

THE ROLE OF TAXES IN STIMULATING NATIONAL INFRASTRUCTURE DEVELOPMENT

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Abstract

This study aims to analyze the role of tax as the main source of financing national infrastructure development in Indonesia. Infrastructure has a vital role in driving economic growth, improving connectivity, and supporting public services. The research method used is a qualitative-descriptive approach with literature study as the main data collection technique. Data sources come from government reports, tax regulations, and scientific publications related to fiscal policy and infrastructure development. The results show that taxes, particularly income tax and value-added tax, contribute significantly to the State Budget (APBN) which is the basis for funding infrastructure projects. The government also utilizes fiscal policy instruments, such as tax incentives and earmarking, to support national strategic projects. Nonetheless, challenges in optimizing tax revenue such as taxpayer compliance and tax base broadening remain obstacles that need to be resolved in order for infrastructure development to be sustainable. This study concludes that improving the effectiveness of the tax system is crucial in strengthening the country's fiscal capacity to fund national infrastructure development in a sustainable manner.

Keywords: *tax, infrastructure development, fiscal policy, state budget, public financing.*

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1. Introduction

Infrastructure development is the main foundation for a country's economic growth.(Ekeocha et al., 2022). Reliable infrastructure such as roads, bridges, ports, airports, and energy systems not only facilitate the movement of goods and services, but also open up public access to basic services such as education, health, and clean water. In Indonesia, infrastructure development has become a priority in various medium and long-term development plans. The government believes that improving the quality and quantity of infrastructure will encourage national competitiveness, expand employment opportunities, and create equitable development between regions, especially underdeveloped and border regions.(Nawir et al., 2023).

However, infrastructure development on a national scale requires very large and sustainable funding. In this context, taxes play a central role as the main source of state revenue used to finance various development programs, including infrastructure. Income tax (PPh), value added tax (PPN), and excise are the backbone of the State Budget (APBN)(Ahmad, 2021). The government's dependence on tax revenues shows that the success of infrastructure development is largely determined by how effectively the tax system functions. The higher the tax revenues, the greater the country's fiscal capacity to finance national strategic projects without relying too much on debt or other external financing sources.(Cahyadi, 2024).

Projects such as the construction of cross-regional toll roads, railway networks, deep sea ports(Dai et al., 2024), and renewable energy plants require trillions of rupiah in investment and a development process that takes years. In this context, taxes play a central role as the most stable and sustainable source of state revenue to finance various

development programs, including the infrastructure sector. Unlike foreign loans or aid that are limited and risk increasing the debt burden, taxes provide fiscal independence for the state to determine the direction of development according to national needs.

The contribution of income tax (PPH), value added tax (PPN), and excise are the main pillars in supporting the State Budget (APBN) (Ahmad, 2021). These three types of taxes reflect the economic activities of the community and the business sector, so their fluctuations are greatly influenced by taxpayer compliance and the effectiveness of tax management. The government's dependence on tax revenues emphasizes that the success of infrastructure development is largely determined by how efficiently and transparently the national tax system functions. In this regard, tax reform, digitalization of the tax administration system, and public education regarding tax obligations are very important.

The higher the tax revenue, the greater the country's fiscal capacity in financing national strategic projects without high dependence on foreign debt or commercial financing that has high interest risks (Cahyadi, 2024). This allows the government to carry out infrastructure development more independently, sustainably, and with a long-term orientation. Therefore, strengthening the tax system is not only a matter of increasing state revenue, but also part of a sustainable national development strategy.

Although the contribution of taxes to development is quite significant, the Indonesian government still faces various challenges in optimizing tax revenues. One of the main challenges is the low level of taxpayer compliance, both from the formal and informal business sectors.(Amaliah et al., 2023). In addition, the narrow tax base due to the dominance of the unrecorded economic sector (informal economy) is a structural obstacle in increasing the tax ratio to gross domestic product (GDP). On the other hand, tax avoidance and tax evasion practices are still rampant, which weaken the country's fiscal potential. To overcome this problem, the government needs to implement comprehensive and sustainable tax reforms, starting from improving regulations, a modern tax administration system, to increasing tax education for the public.(Amaliah et al., 2023).

