

# MAXIMIZING LOCAL OWN-SOURCE REVENUE: TAX STRATEGIES FROM AN ISLAMIC PUBLIC FINANCE PERSPECTIVE

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**ABSTRACT** – This study investigates the contribution of hotel and restaurant taxes to the enhancement of Local Own-Source Revenue (*Pendapatan Asli Daerah-PAD*) in Langsa City, Aceh, Indonesia, while evaluating the government strategies to optimize tax contributions in alignment with Islamic public finance principles. Employing a qualitative approach, primary data were gathered through interviews with hotel and restaurant owners and government officials at BPKD Langsa, complemented by content analysis of both primary and secondary data. Findings reveal that from 2016 to 2022, the contribution of these taxes to PAD remains minimal, constituting only 3% of the total revenue. Key challenges include taxpayers reluctance to pay due to a lack of transparency in financial management. The Langsa City government addresses these issues through continuous promotion, imposing fines, and enhancing oversight. These efforts align with Islamic economic principles, as they are not burdensome to taxpayers and aim to fulfill societal needs. Additionally, the government is advancing transparency in tax collection via the QRIS payment system. The study recommends that stakeholders enhance supervision and functions to optimize the PAD of Langsa City. This research provides valuable insights into the intersection of local tax policy and Islamic economic principles, offering implications for similar contexts in other regions.

**Keywords:** Hotel Tax, Restaurant Tax, Local Own-Source Revenue, Islamic Public Finance, Fiscal Transparency.

**ABSTRAK – Maksimalisasi Pendapatan Asli Daerah: Strategi Pajak dalam Perspektif Keuangan Publik Islam.** Penelitian ini bertujuan untuk menganalisis kontribusi pajak hotel dan restoran terhadap peningkatan Pendapatan Asli Daerah (PAD) di Kota Langsa, Aceh, Indonesia, dan upaya yang dilakukan dalam memaksimalkan pajak hotel dan restoran, serta kesesuaiannya dengan teori keuangan publik Islam. Penelitian ini menggunakan pendekatan kualitatif dengan data primer yang diperoleh melalui wawancara dengan berbagai sumber dan informan. Hasil penelitian menunjukkan bahwa kontribusi pajak hotel dan restoran terhadap PAD Kota Langsa selama tujuh tahun terakhir (2016-2022) masih sangat rendah, yaitu di bawah 3% dari total PAD. Kendala utama yang dihadapi Pemerintah Kota Langsa adalah kurangnya kesadaran wajib pajak pemilik hotel dan restoran untuk membayar pajak, yang disebabkan oleh kurangnya transparansi dalam pengelolaan keuangan. Untuk mengatasi hal ini, pemerintah Kota Langsa telah melakukan berbagai upaya, seperti promosi berkelanjutan melalui baliho, penerapan denda dan sanksi, serta memperketat fungsi pengawasan. Upaya ini sejalan dengan teori ekonomi Islam, terutama dalam konsep keuangan publik Islam, karena tidak memberatkan wajib pajak dan pajak dimanfaatkan sebesar-besarnya untuk memenuhi kebutuhan masyarakat umum. Selain itu, pemerintah juga berupaya mendorong transparansi dalam proses pemungutan pajak melalui aplikasi QRIS. Penelitian ini memberikan rekomendasi tentang keselarasan antara kebijakan pajak lokal dengan prinsip ekonomi Islam dan pengaplikasiannya untuk konteks serupa di wilayah lain.

**Kata Kunci:** Pajak hotel, Pajak restoran, Pendapatan Asli Daerah (PAD), Keuangan Publik Islam, Transparansi Fiskal.

## INTRODUCTION

The implementation of regional autonomy in Indonesia is a fundamental component of the nation's strategy to enhance societal welfare through increased self-sufficiency and localized governance. Law No. 33 of 2004, concerning the financial balance between central and regional governments, empowers local administrations to manage their fiscal responsibilities independently, thereby promoting economic development and social empowerment (Aprilia, 2019). A critical aspect of this autonomy is the optimization of Local Own-Source Revenue (*Pendapatan Asli Daerah-PAD*), which is crucial for sustaining government functions and implementing public welfare initiatives (Nalle et al., 2021; Nasir, 2019).

