



## **Earmarking Taxes Without Direct Returns: Accountability and Legal Compliance in the Management of Electricity PBJT**

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**Abstract**

**Background:** Taxes are mandatory levies without direct returns to taxpayers. However, modern fiscal policy often uses earmarking, linking tax revenues to specific purposes. In Indonesia, the Certain Goods and Services Tax on Electricity allocates part of the revenue to public street lighting, raising issues of public accountability and legal compliance at the local government level.

**Objective:** This study aims to examine how earmarking obligations under the Electricity PBJT reshape the management of public funds and to analyze their implications for accountability standards and legal compliance.

**Methods:** The study adopts a qualitative approach based on normative analysis and policy document review, focusing on the legal framework and institutional design of regional fiscal policies.

**Results:** The analysis shows that the allocation in the Electricity PBJT marks a paradigm shift from general revenue management to normatively bound revenue. This shift requires the internalization of allocation obligations in budget planning, which was previously not required. Allocated tax revenues must now be accounted for in a transparent and thematic manner, increasing the traceability and accountability of tax use.

**Conclusion:** The placement of tax allocations in the Electricity PBJT increases transparency and traceability, without changing the character of the tax as a non-compensatory levy. The distinction between formal and substantive compliance is important for the effectiveness of earmarking, which depends on consistency of planning, budgeting, and oversight. Strict supervision and an integrated budgeting system are needed to ensure the success of this policy.

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### **INTRODUCTION**

Taxes are conceptually understood as mandatory contributions to the state that do not provide direct returns to taxpayers, as defined by Law Number 6 of 1983 concerning General Provisions and Tax Procedures, as amended several times, most recently by Law Number 7 of 2021 concerning Harmonization of Tax Regulations. This non-contraprestative character is the main distinction between taxes and other public levies, such as levies or contributions, which have a direct relationship between payment and services received. The benefits of taxes are collective, impersonal, and cannot be traced individually to specific taxpayers, so that the relationship between taxes and public benefits is placed in an abstract and indirect space.

Along with the growing demands for transparency and accountability in public financial management, modern fiscal policy practices show a tendency to link tax collection to specific purposes through earmarking mechanisms (Barile et al., 2024). Tax earmarking does not change the nature of taxes as levies without direct returns, but it limits the government's discretion in the

use of tax revenues by directing a portion of tax revenues to finance specific public sectors or services. In this case, earmarking is understood as a policy instrument to increase fiscal legitimacy and strengthen government accountability to the public, not as a transformation of taxes into service-based levies.

In Indonesia's regional taxation system, the Tax on Specific Goods and Services on Electricity (PBJT Tenaga Listrik) is an example of a tax policy that explicitly contains earmarking characteristics. This tax is imposed on electricity consumption and is collected on an ongoing basis through a mechanism integrated with electricity payments, making its existence easily recognizable to the public as taxpayers. The uniqueness of the PBJT Tenaga Listrik lies not only in its broad and consumptive collection base, but also in the normative obligation to allocate at least 10 percent of the tax revenue to finance Public Street Lighting (PJU) as stipulated in Law No. 1 of 2022 concerning Financial Relations between the Central Government and Local Governments, and is further operationalized through Article 11 of Government Regulation No. 4 of 2023 as its implementing regulation.

This regulation places the Electricity PBJT in a unique conceptual position. On the one hand, this tax retains its basic character as a levy without direct reciprocity and does not give rise to individual rights to specific services. On the other hand, the earmarking obligation for PJU creates a more tangible relationship between the tax paid and the public services financed. Street lighting is a public service that can be directly observed and felt by the community in their daily activities, and is thematically related to the object of taxation, namely electricity. This condition indirectly creates higher public expectations regarding the traceability of tax use and the quality of services produced.

These rising public expectations have the potential to raise accountability issues when street lighting conditions do not reflect the amount of tax collected, or when the use of earmarking funds cannot be explained transparently. The issue that arises is not a demand for direct returns as in retribution, but rather a question of the extent to which local governments have fulfilled their accountability obligations regarding the use of taxes that have been normatively directed for specific purposes. Thus, earmarking in the Electricity PBJT reinforces the demand for accountability and transparency in regional financial management.

The minimum allocation obligation in the Electricity PBJT also has legal compliance implications for local governments. Unlike local taxes, the use of which is entirely subject to budgetary discretion, the Electricity PBJT contains legal norms that explicitly limit the use of part of the tax revenue. Therefore, local government compliance is not only measured by the success of tax collection, but also by the extent to which these obligations are implemented in a tangible, documented, and accountable manner in budgeting and budget implementation practices. However, academic studies on local taxes and tax earmarking still show a number of limitations. Most existing studies tend to use a quantitative approach with a focus on the contribution of taxes to local revenue, collection efficiency, or local government financial performance. Discussions of the Electricity PBJT are generally positioned as an instrument for increasing fiscal capacity, without an in-depth analysis of the normative implications of the earmarking obligations attached to these taxes.

