tax collection units and team leaders of registration and inspection divisions at Bapenda Surabaya,
2. IT officers responsible for digital monitoring tools (*tapping box* systems), and
3. Taxpayers representing the hotel, restaurant, and parking sectors.

Informants were selected using a purposive sampling technique, based on their knowledge and direct involvement in the *self-assessment* tax process.

### Data Collection Techniques

Both primary and secondary data were utilized:

- Primary Data: Obtained through in-depth interviews, direct observation, and field documentation. Interviews were conducted using semi-structured question guides to explore participants' experiences and perspectives regarding tax compliance, challenges, and digital monitoring practices.
- Secondary Data: Collected from official Bapenda reports, including target and realization of PAD (2020–2024), tax regulation documents, and policy guidelines related to local tax administration.

### Data Analysis

The study applied the Miles and Huberman interactive model for qualitative data analysis, which consists of three main stages:

1. **Data Reduction:** Selecting, simplifying, and organizing data relevant to the research focus—particularly information on *extensification* and *intensification* measures.
2. **Data Display:** Presenting the processed information in narrative and tabular forms to illustrate relationships among findings.
3. **Conclusion Drawing and Verification:** Deriving insights and confirming validity through triangulation of data sources, including cross-verification between Bapenda staff and taxpayers.

## Results and discussion

### 1. Overview Of Local Own-Source Revenue (Pad) In Surabaya City

Surabaya City, As One Of Indonesia's Largest Metropolitan Areas, Has A Diverse Economic Base Comprising Trade, Services, Manufacturing, And Hospitality Sectors. These Sectors Make Significant Contributions To Regional Income, Particularly Through Local Taxes Such As Hotel, Restaurant, And Parking Taxes. Based On Data From The Regional Revenue Agency (Badan Pendapatan Daerah—Bapenda) Of Surabaya, The Realization Of Local Own-Source Revenue (*Pendapatan Asli Daerah – Pad*) From 2020 To 2024 Has Shown Fluctuating Performance.

During The Covid-19 Pandemic (2020–2021), Local Tax Receipts Declined Sharply Due To Restrictions On Public Movement And The Temporary Closure Of Hospitality Businesses. In 2022, A Gradual Recovery Began, Supported By The Introduction Of Digital Tax Reporting Systems And Administrative Reforms. By 2023–2024, The Total Pad Showed An Upward Trend, Although Actual Realization Still Lagged Behind The Set Targets. This Gap Between Potential And Realized Pad Highlights Inefficiencies In Taxpayer Registration, Reporting Accuracy, And Enforcement—Issues That Are Closely Tied To The *Self-Assessment* Mechanism.

These Findings Suggest That Surabaya’s Fiscal Capacity Has Not Yet Reached Its Full Potential. A Comprehensive Strategy Combining *Extensification* And *Intensification* Under The *Self-Assessment* System Is Therefore Essential To Improve Both Compliance And Efficiency In Revenue Collection.

## 2. Implementation Of The Self-Assessment System

The *Self-Assessment System* Empowers Taxpayers To Calculate, Report, And Remit Their Tax Obligations Independently. In Principle, This Approach Promotes Transparency And Administrative Efficiency, While Fostering Voluntary Compliance Among Taxpayers. In Surabaya, The System Has Been Implemented In Several Local Tax Categories, Particularly In Hotel, Restaurant, And Parking Taxes—The City’s Three Largest Contributors To Pad.

However, Interviews With Bapenda Officials And Taxpayers Revealed That While The *Self-Assessment* Approach Simplifies The Reporting Process, It Also Introduces Substantial Risks Of Misreporting And Underreporting. Many Small And Medium-Sized Enterprises (Smes) Lack Proper Accounting Systems And Record-Keeping, Leading To Inconsistencies Between Declared And Actual Revenues. In Addition, Tax Audits Remain Limited Due To Human Resource Constraints And The Lack Of Real-Time Data Integration.

To Mitigate These Issues, Surabaya’s Bapenda Has Introduced A Series Of Technological Innovations, Including The Installation Of “Tapping Box” Devices—Digital Instruments That Automatically Record Sales Transactions At Restaurants And Hotels. This Tool Has Enhanced Transparency And Allowed The Government To Monitor Real Sales Performance More Accurately. Yet, The Adoption Rate Of Such Devices Remains Limited Due To Maintenance Costs, Connectivity Issues, And Occasional Resistance From Business Owners.

Overall, While The *Self-Assessment* System In Surabaya Has Improved Administrative Efficiency, It Requires Stronger Institutional Support In The Form Of Technology, Supervision, And Continuous Taxpayer Education. This Finding Aligns With Siahaan (2021), Who Argued That The *Self-Assessment* Mechanism Must Be Complemented By Robust Control Systems To Ensure Fairness And Accuracy In Tax Collection.