According to Law Number 34 of 2000, Law Number 28 of 2009, and Article 6 of Law Number 33 of 2004 paragraphs 1 and 2, PAD is derived from regional taxes, regional levies, and the management of separated regional assets. Hotel and restaurant taxes are categorized within the regional tax group and constitute a significant portion of local income compared to other taxes. The hotel tax is levied on all hotel services, while the restaurant tax is imposed on all restaurant services. To enforce these tax collections, local governments must enact regional regulations defining the scope and application of these taxes.

To enhance regional tax and levy revenues, regional governments must first conduct a thorough assessment of the true potential of these revenue streams. Subsequently, they must implement systems and procedures for collection that are reasonable and relevant to the region's specific circumstances. This endeavor should be a focal point for every regional government, including those in Aceh province.

Aceh, with its special autonomous status, has benefited from substantial special autonomy funds that comprise a considerable portion of its regional budget (Suharno, 2021). However, with these funds set to expire in 2027, the government needs to focus on optimizing other sources of income, particularly PAD from its 23 districts, including Langsa City. The city, located in the eastern part of Aceh province, is actively pursuing strategies to increase its local income streams in accordance with its economic potential. These efforts involve intensifying (through counseling) and extending (through supervision) local sources of income to achieve progressively increasing targets each year.



Table 1 presents the fluctuating realization of PAD in Langsa City from 2018 to 2022.

Table 1. Realized PAD of Langsa City (2018-2022)

No	Types of revenue	Percentage					Average %
		2018	2019	2020	2021	2022	
I	Local Own-Source Revenue	96.56	74.97	79.13	75.81	100.95	85.48
1.1	Regional Tax	108.08	102.16	102.04	79.74	104.73	99.35
1.1.1	Restaurant Tax	103.23	109.24	95.17	98.37	115.70	104.34
1.1.2	Hotel Tax	101.32	95.83	138.60	61.66	60.87	91.66
1.2	Regional levy	84.51	70.43	61.60	57.80	65.24	67.92
1.3	Result of the segregated Regional assets management	160.65	101.22	79.07	64.60	65.87	94.28
1.4	Other lawful local revenue	94.66	70.68	76.60	76.25	102.36	84.11
II	Balanced fund	127.88	97.86	98.35	100.56	100.42	105.01
III	Other lawful local revenue	99.64	101.74	99.46	87.07	84.12	94.41

(Source: BPKD, 2023)

Hotel and restaurant taxes have shown inconsistent contributions, indicating untapped potential. Despite their capacity to significantly boost revenue, their actual contributions have not been consistently optimal. Data on local tax realizations by tax type reveals a recent surge in restaurant tax, potentially reflecting a growing trend in the city's dining industry. As a tourist destination, Langsa City must effectively harness the potential of the tourism sector to ensure sustained growth in PAD.

Table 2. Realized Local Tax

No	Types of tax	Year	Budget (IDR)	Realization (IDR)	Percentage
1	Hotel Tax	2018	600,000,000	607,922,135	101.32
	Restaurant Tax		670,000,000	691,632,282	103.23
2	Hotel Tax	2019	660,000,000	632,454,021	95.83
	Restaurant Tax		900,000,000	983,171,642	104.24
3	Hotel Tax	2020	250,000,000	346,496,780	138.60
	Restaurant Tax		660,000,000	628,120,579	95.17
4	Hotel Tax	2021	870,000,000	536,440,993	61.66
	Restaurant Tax		1,250,000,000	1,229,620,003	98.37
5	Hotel Tax	2022	870,000,000	529,610,745	60.87
	Restaurant Tax		1,250,000,000	1,446,226,443	115.70

(Source: BPKD, 2023)



Table 3 presents a comprehensive overview of the growth in the number of hotels and restaurants in Langsa City from 2018 to 2022. The data indicates a steady increase in both categories, suggesting a thriving hospitality industry. To regulate the hospitality sector and ensure compliance with tax obligations, the Langsa City tax services office has implemented a 10% hotel and restaurant tax. Hotel and restaurant entrepreneurs are required to use standardized order notes (bills) for tax collection purposes.