Research on tax earmarking has focused more on specific sectors such as health taxes, excise taxes, or environmental taxes, with an emphasis on policy effectiveness or its impact on changes in community behaviour. Relatively few studies examine local tax earmarking within the framework of local fiscal law, especially when earmarking obligations are explicitly regulated and binding. As a result, the dimension of local government legal compliance with earmarking obligations and its implications for public accountability has not been explored much qualitatively.

However, several studies have explored the relationship between legal compliance and public accountability in the context of earmarking. For instance, Beetsma, Debrun, and Sloof (2022) investigate how legal and institutional frameworks particularly independent fiscal councils shape fiscal transparency and public accountability in budgetary systems, demonstrating that formal legal structures play a decisive role in ensuring fiscal discipline and information disclosure. Similarly, Krah and Mertens (2023) examine the influence of financial transparency on citizens' trust and revenue-paying behaviour in local governments of sub-Saharan Africa, particularly Ghana, finding that transparency in the management of public funds when backed by regulatory compliance significantly enhances citizen trust and accountability. Haustein and

Lorson (2022) further emphasize that the publication of financial statements by local governments as required by legal reporting standards serves as a critical mechanism of public accountability, yet its effectiveness depends on citizens' capacity to access and interpret the disclosed information. These findings collectively enrich the discourse on how legal compliance within tax allocation systems shapes the transparency and accountability of earmarked public funds.

There is a gap in research that conceptually discusses the tension between the doctrine of taxation as a levy without direct return and the practice of earmarking, which creates a more visible relationship of benefits for the community. Some literature has not clearly distinguished between the absence of a right to individual services and the increasing demands for accountability due to the binding use of taxes, thus potentially simplifying the concept of taxation to something closer to the character of a retribution.

Based on these conditions, this study aims to analyze the application of earmarking in the Specific Goods and Services Tax on Electricity (PBJT Tenaga Listrik) as a local tax that, doctrinally, does not provide direct returns to taxpayers, as well as to examine its implications for public accountability standards and local government legal compliance in regional financial management. Using a normative-qualitative approach, this study does not assess PBJT Tenaga Listrik solely from the aspect of fiscal contribution, but rather examines how the minimum allocation obligation for public street lighting financing is interpreted within the framework of planning and budgeting (which is *ex ante*), and how these obligations shape demands for transparency, traceability, and substantive compliance in public fund management. This research contributes to the literature on regional fiscal law by offering a conceptual analysis of regional tax earmarking as a governance instrument, combining the perspectives of public accountability and substantive legal compliance.

In line with these objectives, this study is formulated to answer the following research questions: How is the practice of earmarking the Electricity PBJT implemented in the financing of public street lighting at the local government level? How are the minimum allocation obligations of the Electricity PBJT translated in the regional budgeting and financial management processes? To what extent does the implementation of Electricity PBJT earmarking reflect the principle of public accountability in local tax management? How does the local government comply with the Electricity PBJT earmarking obligation, both in terms of formal and substantive compliance?

Through the formulation of these research objectives and questions, it is hoped that this study can provide a deeper understanding of the normative implications of earmarking in local taxes that do not provide direct returns, while also offering a conceptual basis for strengthening accountability and legal compliance in the governance of the Electricity PBJT.

## LITERATURE REVIEW

### *Public Accountability in Earmarking Taxes Without Direct Returns*

The theory of public accountability emphasizes the government's obligation to be accountable to the public for the use of public authority and resources. Accountability is not only understood as the fulfillment of administrative procedures, but also includes transparency, traceability of the use of funds, and the government's ability to provide rational and understandable explanations for the policies taken. Tanti et al. emphasized that fiscal transparency includes the disclosure of information about policy objectives, budgeting processes, and the results of public fund use, thus allowing the public to assess the consistency between policies and their implementation. This is in line with the findings of Setyawati and Ferdinand (2020), who emphasized that transparency and traceability of information are the basis for APBD accountability. Fasmi and Misra (2014) also stated that the implementation of earmarking on taxes can strengthen transparency by ensuring the use of funds in accordance with clear normative objectives. Montes, Bastos, and de Oliveira assert that fiscal transparency includes openness of information regarding policy objectives, the budgeting process, and the results of public fund use, thereby enabling the public to assess the consistency between policy and its implementation. This is in line with the findings of Setyawati & Ferdinand, (2020) and Fasmi & Misra (2014), who emphasize that transparency and traceability of information are the foundations of regional budget accountability.