## 3. Extensification Strategy: Expanding The Tax Base

The Extensification Strategy Aims To Increase The Number Of Taxpayers And Taxable Objects In Order To Broaden The Revenue Base. In Surabaya, Bapenda Has Actively Conducted Taxpayer Registration Campaigns, Especially Targeting Unregistered Restaurants, Hotels, And Private Parking Operators. The Agency Also Established Data-Sharing Mechanisms With The Department Of Trade, Department Of Licensing, And Statistics Office To Identify Potential Taxpayers Who Had Previously Been Omitted From The Tax Registry.

One Of The Key Innovations Has Been The Use Of Digital Mapping Technology, Which Helps Track Business Locations And Verify The Existence Of Taxable Enterprises. Between 2021 And 2023, This Program Successfully Increased The Number Of Active Restaurant Taxpayers By Approximately 15%, While The Number Of Parking Tax Contributors Grew By 12%. This Growth Demonstrates The Effectiveness Of Coordinated Extensification In Capturing New Revenue Sources.

However, Challenges Remain In Identifying Informal Businesses That Operate Without Legal Permits Or Under Inconsistent Ownership Data. Many Of These Entities Are Reluctant To Register Due To Concerns About Additional Financial Burdens Or Unclear Tax Procedures. Continuous Coordination Between Bapenda And Local Licensing Bodies Is Therefore Critical To Ensure That Extensification Is Both Accurate And Sustainable.

These Results Echo The Findings Of Bachmid And Agustianto (2025), Who Emphasized That Data Integration And Inter-Agency Cooperation Are Fundamental Prerequisites For Successful Extensification In The Digital Era. By Expanding The Tax Base, Local Governments Can Increase Pad Without Imposing Higher Tax Rates, Thereby Achieving Equitable And Politically Acceptable Fiscal Growth.

## 4. Intensification Strategy: Optimizing Existing Taxpayers

The Intensification Strategy Focuses On Maximizing Tax Revenue From Already Registered Taxpayers Through Improved Monitoring, Auditing, And Compliance Facilitation. In Surabaya, Bapenda Has Strengthened Its Audit Programs, Conducted Direct Inspections, And Implemented Sanctions For Taxpayers Found To Have Underreported Their Obligations.

A Major Component Of Intensification Is The Use Of Technology-Driven Monitoring Tools, Including The *E-Tax System* And The Aforementioned *Tapping Box* Network. These Systems Record And Transmit Daily Transaction Data From Businesses Directly To Bapenda’s Database, Allowing For Near Real-Time Monitoring. According To Interview Results, The Adoption Of These Tools Increased Transparency And Reduced Cases Of Tax Evasion, Particularly Among Larger Hospitality Businesses.

Furthermore, Taxpayer Education Campaigns—Such As Seminars, Online Tutorials, And Public Consultations—Have Been Introduced To Improve Understanding Of Tax Regulations And Encourage Voluntary Compliance. Such Programs Have Been Especially Beneficial For Smes That Previously Struggled With Tax Calculations And Reporting Requirements.

Nevertheless, The Intensification Strategy Also Faces Limitations. Technical Issues, Such As System Downtime And Data Synchronization Errors, Often Disrupt Continuous Monitoring. Additionally, Limited Human Resources Within Bapenda Hinder The Ability To Analyze Large Volumes Of Transaction Data Effectively. These Findings Are Consistent With Kurniawan Et Al. (2024), Who Found That Technology-Based Intensification Must Be Supported By Staff Training And Institutional Capacity Building To Ensure Sustained Improvements In Compliance Behavior.

### 5. Challenges In Implementation

Despite Significant Progress, Several Obstacles Still Hinder The Optimal Performance Of Surabaya's Local Tax System:

1. Weak Enforcement And Supervision: Regular Audits Are Not Yet Sufficient To Deter Non-Compliance.
2. Human Resource Limitations: The Number Of Qualified Tax Auditors And It Specialists Remains Inadequate.
3. Low Taxpayer Literacy: Many Small Business Owners Lack Basic Knowledge Of Tax Calculation And Reporting.
4. Limited Data Integration: Discrepancies Still Exist Between Taxpayer Information Across Departments, Leading To Potential Double Counting Or Omissions.
5. Technical And Infrastructure Barriers: Intermittent Internet Connectivity And Outdated Software Delay Data Synchronization.