Table 3. Number of Hotel and Restaurant

No	Business	2018	2019	2020	2021	2022
1	Hotel	16	17	18	26	28
2	Restaurant	144	147	153	270	273

(Source: BPKD, 2023)

In terms of tax collection strategies, the Langsa City Tax Service office employs a target-based approach, using the previous year's revenue as a benchmark. This practice aligns with the legal framework outlined in Langsa City Qanun No. 9 of 2010, which mandates a 10% hotel and restaurant tax. Additionally, Mayor Regulation No. 24 of 2019 introduces a 5% tax rate for local and non-franchised restaurants generating monthly profits exceeding Rp. 5,000,000.

Despite the potential benefits of regional taxation, the contribution of hotel and restaurant taxes to the PAD of Langsa City remains insufficient. Analysis of the city's financial records from 2016 to 2022 reveals that these taxes account for a mere 3% of the total PAD (BPKD, 2016-2022). This limited contribution highlights a significant research problem: the underutilization of a potentially lucrative revenue stream, compounded by issues such as inadequate tax compliance and a lack of transparency in financial management.

The equitable allocation of public funds by the government is paramount, achieved through the implementation of effective fiscal policies. Prioritizing societal interests over individual gain is crucial for minimizing social disparities and maximizing collective welfare. This necessitates an examination of tax distribution within the framework of Islamic public finance, assessing its adherence to Islamic principles.

While distinct from conventional economic theory, Islamic economics shares a common objective: enhancing human well-being through policy interventions. However, the Islamic perspective adopts a more holistic approach to well-



being, encompassing both temporal and spiritual dimensions (Ibrahim et al, 2021).

Given the fluctuating nature of budget determination and hotel and restaurant tax revenues, their contribution to PAD requires scrutiny. This study investigates the specific contribution of these taxes to PAD in Langsa City, evaluating their implementation and collection methods through the lens of Islamic public finance principles.

Previous studies have assessed the impact of hotel and restaurant taxes on local revenues in various regions, such as Pulau Morotai (Wangko & Yaya, 2019), Natuna (Syuparman et al., 2023), Yogyakarta (Budiherwanto et al., 2023), Medan (Hilfandi et al., 2022), Makassar (Lestari, 2018), Lampung (Hamsiah, 2019), Banda Aceh (Lisa, 2020), and Langsa (Fahreja et al., 2019). However, few have integrated an Islamic economics perspective into their analysis, particularly in the context of Langsa City. This study aims to fill this gap by evaluating whether current tax strategies align with Islamic financial principles, which emphasize justice, transparency, and public welfare.

The novelty of this research lies in its exploration of Langsa City's fiscal challenges through the lens of Islamic public finance principles. By examining the contribution of hotel and restaurant taxes to PAD and assessing the government's efforts to maximize these contributions, this study provides a unique perspective on the intersection of local revenue generation and Islamic economic principles.

This research holds significant implications for policymakers seeking to enhance local revenue streams. By aligning tax strategies with Islamic principles, the study proposes a model that not only optimizes revenue but also fosters taxpayer compliance and trust through transparent and fair practices. The findings aim to guide Langsa City and similar regions in leveraging their hospitality sectors more effectively, ensuring sustainable economic growth and social equity.

The subsequent sections will review relevant literature on PAD and Islamic public finance, detail the methodological approach employed, present and discuss the results, and conclude with recommendations for policy makers and future research directions.



## LITERATURE REVIEW

### Tax and Local Own-Source Revenue

Taxes are the largest source of state revenue, originating from the people and used by the government to finance various public expenditures for the benefit of the populace. Taxes are divided into federal and regional taxes based on the collection agency. Federal taxes are imposed and managed by the central government, specifically the Directorate General of Taxes (DJP), supporting the national budget and central government policies. Regional taxes, imposed by provincial or district/city governments, finance regional administration and development (Tax Policy Center, 2023).

Regional taxes, a form of regional autonomy, are a component of PAD, alongside regional levies, the results of separated regional wealth management, and other legitimate income. PAD is a metric for assessing a region's independence; higher PAD receipts indicate less dependence on the central government. According to Law Number 33 of 2004, article 1 paragraph 18, PAD is revenue obtained from sources within the region, collected based on regional regulations in accordance with applicable laws (UNCDF, 2023).