Accountability is not only financial in nature but also includes institutional and organizational behavioral dimensions. Papcunová et al., (2020) show that public sector

accountability depends on the extent to which institutions can provide information that is relevant, verifiable, and traceable by the public, thereby enabling evaluation of performance and compliance with policy objectives. This understanding broadens the concept of accountability from mere formal reporting to substantive accountability for the use of public resources. Research by Sugiono et al., (2015) also confirms that substantive accountability requires integrity, openness, and consistency between policy objectives and their implementation.

Furthermore, public sector reform places accountability at the core of governance. Bach, (2020) emphasizes that governance in the public sector requires mechanisms to ensure that the use of public funds is aligned with policy objectives and that public institutions have the capacity to explain and account for fiscal decisions. Thus, accountability is understood as a dialogical relationship between the government and the public, in which the government is obliged to explain the basis of its policies and the public has the right to assess their appropriateness. This view is reinforced by the findings of Ahyaruddin & Amrillah (2018), which show that accountability and the quality of public reporting have a direct influence on perceptions of compliance and the fiscal legitimacy of local governments.

In tax law doctrine, taxes are understood as mandatory levies that do not provide direct returns to taxpayers. This non-contraprestative character causes the relationship between taxes and public benefits to be abstract and difficult to trace individually. However, the application of earmarking changes the context of accountability without changing the nature of taxes. Earmarking does not create rights to individual services, but it does create an obligation for the state to explain how tax revenues are used in accordance with normatively established objectives. Thus, the obligation to allocate a minimum amount of tax revenue to Public Street Lighting strengthens the demand for public accountability because it creates a thematic link that can be evaluated more concretely by the public. The public cannot only assess whether the minimum allocation has been met, but also whether the use of these funds supports the provision of PSL services effectively and consistently with policy objectives.

#### *Legal Compliance in the Management of Earmarking Taxes and Changes in Public Fund Governance*

Legal compliance in local tax management is not only a matter of formal compliance with normative provisions but also includes substantive alignment between policy objectives and their implementation. In tax literature, compliance is understood as the result of the interaction among policy legitimacy, perceptions of fairness, and the institutional capacity of the government. Rogan, (2022) shows that tax compliance is greatly influenced by the extent to which taxpayers and the public view the government as using tax revenues legitimately, transparently, and in accordance with their intended purposes. Fiscal legitimacy is an important foundation for compliance, especially when taxes are used to finance public services whose benefits are directly felt by the community.

Compliance is not only determined by legal norms, but also by incentives, risk perceptions, and governance structures. Cetin et al., (2017) assert that fiscal compliance is influenced by a combination of regulatory clarity, consistency of implementation, and the government's ability to demonstrate that the use of public funds is aligned with policy objectives. When legal norms provide direction for the specific use of tax revenues, such as in earmarking mechanisms, substantive compliance becomes increasingly important because the public can more concretely assess whether the government is fulfilling its obligations. These findings are in line with national studies such as Haryanto, (2017) and Delen et al., (2019), which show that the effectiveness of regional fiscal policy implementation is greatly influenced by consistency between planning, budgeting, and budget realization.

Legal compliance in the public sector is also closely related to accountability and governance quality. Ahyaruddin & Amrillah (2018) shows that compliance with regulations and accountability standards is a determining factor in the effectiveness of regional financial management. Compliance is not only measured by the fulfillment of administrative procedures, but also by the ability of local governments to demonstrate that the use of the budget is in accordance with the established normative objectives. This is reinforced by the findings of (Tambunan & Rosdiana, 2020), who emphasize that effective regional tax management requires harmony between legal norms, institutional capacity, and budgeting practices. The minimum allocation requirement creates compliance standards that can be evaluated more clearly, both by supervisory agencies and by the public.

Legal compliance related to the earmarking of PBJT Electricity covers two dimensions: formal compliance, namely fulfillment of the minimum allocation provisions as stipulated in positive legal norms; and substantive compliance, namely the alignment between the objectives of the earmarking policy and the implementation of a budget that truly supports the provision of public street lighting services. The distinction between creating individual rights and the obligation of thematic accountability is crucial. While formal compliance focuses on meeting minimum legal requirements, substantive compliance emphasizes the real impact of the allocation, ensuring that the resources are effectively used to meet the intended policy goals. This distinction is important because it allows for a more incisive analysis of how local governments carry out their normative obligations, as well as how the earmarking mechanism strengthens or challenges existing fiscal governance practices. With these two dimensions, the compliance evaluation does not stop at the allocation figures but also includes the extent to which local governments are able to realize policy objectives in the provision of public services.