In addition to optimizing revenue, fiscal policy also needs to be directed to support infrastructure development through incentive and earmarking approaches. Tax incentives such as tax holidays, tax allowances, and VAT exemptions for national strategic projects have become instruments used to attract private sector investment in infrastructure development. On the other hand, tax earmarking, namely the special allocation of certain types of taxes for infrastructure financing, has become a policy strategy that is starting to be considered as a more focused and accountable financing solution. Thus, taxation not only functions as an instrument of state revenue, but also as a strategic developmental tool(Wenjuan & Zhao, 2023).

Based on this background, this article aims to analyze the role of taxes in supporting national infrastructure development in Indonesia. This study uses a qualitative-descriptive approach based on literature studies by examining fiscal policies, APBN data, tax regulations, and various scientific and institutional publications. The main objectives of this study are to understand the extent of the contribution of the tax system in funding infrastructure, evaluate the challenges faced by the government, and identify policies that can strengthen the role of taxes as a driver of development. It is hoped that this article will provide comprehensive insights as well as input for policy makers in formulating more effective and inclusive fiscal strategies.

2. Method

This study uses a qualitative-descriptive approach that aims to deeply understand the role of taxes as the main source of financing for infrastructure development in Indonesia.(Hambali & Johan, 2024). This approach was chosen because it is appropriate for analyzing social phenomena and public policies based on relevant secondary data. The study does not focus on quantitative hypothesis testing, but rather on a contextual and comprehensive understanding of the relationship between tax policy and infrastructure development. The data sources in this study were obtained through literature studies (library research) on various official government documents such as the APBN Kita published by the

Ministry of Finance, reports from the Fiscal Policy Agency (BKF), laws and regulations in the field of taxation, and national and international scientific publications related to taxes and development. In addition, reports from international institutions such as the OECD and IMF were also used to compare tax practices in developing countries.

The analysis process is carried out by examining data systematically and thematically.(Hamel et al., 2021). Researchers identified key themes such as the contribution of tax types to state revenue, budget allocation mechanisms for infrastructure, forms of fiscal incentives, and challenges in tax collection. Findings from various sources were then synthesized to develop logical and structured arguments according to the research objectives. Data validity was maintained by selecting reliable and up-to-date sources. With this approach, it is hoped that the research will be able to provide a factual and analytical picture of how the Indonesian tax system supports national infrastructure development, as well as identify policy areas that need to be strengthened to support sustainable development.

3. Results and Discussion

Taxes as the Main Source of Funding for Infrastructure

Tax is the backbone of financing national development, including the infrastructure sector. Revenue from Income Tax (PPH), Value Added Tax (PPN), and other taxes provide significant contributions to the State Budget (APBN)(Zuhad et al., 2024). The development of national strategic projects such as the Trans Java toll road, international ports, airports, and power plants are mostly funded by funds sourced from taxes. Without adequate tax revenues, the state will have difficulty in allocating budgets for infrastructure projects that are vital to economic growth and public welfare.

Tax is a major component in the structure of state revenue in Indonesia. Based on the APBN Kita report (Ministry of Finance, 2022), more than 80% of state revenue comes from the taxation sector, especially from Income Tax (PPH), Value Added Tax (PPN), and excise.(Mawejje & Sebudde, 2019). These funds are then allocated through the APBN to finance various sectors, including infrastructure development. In the last five years, the allocation of infrastructure spending has continued to increase, demonstrating the government's commitment to making this sector a strategic priority. This means that the sustainability of development is highly dependent on the effectiveness and stability of tax revenues.