The regional tax sector has significant potential to contribute to PAD. Hotel and restaurant taxes are key components. According to Law Number 28 of 2009, hotel tax is levied on services provided by hotels, defined as facilities offering lodging/rest services and other associated services for a fee, including motels, inns, tourism huts, guesthouses, and boarding houses with more than ten rooms. Restaurant tax, also under Law Number 28 of 2009, is levied on services provided by restaurants, defined as facilities serving food and/or drinks for a price, including restaurants, cafeterias, canteens, stalls, bars, and catering services.

Effective management of tax revenues from high-potential components significantly impacts public service utilization. Contributions of hotel and restaurant taxes to PAD are calculated using the following formulas (Wangko & Yaya, 2019):

$$\text{Hotel Tax contribution} = \frac{\text{Realized hotel tax}}{\text{Realized PAD}} \times 100\% \quad (1)$$

$$\text{Restaurant Tax contribution} = \frac{\text{Realized restaurant tax}}{\text{Realized PAD}} \times 100\% \quad (2)$$



Those contributions were then classified into the following criteria:

Table 4. Classification of contributions criteria

Percentage	Classification
0% – 3%	Very poor
4% – 7%	Poor
8% - 11%	Somewhat poor
12% - 15%	Acceptable
16% - 19%	Good
Over 20%	Very Good

(Source: Bawazier, 1999)

### Local Own-Source Revenue and Islamic Public Finance

Local Own-Source Revenue (PAD) is the primary source of public service functions for the Aceh Government. PAD in Aceh uniquely interacts with Islamic public finance, which applies Sharia principles in public financial management. Financial and asset management related to the state economy for societal benefit in Islam is termed *al-istishadiyat*. Islamic public finance, controlled and used for community benefit, can be managed privately, collectively, or by the government (Hamdi & Widiastuti, 2021). This financial concept, based on Islam, positively influences through the establishment of religious principles (Huda, 2018). The ultimate goal of Islamic public finance is *falah*, or equal welfare for the entire community (Gultom et al., 2019), with the state playing a crucial role in ensuring national wealth (Jaelani, 2018).

Islamic public finance, like conventional public finance, consists of revenue and expenditure components (Hamdi & Widiastuti, 2021), which must be balanced (Arifiansyah et al., 2022). Sources of Islamic public finance include *zakat*, *infaq*, *alms*, and *waqf* (Huda, 2018). Unlike conventional finance, Islamic public finance emphasizes distinct values, including views on *zakat* and taxes, revenues, expenditures, and public sector balance (Huda, 2018). The early Islamic state was cautious not to misuse public funds, with jurists emphasizing maximum economy in government expenditures, citing Qur'anic prohibitions on excess applicable to both individuals and the government (International Monetary Fund, 1989). Islam stresses efficient management of public finances to meet the needs and prosperity of future generations, enhancing public benefit without excess (Arifiansyah et al., 2022).



In Islamic public financial management, technical mechanisms must incorporate principles of Islamic public earnings (Gultom et al., 2019). According to Abu Ubaid (Rustiman, 2023), public finance policy is a government institution's implementation to ensure a good quality of life for every individual in a Muslim community. Thus, state revenue must be administered by the state and allocated to the community.

### **The Principles of Islamic Public Finance**

The core principles in Islamic public finance theory encompass justice and equality, openness and accountability, efficiency and effectiveness, sustainability, and adherence to Shariah standards (Darmawati & Aisyah, 2021; Huda, 2018; Juhro et al., 2019; Mukhlas, 2022). Justice and equality require that every individual be treated fairly and equally, without prejudice. Openness and accountability ensure that public financial management is transparent and accountable, allowing the public to monitor and evaluate the use of public funds.

Efficiency and effectiveness mandate that public financial management be conducted efficiently and effectively to achieve the intended results at the lowest possible cost. Sustainability emphasizes the importance of considering environmental sustainability and the needs of future generations. Adherence to Shariah standards involves managing public finances in accordance with Islamic principles, such as the administration of zakat, infaq, alms, and waqf. Additionally, public financial management must balance state income and expenditure, prioritizing societal interests to achieve equality and avoid social disparity (CFI, 2023; World Bank, 2015).