### **METHOD**

This study used a normative approach by examining the legal framework governing the Tax on Specific Goods and Services on Electricity and the relevant local budgeting system. This approach was chosen because the main objective of the study was to examine earmarking obligations as a legal construct and governance instrument, so that the analysis was directed at understanding how legal norms shape allocation obligations, limit fiscal discretion, and influence local government accountability and legal compliance standards. The study focused on the legal and governance norms applicable in the period of analysis (2021–2024), addressing how these norms were implemented within the context of the most recent fiscal year and local budgeting frameworks. This study focused on what should be according to governance norms and principles, not on empirical variations in implementation at the regional level.

The primary legal materials used include Law Number 1 of 2022 concerning Financial Relations between the Central Government and Local Governments, which provides the statutory framework for regional taxation and intergovernmental fiscal relations, as well as Government Regulation Number 4 of 2023 as its implementing regulation, particularly Article 11, which operationalizes the earmarking obligation for the allocation of a minimum portion of PBJT Electricity revenue to public street lighting. In addition, Law Number 6 of 1983 concerning General Provisions and Tax Procedures and its amendments is used as a doctrinal reference regarding the character of taxes as compulsory levies without direct returns. Secondary legal materials included taxation doctrine, public accountability theory, legal compliance theory, and literature on fiscal governance and earmarking mechanisms in public policy.

The analysis was conducted through systematic and teleological interpretation of positive legal norms. Systematic interpretation was used to examine earmarking provisions in relation to the overall regional budgeting system, including how these norms interact with the principles of fiscal planning, budgeting, and accountability. Meanwhile, teleological interpretation was used to assess the suitability of earmarking implementation with the policy objectives to be achieved by the legislators, particularly increasing public accountability and limiting fiscal discretion. This study used a conceptual approach to examine the relationship between the doctrine of tax as a non-contraprestative levy and the practice of earmarking, which created thematic constraints on the use of taxes.

This study did not include an empirical evaluation of the implementation of earmarking at the regional level because this was outside the scope of normative analysis. Implementation risks such as budget gaming, discrepancies between projected and actual revenue, conflicts between fiscal flexibility and normative obligations, and the potential for symbolic compliance were recognized as important issues but were not analyzed empirically. This limitation of scope was maintained to ensure methodological consistency and to keep the analysis within the framework of normative law and conceptual governance as formulated in the research objectives.

## RESULTS AND DISCUSSION

### Results

#### *Earmarking of Electricity PBJT and Paradigm Shift in Local Tax Management*

The implementation of earmarking obligations in the Specific Goods and Services Tax on Electricity, as established within the framework of Law Number 1 of 2022 concerning Financial Relations between the Central Government and Local Governments and further operationalized through Government Regulation Number 4 of 2023, not only introduces the binding of tax use to specific purposes, but also fundamentally changes the paradigm of local tax management. In the traditional regional financial management regime, taxes are treated as general revenue, where budget allocations are determined through political and administrative processes in the annual planning and budgeting cycle. However, the minimum allocation requirement of 10 percent of PBJT Electricity revenue for the financing of Public Street Lighting constrains this paradigm by introducing an element of normative binding in tax revenue management. The findings of Tambunan & Rosdiana, (2020) research show that changes in the design of local tax policies can indeed shift budgeting patterns from a discretionary model to a more normatively bound model.

This earmarking obligation creates a functional link between tax revenue and the financing of certain public services without changing the character of the tax as a non-retributive levy. Taxes do not give rise to individual rights to certain services, but earmarking creates a normative obligation for local governments to allocate a portion of tax revenue in accordance with the objectives set by the legislature. Here, earmarking serves as an instrument that limits fiscal discretion and strengthens accountability, so that the use of taxes becomes more traceable and assessable by the public. This is in line with the research by Sunaryo & Cicellia, (2014), which confirms that the thematic link between public revenue and expenditure increases the pressure for accountability on local governments because the public can assess the alignment between policy objectives and budget realization more concretely.

The conceptual issue that arises lies in the interpretation of the "minimum 10 percent" limit, particularly in relation to the basis for calculating the allocation. Normatively, this provision refers to a percentage of PBJT Electricity revenue, which in practice can only be known with certainty after the fiscal year has concluded and revenue realization has occurred. Meanwhile, the regional budgeting process is *ex ante*, where expenditure allocations are determined before actual revenue realization is known. The tension between the norm of earmarking based on revenue realization and the planning-based budgeting system places fiscal planning as a crucial element in the implementation of earmarking obligations.

Existing research shows that earmarking is often used as a mechanism to increase transparency and strengthen the relationship between revenue and public expenditure. Barile et al., (2024) assert that earmarking can increase public trust because the public can trace the link between the taxes collected and the services financed. The minimum allocation obligation creates public expectations that electricity tax revenues will be used consistently to support the provision of public street lighting. Haryanto, (2017) research shows that consistency between policy objectives and budget realization is an important factor in maintaining the fiscal legitimacy of local governments.