Tax contributions to infrastructure development are not only in the form of direct funds, but also through supportive fiscal policies.(Arimoro & Musa, 2025). The government has issued various tax incentives for the construction sector, such as tax holidays, tax allowances, and VAT exemptions on capital goods for national strategic infrastructure projects. In addition, the earmarking approach, namely the special allocation of certain types of taxes to finance certain sectors, has begun to be used to ensure the sustainability of funding for large projects. An example is the allocation of funds from motor vehicle fuel tax (PBBKB) for road construction.

Effectiveness of Tax Fund Utilization in Infrastructure Projects

The use of taxes in infrastructure development has proven effective in driving growth in the transportation, energy, and telecommunications sectors. The government, through the Ministry of Finance and Bappenas, routinely allocates infrastructure funds in the APBN sourced from tax revenues.(Juswanto & Falak Abiyunus, 2022). Various studies show that consistent and targeted infrastructure development has a direct impact on reducing national logistics costs and increasing economic competitiveness. However, there are obstacles in the form of inefficient budget management, complicated bureaucracy, and cases of budget misuse that reduce the optimal impact of using tax funds for infrastructure.

However, there are still a number of challenges in optimizing the role of taxes as a source of infrastructure financing. One of the main challenges is Indonesia's low tax ratio, which is in the range of 10–11% of GDP, far below the OECD average of 30–35% (OECD, 2021). This shows that the potential of taxes has not been utilized optimally(Fisseha, 2022).

Many informal sectors have not been reached by the formal tax system, and the rate of tax avoidance and evasion is still high. In fact, expanding the tax base is very important to increase the country's fiscal space, so that infrastructure development does not depend on foreign debt.(Gnangnon & Brun, 2020).

Impact of Infrastructure Development on the National Economy

Tax funds allocated for infrastructure development have a ripple effect on other economic sectors.(Persyn et al., 2023). Adequate infrastructure facilitates the distribution of goods and services, increases labor mobility, and expands market access for business actors in the regions. This encourages increased investment, national productivity, and ultimately economic growth. In addition, infrastructure development also creates large numbers of jobs, both directly in construction projects and indirectly through the growth of small and medium enterprises around the construction site. Thus, the role of taxes is not only limited to financing, but also as a catalyst for sustainable economic development.(Fatima et al., 2023).

Tax funds allocated for infrastructure development have a significant multiplicative effect on various economic sectors.(Cahyadi, 2024). Infrastructure built through tax financing such as highways, ports, bridges, irrigation systems, and electricity and telecommunications networks serve as the main foundation in encouraging more efficient and integrated economic activities. With adequate infrastructure, the distribution of goods and services becomes faster, logistics costs decrease, and connectivity between regions increases significantly. This not only benefits large business actors, but also opens up opportunities for Micro, Small, and Medium Enterprises (MSMEs) to expand their market reach, including to remote areas.(Harvie, 2019).

In addition, good infrastructure contributes greatly to increasing labor mobility. With smoother transportation access, people can access wider employment opportunities, including in the formal sector which was previously difficult to reach. The agricultural and tourism sectors have also been positively impacted by infrastructure support, such as village roads, dams, and supporting infrastructure for tourist areas, which strengthen the added value of the local economy. Investment from the private sector also tends to increase along with the increasing quality of infrastructure, because production and distribution costs become more competitive.(Lyrra & Kurniati, 2025).

From a socio-economic perspective, infrastructure development also plays a role in job creation, both directly through construction projects, and indirectly through the economic effects that arise in the surrounding area, such as the growth of culinary businesses, informal trade, transportation services, and lodging. This has an impact on increasing people's income and reducing unemployment rates. Therefore, the role of taxes in infrastructure development is not only as a source of funding, but also a strategic instrument in stimulating inclusive and sustainable national economic growth.(Gut, 2024).

Challenges in Optimizing the Role of Taxes

Despite its important role, optimizing tax contributions in infrastructure development still faces various challenges. One of the main obstacles is the low level of tax compliance of the community and the business world. Indonesia's tax ratio is still relatively low compared to other ASEAN countries, so the government's fiscal space is limited.(Anwar, 2023). On the other hand, dependence on debt financing for infrastructure projects indicates the need to increase tax revenues. In addition, supervision of the use of public funds is still weak, which opens up opportunities for irregularities and corruption. These challenges must be overcome so that the role of taxes in development can be more optimal and sustainable.