### **METHODOLOGY**

This research utilizes a qualitative descriptive approach to thoroughly analyze the contributions of hotel and restaurant taxes to Langsa City's Local Own-Source Revenue (PAD) and assess the alignment of tax collection practices with Islamic public finance principles. The study relies on both primary and secondary data sources to ensure comprehensive coverage and analysis.

#### **Data Collection**

Two primary types of data were utilized in this study:





1. Primary Data

This information was obtained through in-depth, semi-structured interviews with key informants. The interviews focused on gathering insights into the tax collection process, challenges in implementing hotel and restaurant taxes, perceptions of the tax system's fairness and efficiency, and the alignment of current practices with Islamic economic principles. The informants were selected based on their expertise and direct involvement in the taxation process, including employees of the Langsa City Regional Financial and Asset Management Agency (BPKD), as well as owners and managers of hotels and restaurants in Langsa City.

2. Secondary Data

This consisted of official documents and reports, specifically Annual Budget Reports (2016-2022), Realization of Local Own-Source Revenue Reports (2016-2022), and Statistical reports on hotels and restaurants in Langsa City (2018-2022). These documents were obtained from the Langsa City Regional Financial and Asset Management Agency (BPKD).

## Data Analysis

The research employs content analysis techniques to systematically evaluate and interpret the collected data. The analysis process comprises several key steps:

1. Data Compilation

Initially, data on the realized revenues from hotel and restaurant taxes, alongside the overall PAD figures for Langsa City, were collated. This step ensured a comprehensive data set for subsequent analysis.

2. Contribution Calculation

Following data compilation, the study calculated the contribution of hotel and restaurant taxes to the overall PAD. This involved determining the proportion of PAD attributable to these specific tax sources.

3. Classification and Coding

The calculated contributions were then classified according to pre-established criteria to facilitate comparative analysis. Both primary and secondary data were subjected to coding, a process involving the categorization and tagging of data elements to identify patterns, themes, and key insights related to the taxation phenomena under study.

4. Theoretical Integration



The coding process extended to the theoretical framework employed in this research. The study integrated concepts from Islamic public finance theory to assess whether the tax collection practices align with Islamic economic principles. This involved matching empirical findings with theoretical expectations to derive meaningful interpretations.

#### 5. Interpretation and Prediction

The final stage of analysis involved interpreting the coded data and deriving predictions regarding the impact of tax collection practices on the city PAD. The insights gained were used to draw conclusions about the effectiveness and alignment of current tax policies with Islamic public finance principles.

## RESULTS AND DISCUSSION

### Hotel and Restaurant Taxes and Their Impact on PAD of Langsa City

The administration of Langsa City remains committed to identifying and utilizing potential regional income sources to aid in the city's development. Efforts have been made to intensify and broaden these local income avenues, ensuring that revenue targets are consistently met. Table 5 presents the fulfillment of Langsa City's Local Own-Source Revenue (PAD) targets from 2016 to 2022 is detailed.

Table 5. The PAD of Hotel and Restaurant Tax of Langsa City 2016 2022.

Year	PAD (Million IDR)	Hotel Tax (Million IDR)	%	Classi- fication	Resto tax (Million IDR)	%	Classi- fication
2016	121,369.5	701.2	0.57	Very poor	688.6	0.56	Very poor
2017	120,138.7	520.1	0.43	Very poor	820.6	0.68	Very poor
2018	122,616.3	607.9	0.49	Very poor	691.6	0.56	Very poor
2019	116,895.9	632.5	0.54	Very poor	983.2	0.84	Very poor
2020	127,252.5	346.5	0.27	Very poor	628.1	0.49	Very poor
2021	109,168.1	536.4	0.49	Very poor	1,229.6	1.13	Very poor
2022	146,281.5	529.6	0.36	Very poor	1,446.2	0.99	Very poor

(Data Source: BPKD, 2023)

The data presented in Table 5 indicates a reduction in the contribution of hotel taxes to PAD by 0.14 percentage points in 2017, compared to the preceding



year. This contribution exhibited a gradual increase over the next two years, rising by 0.11 percentage points by 2019, attributed to the growing number of hotels in Langsa City. However, in 2020, there was a significant decline, with contributions dropping by 0.27 points due to the onset of the Covid-19 pandemic. A recovery was observed in subsequent years as the situation stabilized.