The minimum allocation requirement of 10 percent cannot be understood merely as an arithmetic obligation calculated *ex post*, but rather as a normative obligation that must be translated into the planning and budgeting process from the outset. Cetin et al., (2017) show that clarity of purpose in the use of public funds can influence government fiscal behavior and increase compliance with budgetary rules. Local governments are required to make rational and responsible projections of PBJT Electricity revenues and then use these as the basis for determining the budget allocation for Public Street Lighting. These findings are in line with the research by Delen et al., (2019), which confirms that the effectiveness of local fiscal policy implementation is greatly influenced by the quality of projections and the consistency of budget planning.

The role of planning becomes increasingly important because errors in revenue projections have the potential to pose governance risks. If the budget allocation for public street lighting is set far below the proportion that should be based on actual revenue, there is a risk that the earmarking obligation will not be fulfilled substantively. Conversely, if the allocation is set without adequate projections, local governments may face pressure to adjust their budgets mid-year through changes to the regional budget (APBD), which in turn disrupts the stability and

consistency of budgetary policy.

Earmarking is also seen as a mechanism that can strengthen the stability of public service financing. Bigano et al., (2016) show that earmarking can increase the sustainability of funding for certain services by creating a relatively stable source of financing tied to specific objectives. This commitment provides funding certainty for Public Street Lighting while creating clearer evaluation standards for the public and supervisory agencies. Earmarking PBJT Electricity shifts the focus of local tax management from mere compliance with end results (outcome-based compliance) to process-based compliance. Compliance with minimum allocation obligations is not only assessed based on whether the 10 percent percentage is nominally met at the end of the fiscal year, but also on whether local governments have seriously internalized earmarking obligations in their budget design since the planning stage. Budget planning thus becomes the main arena for assessing local governments' commitment to earmarking norms.

PBJT Electricity earmarking cannot be treated as an additional technical provision, but rather as a governance instrument that changes the logic of local tax management. Taxes are no longer managed entirely as free revenue but are partly treated as revenue that carries certain policy consequences from the planning stage. To address the recurring tension between ex-ante budgets and ex-post revenue realization, the following procedure is recommended for the budget cycle:

- 1) Forecast PBJT using the last 3 years with conservative adjustments.
- 2) Include a provisional PJU allocation line at 10% of the forecast.
- 3) Implement a mid-year reconciliation rule and transparency protocol.
- 4) Define contingency options, including reallocation rules and DPRD approval steps.

This change reinforces the character of earmarking as a governance mechanism that harmonizes revenue planning, expenditure budgeting, and fiscal accountability within a consistent normative framework.

The paradigm shifts in local tax management due to the implementation of PBJT Electricity earmarking not only has an impact on planning and budgeting but also has direct consequences for local government accountability standards. The thematic link between tax revenue and public service financing requires the strengthening of public accountability as a prerequisite for the legitimacy of fiscal policy.

#### *Earmarking and Improving Public Accountability Standards*

Public accountability is one of the fundamental principles in regional financial management, where tax collection conceptually does not provide direct returns to taxpayers. In the case of local taxes that are treated as general revenue, the relationship between the taxes paid and the benefits received by the community tends to be abstract, thereby limiting the scope for public evaluation of the use of taxes. The earmarking obligation creates a thematic link between tax revenue and the financing of public street lighting, which in turn strengthens the demand for substantive accountability in local tax management.

This thematic link allows the public to assess whether local governments are using tax revenue in accordance with the normative objectives set by lawmakers. Although earmarking does not change the character of taxes as non-contributory levies, and does not give rise to individual rights to specific services, this mechanism creates a normative basis for the public to evaluate the consistency between tax collection and the financing of promised public services. Thus, public accountability is no longer purely financial, but also constitutes policy accountability.

Transparency is a key prerequisite for public accountability. Craig & Kopits, (1998) emphasize that fiscal transparency includes openness of information regarding policy objectives, the budgeting process, and the results of public fund use, so that the public can assess the consistency between policy and its implementation. The application of earmarking in the Electricity PBJT strengthens this dimension of transparency because the public has a clearer basis for tracing the relationship between tax revenue and public street lighting financing. The minimum allocation obligation functions not only as a legal instrument but also as a governance mechanism that improves the traceability of public fund use.

In addition to transparency, public accountability in modern government also includes institutional and organizational behaviour dimensions. Papcunová et al., (2020) show that public sector accountability depends on the ability of institutions to provide information that is relevant,

verifiable, and traceable by the public. This means that local governments must not only include minimum allocations in budget documents, but also ensure that information on the planning, implementation, and realization of the Public Street Lighting budget is available and can be evaluated by the public and supervisory agencies. This openness of information is increasingly important because earmarking creates public expectations that the use of taxes must be in line with established normative objectives.