Another challenge lies in the inequality of infrastructure distribution between regions. Most infrastructure development is still concentrated in Java and large cities, while underdeveloped and border areas still lack access. In this case, tax instruments can be utilized more strategically through fiscal affirmative policies based on regional justice. For example, by allocating regional fiscal incentive funds based on development performance

achievements or the ratio of local tax revenues to their economic potential.(Pandey et al., 2022).

In addition, challenges also arise from the administration and institutional side of taxation. The tax system that is not yet fully digital and integrated, weak supervision and the still limited number and capacity of human resources in the Directorate General of Taxes (DJP) have caused the tax collection process to not run optimally.(Fossong & Mc Moi Ndi, 2023). The inequality of fiscal distribution between regions is also in the spotlight, where tax revenues are largely concentrated in developed regions, while underdeveloped regions still contribute minimally due to their weak economic base. Furthermore, cases of corruption and misuse of public funds have created public distrust of tax institutions and state budget allocations.

Therefore, optimizing the role of taxation requires not only technical policy reform, but also a sustainable strategic approach. This includes the need for early tax education, increasing fiscal transparency and accountability, strengthening law enforcement against tax violations, and expanding the tax base through cross-sector data integration. Only by addressing these challenges seriously and in a structured manner will the Indonesian taxation system be able to play its role optimally in driving infrastructure development and realizing socio-economic justice.

Strategy to Strengthen the Role of Taxes for Infrastructure

To increase the role of taxes in supporting infrastructure development, a comprehensive strategy is needed. Tax reform, including digitalization of the tax system and expansion of the tax base, is an important step to increase state revenue. The government also needs to build public trust through transparency and accountability in the management of tax funds. c In addition, the development of a public-private partnership (Public-Private Partnership/PPP) scheme that is given fiscal incentives can also be an alternative financing solution that strengthens the role of taxes without directly burdening the APBN(Challoumis, 2024).

Furthermore, the effectiveness of the use of tax funds for infrastructure also depends heavily on transparent and accountable budget governance.(Mallick, 2021). Cases of inefficiency, project mark-ups, or development delays are serious obstacles that reduce the real impact of funds that have been collected through taxes. Therefore, fiscal reform needs to be accompanied by reform of infrastructure project governance, so that every rupiah of tax revenue provides maximum results for the community. Thus, the role of taxes in infrastructure development not only includes financing functions, but also as a development policy instrument that can be directed to create inclusive and sustainable growth.(Ahmad, 2021). It is necessary to strengthen the synergy between taxation policies, budget management, and project implementation so that the results of development can truly be felt by all levels of society evenly.

4. Conclusions and Suggestions

Tax plays a strategic role as the main source of financing for national infrastructure development in Indonesia through allocations in the State Budget (APBN). Significant contributions from income tax, value added tax, and fiscal instruments such as incentives and earmarking show that taxation not only functions as a means of state revenue, but also as a guide for development policy. However, various challenges are still faced, such as the low tax ratio to GDP, suboptimal tax compliance, and the narrow tax base due to the dominance of the informal sector. For this reason, efforts are needed to strengthen the tax system through digitalization, tax education, and regulatory reform, as well as a fairer and more efficient allocation of funds to underdeveloped regions. With these steps, taxation will be increasingly able to encourage inclusive, sustainable, and equitable national infrastructure development. However, the effectiveness of the role of tax in infrastructure development still faces various structural and administrative challenges. The low tax ratio to Gross Domestic Product (GDP), unequal tax compliance across all levels of society, and the narrow tax base due to the large informal sector, are obstacles to optimizing the potential of national taxation.

To answer this challenge, strengthening the tax system needs to be done through integrated digital transformation, massive and sustainable tax education for the public, and regulatory reform that supports efficiency, justice, and legal certainty.

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