Similarly, the contribution of restaurant taxes to PAD improved by 0.12 percentage points in 2017. Following a decrease the previous year, there was a notable increase in 2019. However, as with hotel taxes, the contributions from restaurant taxes significantly decreased at the beginning of 2020, largely due to the pandemic and ensuing social distancing policies which adversely affected tourism and patronage.

The study reveals that the overall contribution from both hotels and restaurants to PAD from 2016 – 2022 remains classified as very poor, with the cumulative percentage contribution being less than 3%. This finding aligns with the broader literature on regional tax contributions in Indonesia, where local taxes often represent a small fraction of total revenue due to various structural and compliance issues (Budiherwanto et al., 2023; Hilfandi et al., 2022).

### *Identified Challenges*

The growth in the number of hotels and restaurants in Langsa City has not translated to a significant increase in their contribution to PAD. In fact, their overall contribution remains classified as "very poor," accounting for less than 3% of total PAD. This suggests that there are several challenges in the tax revenue process that need to be addressed.

One primary factor contributing to this low rate is the small scale of businesses in Langsa City. Despite population growth and new business ventures, the average hotel and restaurant remains relatively small, limiting their tax contributions compared to larger cities in Aceh Province. Additionally, tax compliance is a substantial issue, with some entrepreneurs unfamiliar with tax obligations and many others failing to declare or pay taxes due to dissatisfaction with financial transparency. Tax incentives designed to promote growth in the hotel and restaurant sectors have also inadvertently hindered PAD. Furthermore, the city's economic stagnation, as evidenced by the decline in Gross Regional Domestic Product (GRDP) to zero in 2020, has exacerbated the situation. The pandemic and regional competition from neighboring areas, such



as East Aceh and Aceh Tamiang Regencies, have further compounded these challenges.

Moreover, the tourism sector in Langsa City presents both opportunities and challenges. While the city boasts unique attractions, their potential remains largely untapped. Effective marketing strategies and development initiatives are necessary to fully capitalize on these assets. East Aceh's significant growth in the hotel and restaurant sectors has intensified the competitive landscape.

Addressing these interconnected challenges requires a comprehensive and strategic approach. Enhancing tax compliance, refining tax incentive policies, stimulating economic growth, improving competitiveness, and developing the tourism sector are all crucial steps towards increasing the contribution of hotels and restaurants to Langsa City's PAD. Previous studies have highlighted the importance of transparency and taxpayer trust in enhancing tax compliance (Lestari, 2018). The above challenges hinder the effective utilization of potential revenue streams from the hospitality sector, as observed in similar studies conducted in other Indonesian regions (Syuparman et al., 2023; Wangko & Yaya, 2019).

### *Government Initiatives*

The Langsa City administration has implemented a series of initiatives to address the challenges in tax collection from the hotel and restaurant sectors and optimize revenue generation. These measures encompass a comprehensive approach to improving tax compliance and efficiency. To enhance tax awareness and improve compliance, the administration has launched tax literacy programs that utilize both online and offline channels. These programs aim to educate business owners about their tax obligations and the importance of contributing to the city's development.

In an effort to accommodate the diverse circumstances of different businesses, the administration has introduced more flexible tax calculation methods. These include alternative tax computation approaches, such as tax determinations and negotiations based on transaction invoices. This flexibility is designed to make the tax assessment process more adaptable and potentially fairer, which could encourage greater compliance among businesses.

The city has also strengthened its oversight and enforcement mechanisms by implementing stricter penalties for non-compliance and tax evasion. This



tougher stance sends a clear message about the seriousness of tax obligations and the consequences of failing to meet them. Balancing these enforcement measures, the administration has focused on improving taxpayer services. This includes providing more convenient tax payment options, such as online payment platforms like QRIS and establishing designated payment centers. These improvements make it easier for businesses to fulfill their tax responsibilities, potentially increasing voluntary compliance. These efforts align with the principles of Islamic public finance, which emphasize transparency, efficiency, and community welfare (Huda, 2018; Jaelani, 2018).