Accountability is understood as a dialogical relationship between the government and the public, in which the government is obliged to explain the basis for the policies it adopts, and the public has the right to assess their appropriateness. Bach, (2020) emphasizes that modern public governance requires accountability mechanisms that ensure that the use of public funds is in line with policy objectives and can be explained rationally to the public. This means that local governments must be able to transparently explain how the minimum allocation is calculated, how revenue projections are compiled, and how the Public Street Lighting budget is planned and realized.

The earmarking obligation also strengthens substantive accountability by creating more concrete evaluation standards. The public and supervisory institutions can assess whether local governments actually allocate a minimum of 10 percent of PBJT Electricity revenue for Public Street Lighting, whether the allocation is based on rational revenue projections, and whether the budget realization reflects a commitment to policy objectives. To ensure proper accountability, the following model calculation for the 10% allocation in the APBD is recommended:

- 1) Total PBJT revenue forecasted for the fiscal year.
- 2) 10% of the forecasted revenue to be allocated to Public Street Lighting (PJU).
- 3) Allocation in the APBD should be clearly marked as PJU allocation.
- 4) Mid-year reconciliation should be done to ensure consistency between forecast and actual allocation.

A table or diagram can be included here to visually track the allocation process, making it easier to assess transparency and compliance. When information on these aspects is not adequately disclosed, the risk of perceived non-compliance increases, which can ultimately weaken the fiscal legitimacy of local governments.

The application of earmarking in the Electricity PBJT not only creates legal obligations but also strengthens the demand for public accountability in the management of local taxes. The thematic link between tax revenue and public street lighting financing allows for a more concrete public evaluation of the alignment between policy objectives and their implementation. This positions the concept of earmarking as a governance instrument that not only limits fiscal discretion but also increases transparency, strengthens fiscal legitimacy, and encourages substantive accountability practices in local financial management. This is in line with the findings of Azzira & Noor, (2025) and Ahyaruddin & Amrillah, (2018), which show that normative linkages in budget management strengthen accountability and improve the quality of local government fiscal responsibility.

Strengthening public accountability through earmarking mechanisms ultimately cannot be separated from the issue of local government legal compliance. Substantive accountability can only be realized if normative obligations are carried out consistently within the applicable legal framework, both from a formal and a substantive perspective.

## **Discussion**

### *Legal Compliance: Between Formal and Substantive Compliance*

The discussion of earmarking in the Electricity PBJT shows that this regulation cannot be understood solely as a technical provision for budget allocation, but rather as an instrument of public fund management that changes the relationship between tax revenue, the budgeting process, and local government accountability. By tying a portion of tax revenue to specific purposes, the concept of earmarking introduces a normative control mechanism that limits fiscal discretion and shapes policy priorities from the planning stage, so that compliance with legal norms is assessed not only from the final allocation results, but also from the accompanying policy process.

Earmarking serves as a tool for structuring fiscal decision-making. Tax revenues that were previously treated entirely as general revenue are now partially placed within a thematic policy

framework, namely the financing of Public Street Lighting. This change forces local governments to integrate tax policy with spending policy more explicitly, so that the relationship between funding sources and intended uses becomes part of governance design, rather than merely an administrative consequence of the annual budgeting process.

As a governance instrument, earmarking also strengthens multi-layered oversight mechanisms. On the one hand, the public gains a normative basis for assessing the consistency between taxes collected and promised public services. On the other hand, supervisory agencies have clearer benchmarks for evaluating compliance and accountability in public fund management. Earmarking here functions as a governance anchor that aligns planning, budgeting, implementation, and oversight within a coherent normative framework.

Legal compliance in the implementation of Electricity PBJT earmarking is not only related to formal compliance with normative provisions but also includes substantive consistency between policy objectives and their implementation. Compliance cannot be understood solely as an administrative action to meet minimum allocation figures, but rather as an institutional commitment to ensure that the use of tax revenues truly supports the provision of Public Street Lighting services as intended by the legislators.

Existing research confirms that fiscal compliance is greatly influenced by policy legitimacy and public perception of the use of public funds. Prichard shows that tax compliance increases when the public sees that the government uses tax revenues legally, transparently, and in accordance with their intended purpose. This fiscal legitimacy is reinforced through the earmarking mechanism, as the public can more concretely assess whether local governments are actually allocating tax revenues to finance public street lighting. Thus, legal compliance is not only measured by meeting the minimum allocation figure, but also by the ability of local governments to demonstrate alignment between policy objectives and the use of public funds.