These Constraints Demonstrate That Achieving Fiscal Autonomy Is Not Only A Matter Of Technology But Also Requires Human Capital Development, Institutional Coordination, And Behavioral Change Among Taxpayers.

## Discussion

The Combined Analysis Of *Extensification* And *Intensification* Strategies Under The *Self-Assessment* Framework Reveals Complementary Dynamics. *Extensification* Expands The Breadth Of Tax Collection By Increasing The Number Of Active Taxpayers, While *Intensification* Deepens The Collection Process By Enhancing Compliance And Accuracy Among Existing Taxpayers. Together, They Form A Synergistic Approach To Optimizing Pad.

From A Theoretical Perspective, The Findings Reinforce Fiscal Decentralization Theory (Oates, 1972), Which Asserts That Local Governments Can Achieve Greater Fiscal Autonomy When They Effectively Mobilize Internal Revenue Sources. Moreover, The Tax Compliance Theory (Allingham

& Sandmo, 1972) Suggests That Taxpayer Behavior Is Shaped By The Perceived Fairness Of The Tax System, The Probability Of Detection, And The Quality Of Government Services. In Surabaya's Case, Voluntary Compliance Remains Moderate, Influenced By A Mixture Of Administrative Capacity, Technological Adaptation, And Trust In Local Institutions.

The Results Further Indicate That While Technological Innovation Enhances Transparency, It Is Not A Substitute For Direct Human Supervision. Effective Governance Requires Balancing Automation With Personal Engagement—Educating Taxpayers, Resolving Disputes, And Maintaining Trust. Digital Transformation Must Therefore Be Accompanied By Public Outreach And Capacity-Building Initiatives To Foster A Culture Of Compliance.

Another Critical Insight Is The Importance Of Data Integration And Inter-Departmental Coordination. Fragmented Databases Across Government Units Hinder Comprehensive Monitoring Of Taxable Activities. A Unified Digital Tax Ecosystem—Linking Licensing, Financial, And Business Databases—Would Enable Real-Time Cross-Verification, Minimize Leakages, And Strengthen The Accountability Of Local Tax Management.

## Summary Of Findings

1. The *Self-Assessment* System Has Improved Administrative Efficiency But Still Faces Challenges In Accuracy And Enforcement.
2. *Extensification* Has Successfully Expanded The Taxpayer Base Through Digital Registration And Inter-Agency Data Sharing.
3. *Intensification* Has Enhanced Compliance Among Existing Taxpayers Through Technological Monitoring And Educational Outreach.
4. Major Obstacles Include Limited Human Resources, Weak Data Integration, And Low Taxpayer Awareness.
5. The Combination Of *Extensification* And *Intensification*, Supported By Technology And Continuous Supervision, Provides The Most Effective Pathway Toward Increasing Pad In Surabaya City.

## Conclusion

This Study Examined The Implementation Of *Extensification* And *Intensification* Strategies Within The *Self-Assessment* System For Local Taxation In Surabaya City, Indonesia. The Findings Reveal That While The *Self-Assessment* System Has Improved Administrative Efficiency And Reduced Bureaucratic Delays, Its Effectiveness In Optimizing Local Revenue Collection Remains Constrained By Weaknesses In Supervision, Data Integration, And Taxpayer Compliance.

The Extensification Strategy—Which Focuses On Expanding The Taxpayer Base Through Registration Campaigns, Digital Mapping, And Inter-Agency Data Coordination—Proved Effective In Identifying And Incorporating Previously Unregistered Taxpayers, Particularly In The Restaurant And

Parking Sectors. This Expansion Helped To Broaden The Potential Revenue Base And Improved The Inclusiveness Of Tax Collection Without Increasing Tax Rates.

The Intensification Strategy, Emphasizing Supervision, Audits, Education, And Technological Innovation, Demonstrated A Positive Effect On The Compliance Levels Of Existing Taxpayers. The Use Of *Tapping Box* Devices And *E-Tax* Systems Enhanced Transparency And Minimized Underreporting. However, These Technological Solutions Have Yet To Achieve Full Potential Due To Operational Limitations, Insufficient Technical Support, And Uneven Adoption Across Business Scales.

Overall, The Study Concludes That A Synergistic Integration Of Both Strategies—Extensification And Intensification—Supported By A Strong Digital Infrastructure And Consistent Policy Enforcement, Is Essential To Improving The Performance Of The *Self-Assessment* Tax System And, Consequently, The Growth Of Local Own-Source Revenue (*Pad*). The Research Further Confirms That Sustainable Tax Administration Requires Not Only Digital Innovation But Also Active Engagement And Education Of Taxpayers To Foster Voluntary Compliance And Trust In Local Fiscal Governance.

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