### **Improving Langsa City's PAD from an Islamic Public Finance Perspective**

The initiatives undertaken by the Langsa City government to increase PAD through hotel and restaurant taxes are considered to be generally in line with the principles of Islamic public finance. In its implementation, it refers to the ultimate goal of *falah*. The *falah* mentioned in this context is equal welfare for the entire community.

Taxes play a crucial role in the lives of Langsa City residents, as is the case in other Indonesian cities. Nearly all regional activities and needs are funded by tax revenues. Dependence on taxes is inevitable, as Langsa is part of Indonesia, which is still categorized as a developing country. Taxation finances all state development, including efforts to alleviate poverty, which is prevalent in most Indonesian regions, including Langsa.

Table 6. The Principles of Islamic Public Finance in Optimizing the PAD of Langsa City

No	Principles of Islamic Public Finance	Implementation in Langsa City
1.	Justice and equality	Tax collections are conducted in accordance with regulations
2.	Openness and accountability	Not fully disclosed
3.	Effective and Efficient	Not effective and efficient
4.	Sustainability	Efforts have been made to ensure sustainability through fund management
5.	Shariah	The internalization of Islamic values has been attempted through the allocation of a portion of tax funds to ZIS and also the management of funds oriented towards the interests of the community



In Islam, taxes are situational, meaning that they will be abolished only if a country can fulfill all its needs through other means. Meanwhile, as previously mentioned, tax collections must remain constant and mandatory in Indonesia, including Langsa. Tax collection is essential since regional expenditures heavily rely on taxes. Therefore, tax collections, particularly from hotels and restaurants, must be optimized to contribute to PAD. The following table presents a conformity scheme for optimizing PAD through hotel and restaurant taxes with Islamic public finance principles.

According to information provided by research informants, tax collection in Langsa City has been carried out in compliance with established regulations. The amount of tax rates assigned to taxpayers is based on the principle of equality. Determinations are made in an ethical manner to ensure fairness, compliance, and public trust. Efforts are also being made to ensure that the tax rate does not impose a significant burden on taxpayers or business owners in Langsa City.

This practice is considered to be in line with the spirit of Islamic economics, which seeks to minimize forms of economic exploitation by eliminating social strata generated by wealth disparities. Islam aims to achieve the same level of prosperity in society while acknowledging the differences in wealth held by individuals. This is why the concept of taxation is employed in Islam, which aims to ensure that the basic needs of the entire community are met. This is particularly relevant to the prosperity indicators presented by al-Mawardi (Jaelani, 2014) in Islamic public finance theory.

However, information from several other informants revealed a different perspective. This information related to fraud in the tax collection process, such as concealing the actual income earned by entrepreneurs/taxpayers, collaborating with tax collectors to manipulate the amount of tax levies, applying late fines, and other actions by officials that were not in line with tax collection procedures. All of these actions were not in accordance with the principles of honesty and fairness emphasized by al-Mawardi regarding welfare theory in the concept of Islamic public finance.

Another assertion made by informants was that ideally, tax collection should also include the value of *ukhuwah*. In Islam, the value of *ukhuwah* evokes feelings of brotherhood and devotion. The application of the value of *ukhuwah* in tax collection means that the amount of tax that must be paid by taxpayers



should be in accordance with their ability to pay at the time. This is based on the idea that, from time to time, an individual's needs and expenses may be greater, even significantly larger, compared to normal periods. If, in such circumstances, individuals are still required to pay the same amount of tax with a lower level of ability than usual, this does not reflect Islam's love and brotherhood. In Islam, they are the ones who should be assisted by the state, as a form of brotherhood and mutual help, at the very least, with a reduction in the amount of tax that must be paid or an exemption from tax responsibilities for that period. This implies that, ideally, taxes should be levied in accordance with the existing circumstances and conditions of each community. However, the value of *ukhuwah* has not been incorporated into the Langsa City taxation system.