Government compliance with budgeting rules is influenced by the clarity of norms and consistency of implementation. Cetin et al., (2017) emphasize that clarity of the purpose of public fund use can influence government fiscal behavior and increase compliance with budgeting rules. When legal norms stipulate minimum allocations, local governments are required to prepare rational and accountable revenue projections. Inaccurate projections have the potential to cause discrepancies between budget allocations and actual revenue, thereby creating the risk of substantive non-compliance even though the allocation obligations are formally stated in the budget document.

In Indonesia, legal compliance in regional financial management is also closely related to the quality of governance and accountability. Ahyaruddin & Amrillah, (2018) shows that compliance with regulations and accountability standards is an important factor in the effectiveness of regional financial management. Compliance is not only measured by the fulfillment of administrative procedures, but also by the alignment between policy objectives and budget implementation. This means that local governments must ensure that the minimum allocation is not only stated in the budget document but also consistently realised to support the provision of public street lighting services.

Legal compliance in the implementation of PBJT Electricity management covers two interrelated dimensions. First, formal compliance refers to the fulfillment of minimum allocation requirements as stipulated in positive legal norms, which can be evaluated through planning and budgeting documents. Second, substantive compliance refers to the alignment between the objectives of the earmarking policy and the implementation of the budget, ensuring that allocations support the provision of public street lighting services. Substantive compliance requires consistency between revenue projections, budget allocations, and expenditure realization.

The distinction between formal and substantive compliance is key to understanding the effectiveness of earmarking implementation. Local governments can formally fulfill their minimum allocation obligations but fail to achieve policy objectives if revenue projections are irrational, budget realization is inconsistent, or the use of funds does not fully support public street lighting services. To operationalize substantive compliance, auditors would assess whether revenue projections are realistic, whether the allocated funds are spent on public street lighting, and whether budget realization matches the planned allocation. Evidence such as quarterly financial reports, reconciliation documents, and public access to allocation details would indicate success in achieving substantive compliance. In this regard, earmarking functions as a governance

instrument that reinforces the demand for substantive compliance, as the public and supervisory agencies have a more concrete basis for evaluating the alignment between policy objectives and their implementation.

Legal compliance in the implementation of the minimum allocation of PBJT Electricity is not only an administrative obligation but also a governance commitment to ensure that the use of tax revenue is in line with policy objectives. This mechanism strengthens fiscal legitimacy, increases transparency, and creates clearer evaluation standards for the public and supervisory agencies. This positions legal compliance as a key element in the effective implementation of earmarking and in realising regional financial governance that is accountable and responsive to public needs.

Legal compliance with the PBJT Electricity earmarking obligation, both formally and substantively, ultimately reflects how these legal norms are internalized in regional financial governance practices. Therefore, the discussion needs to continue with its broader implications as a fiscal governance instrument that influences the behavior and institutional capacity of local governments.

### *Earmarking as an Instrument of Public Fund Governance*

The application of earmarking in the Electricity PBJT has broader implications for regional financial management, going beyond the individual aspects of budget planning, public accountability, and legal compliance. In fiscal governance, the concept of earmarking functions as an instrument that influences the way local governments manage fiscal discretion, set policy priorities, and build institutional capacity in public fund management. Thus, it is not only a normative obligation, but also a governance mechanism that shapes the fiscal behavior of local governments systemically.

As a governance instrument, earmarking requires policy consistency across all stages of the budget cycle. The thematic link between Electricity PBJT revenue and Public Street Lighting financing creates a policy framework whose sustainability must be maintained from the planning stage to accountability. Earmarking functions as a policy-binding mechanism that encourages integration between tax and spending policies, so that regional revenue management is not fragmented but rather directed towards predetermined public objectives. This is in line with Duadji, (2013) research, which shows that inaccurate fiscal planning is one of the main sources of inefficiency and inconsistency in regional policies, and (Abdullah, 2014) research, which emphasizes that the quality of fiscal planning greatly determines the consistency between policy objectives and budget implementation.

Research on fiscal governance frames thematic linkages between revenue and expenditure as a mechanism that can improve policy consistency and strengthen fiscal legitimacy. However, the volatility of revenue, particularly in sectors dependent on cyclical or external factors, poses a risk to the stability of earmarked allocations. To mitigate this, it is recommended to establish a stabilization fund, implement multi-year budgeting practices, and introduce reserve rules to ensure that revenue fluctuations do not undermine the policy objectives set for public services. Mlk et al., (2025) show that fiscal instruments with clear thematic objectives can increase the effectiveness of public policy because the relationship between funding sources and the services financed becomes easier to understand and evaluate. This link builds relatively stable policy expectations, both for the public and for budget management officials, thereby strengthening the policy orientation, in this case, toward the provision of public street lighting services.