In response, the Langsa City government decided to improve transparency to prevent unprocedural activities, particularly by introducing a non-cash tax payment system, specifically the QRIS application. Meanwhile, efforts are being made to ensure that the amount of tax charged does not burden the general population, particularly hotel and restaurant owners who are taxpayers. Additionally, the administration will fully optimize the taxes collected to support the needs of the people of Langsa.

The concept of tax in Islam existed during the time of the Prophet and his companions, particularly *kharaj* and *jizyah*, but was only necessary for non-Muslims living in Muslim territories (Riza, 2017). Meanwhile, Muslims are currently required to pay taxes. In Makasar City, the implementation of Islamic values in the taxation system (*dharibah*), such as divine values (*Tauhid*), justice, and social justice, has not been properly implemented (Lestari, 2018). Furthermore, it was also stated that taxes can only be imposed for financing, which is a requirement for Muslims, and that they can only be assessed for the amount required for this mandated funding, not more.

The principles of justice and equality, as proposed by Islamic economic theory, are partially addressed through ethical tax rate determinations and efforts to avoid excessive burdens on taxpayers. However, issues such as fraud in tax collection and lack of full transparency remain problematic, echoing concerns raised in previous research about the challenges in implementing Islamic values in tax systems (Lestari, 2018; Mukhlas, 2022).



## **Research Implications**

The research on Islamic public finance principles as applied to local tax collection in Langsa City offers important theoretical and practical implications. Theoretically, it enhances the understanding of Islamic economics and public finance by introducing new insights into how these principles can be implemented in local taxation systems. The study underscores the significance of values such as justice, equality, transparency, efficiency, sustainability, and Shariah compliance within an Islamic taxation framework, which is crucial for developing normative models of Islamic public finance.

Practically, the research highlights several deficiencies in Langsa City's current tax collection system when measured against Islamic principles. These include a lack of full transparency, inefficiencies, and a failure to incorporate values like *ukhuwah* (brotherhood). Such findings have practical implications for reforming tax policies and administration to better align with Islamic teachings. The study offers specific recommendations, such as adopting non-cash payment systems to enhance transparency and considering individual circumstances when setting tax obligations. These suggestions provide actionable insights for policymakers and administrators aiming to optimize the local tax system.

Additionally, the research emphasizes the importance of utilizing tax revenues in ways that benefit the community and promote social welfare. This insight carries significant implications for the budgeting and expenditure policies of the local government, highlighting the need for a more community-focused approach to fiscal management. Overall, the study bridges the gap between Islamic financial principles and practical governance, offering valuable guidance for creating a more equitable, efficient, and Shariah-compliant taxation system in Langsa City.

## **CONCLUSION**

This study examined the contribution of hotel and restaurant taxes to Langsa City's Local Own-Source Revenue (PAD) from 2016 to 2022, analyzing the strategies employed to optimize these contributions through the lens of Islamic public finance principles. A key finding is that despite the local government's efforts, these taxes remain a minimal source of PAD, accounting for a mere 3% of total revenue. This aligns with broader trends in Indonesia where local taxes often constitute a small portion of regional income. Challenges identified





include low tax compliance attributed to a lack of transparency and awareness among taxpayers, coupled with instances of fraud within the tax collection process. These findings resonate with previous research emphasizing the critical role of transparent financial management in fostering trust and encouraging compliance. While the Langsa City government has implemented initiatives like tax literacy programs, stricter enforcement, and the introduction of the QRIS payment system, the study reveals a significant gap in incorporating the Islamic value of *ukhuwah*. This value emphasizes a more equitable system where tax burdens are sensitive to individual financial capabilities, a concept absent in the current framework.

This research contributes to the understanding of Islamic public finance by highlighting both the progress and persistent challenges in aligning local tax systems with Islamic principles. It underscores the need for a more holistic approach that integrates core values like *ukhuwah* to ensure a truly just and equitable system. However, the study's geographic and temporal limitations restrict the generalizability of its findings. Future research could benefit from comparative analyses across different regions and longitudinal studies to assess the long-term impact of current and future initiatives. Furthermore, exploring the potential of technology in enhancing transparency and efficiency within a Shariah-compliant framework presents a promising avenue for future research. By addressing these areas, future studies can contribute to developing more robust and effective tax systems that are not only aligned with Islamic principles but also cater to the dynamic needs of local communities.

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