In addition, the earmarking mechanism also has implications for the stability of public service financing. Bigano et al., (2016) emphasize that this can increase funding sustainability by creating a relatively predictable source of financing that is tied to specific objectives. This mechanism provides relative certainty regarding the financing of public street lighting, which in turn supports the continuity and quality of public services. However, this stability is highly dependent on the capacity of local governments to develop rational revenue projections and the ability to adjust budget policies in response to the dynamics of revenue realization.

Earmarking also functions as a policy steering instrument that influences the fiscal behavior of local governments. Heinzl et al., (2023) show that binding fiscal instruments can promote alignment between policy objectives and their implementation by limiting discretion and creating institutional incentives to comply with designated objectives. This encourages local

governments to not only fulfill their allocation obligations but also ensure that the use of funds is directed towards supporting the provision of public street lighting in an effective and sustainable manner. However, earmarking also poses governance challenges if it is not supported by adequate institutional capacity. Inaccurate revenue projections, weak coordination between local agencies, or limitations in financial information systems can reduce its effectiveness and cause discrepancies between policy objectives and budget implementation. In such situations, it risks becoming a symbolic instrument that does not fully function as an effective fiscal governance mechanism.

Earmarking serves as a policy steering mechanism that strengthens regional financial governance, as well as a test of the institutional capacity of local governments to manage public funds in an accountable and sustainable manner. To help visualize the operationalization of this concept, the following table summarizes the key claims of the paper, proposed operational rules, and suggested indicators for monitoring:

**Table 1.** The Theoretical Framework

<b>Key Claims</b>	<b>Proposed Operational Rules</b>	<b>Suggested Indicators for Monitoring</b>
Earmarking strengthens fiscal governance	Earmarking funds must be used exclusively for public street lighting services	Regular reports on fund allocation and use
Local governments must integrate fiscal planning	Local governments must ensure budget allocation aligns with earmarking obligations	Percentage of funds spent on intended purposes (e.g., PJU)
Institutional capacity is crucial for success	Mid-year reconciliation and public disclosure of fund usage	Public access to detailed budget and spending reports
Accountability is essential for legitimacy	A minimum of 10% of PBJT revenue allocated for public street lighting services	Audit reports and compliance checks on the 10% allocation requirement

This table helps clarify how the theoretical framework can be interpreted into concrete actions and provides measurable indicators to assess compliance and effectiveness in earmarking implementation.

Ultimately, earmarking PBJT Electricity as a regional fiscal governance instrument must be understood within the framework of the capacity and quality of local government institutions. Its effectiveness is not only determined by the clarity of legal norms, the level of public accountability, or the fulfillment of formal and substantive compliance, but also by the ability of local governments to consistently integrate fiscal planning, budgeting, and control. Earmarking serves as a policy steering mechanism that strengthens regional financial governance, as well as a test of the institutional capacity of local governments to manage public funds in an accountable and sustainable manner.

## CONCLUSION

This study shows that the application of earmarking in the Specific Goods and Services Tax on Electricity represents an important shift in the paradigm of local tax management. Although doctrinally, taxes are still understood as levies without direct returns, the minimum allocation requirement for public street lighting creates a normative link that changes the way tax revenues are planned, budgeted, and accounted for. Earmarking does not change the nature of taxes into charges but strengthens the relationship between taxes and public policy through a more targeted governance mechanism. Earmarking PBJT Electricity increases the standard of local government accountability for tax use. Accountability is no longer limited to aggregate financial reporting but includes thematic traceability between tax revenue and the financing of normatively defined public services. The minimum allocation obligation provides a basis for the public and supervisory agencies to assess policy consistency, even in the absence of individual rights to specific services.

This study emphasizes the importance of distinguishing between formal compliance and substantive compliance. Formal compliance is reflected in the inclusion of earmarking obligations in regional planning and budgeting documents, while substantive compliance depends on the extent to which these obligations are internalized in policy design and budget management

mechanisms. The emphasis on substantive compliance shows that this mechanism has the potential to lose its regulatory power if it is only fulfilled administratively without adequate planning and governance support. This study positions PBJT Electricity earmarking as an instrument of public fund governance that limits fiscal discretion while increasing policy legitimacy. The success of earmarking is not determined solely by the fulfillment of the nominal allocation percentage, but by the extent to which these obligations are consistently integrated into the regional financial planning, budgeting, and oversight cycle. Thus, earmarking functions as a policy steering mechanism, not merely a technical budgetary provision.

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#### AUTHOR CONTRIBUTION STATEMENT

Nizar Zulkarnain contributed to the conceptualization, methodology, analysis, and writing of this research. He is the sole author responsible for all sections of this paper, including the design, data interpretation, and manuscript preparation. No external contributions were involved in the research process.

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