

NOBODY'S ARREARS: THE COLLECTION INCENTIVE PROBLEM IN A TAX SPLIT BETWEEN TWO GOVERNMENTS

Rieke Purnamasari^{1*}, Ludwina Harahap²

¹Universitas Mercubuana

²Universitas Trilogi

*Corresponding author: rieke.purnamasari@mercubuana.ac.id

Article History

Received: 11-03-2026

Revised: 15-04-2026

Accepted: 09-05-2026

Keywords:

tax arrears; collection
incentives; shared revenue
instruments; enforcement
effort; intergovernmental
fiscal relations

ABSTRACT

A tax collected by one government for the benefit of another creates an incentive problem that appears only at the margin of collection. While taxpayers comply, the arrangement functions and the split is invisible. Where they do not, the resulting arrears belong disproportionately to a party that cannot pursue them and only fractionally to the party that can. This article specifies the problem, shows that its severity is determined by the ratio of the collector's retained share to its marginal collection cost, and derives the conditions under which a shared instrument will under-collect relative to an unshared one. Indonesia's surcharge mechanism, in force from 5 January 2025, provides a case in which the retained share is 34 per cent, the collecting province bears the whole marginal cost of recovery, and the receiving jurisdictions hold no recovery power. Evidence from 35 jurisdictions is consistent with the predicted pattern: attainment on the annual vehicle tax was 90.0 per cent with wide dispersion, and six of 35 jurisdictions exceeded target, while the aggregate remained ten percentage points short. The article argues that the arrangement is defensible on collection-efficiency grounds and defective on collection-incentive grounds, that these are separate questions frequently conflated, and that a remedy exists which preserves the first while addressing the second.

1. INTRODUCTION

Shared tax instruments are recommended for a reason that is sound. Where one government has the administrative apparatus and another needs the revenue, having the first collect for the second avoids duplicating a costly machine. The efficiency case is strong and the arrangement is widespread.

The case is made, however, on the assumption of compliance. Collection efficiency concerns the cost of processing payments that are made. It says nothing about the effort required to obtain payments that are not, and it is at that margin that the sharing of the proceeds begins to matter.

This article specifies what happens there. Where a collector retains a fraction of what it recovers but bears the whole cost of recovering it, the effort it will supply is determined by that fraction, and the beneficiary of the remainder has no means of supplying the difference. The article derives the condition under which this produces under-collection, examines a case in which the fraction is 34 per cent, and considers what would remedy the problem without abandoning the efficiency the arrangement delivers.

2. LITERATURE REVIEW

2.1 *The margin at which sharing bites*

Consider a collector deciding whether to pursue an outstanding liability of value L . Recovery costs c , which rises as the case becomes harder. The collector retains share s of what it recovers. It pursues the case where sL exceeds c .

Where s equals one, the collector pursues every case for which L exceeds c . Where s is less than one, it pursues only cases for which L exceeds c/s . The threshold rises as s falls, and the cases excluded are precisely those with the least favourable ratio of value to difficulty — which is to say, the hardest arrears.

Three consequences follow. First, the shortfall attributable to sharing is not proportional to the shared fraction; it is concentrated in a tail. Second, the beneficiary's loss exceeds its share of the excluded cases, since it loses the whole of what would have been recovered had the collector pursued them. Third, the effect is invisible in aggregate collection statistics, because the cases never enter the arrears recovered figure and the arrangement continues to perform well on the compliant majority.

2.2 *What the tax literature establishes about effort*

That enforcement effort responds to its return is well established. Slemrod (2019), reviewing tax compliance and enforcement, identifies enforcement effort as a principal determinant of collection and treats its supply as responsive to cost and return. Bagchi (2025) shows that collection at source raises compliance sharply, because withholding removes the payer's discretion and so removes the need for effort altogether — which is the design that makes vehicle taxation productive and, equally, means that the residual arrears are those withholding did not capture.

Sen and Wallace (2022) address the shared-instrument case directly, showing for India's subnational value added tax that revenue productivity depends on collection effort the beneficiary may not control. Agrawal and Shybalkina (2024) show that the administrative rules determining where revenue is credited carry distributional force independently of economic activity — a related point, since the crediting rule here also determines who has an interest in enforcement. Baskaran (2021) finds that revenue and base respond differently to a change in the instrument's parameters, which cautions against assuming that changing the shared fraction would have proportional effects.

Yabré, Loaba and Semedo (2025) supply the closest quantitative analogue. Across 104 countries they find tax revenue responding positively but non-linearly to the number of political veto players, with an optimum beyond which additional parties impede mobilization. A shared instrument multiplies the parties holding an interest in each liability, and their result predicts that beyond some number this reduces rather than raises collection.

2.3 Why the beneficiary cannot supply the missing effort

The problem would be self-correcting if the beneficiary could pursue the cases the collector declines. Two conditions determine whether it can: legal power and administrative capability, and in the arrangement examined here it holds neither.

On capability, the public administration literature is consistent that enforcement capacity resides in apparatus rather than in entitlement. Pill (2024) argues that local capacity is a property of administrative machinery; Kim and Kang (2024) and Tran and Dollery (2022) find administrative intensity associated with fiscal performance; Collazos-Ortiz and Schakel (2023) show administrative efficiency conditioning whether municipalities convert entitlement into revenue; and de la Riva Agüero (2021) identifies capacity as the binding constraint on complex delivery in lower-income settings. A beneficiary that has never maintained a register or conducted an assessment cannot begin pursuing arrears because it has acquired an interest in them.

Zhu, Xiao and Wu (2022) and Lee (2022) indicate what would be required and what might work: information systems raise bureaucratic capacity at scale, and collaborative platforms produce outcomes where they allocate tasks rather than merely convene parties. Both point toward a shared enforcement arrangement rather than toward duplicated capability, which is the direction Section 5 develops.

2.4 What the transfer literature adds

The incentive problem specified here has a counterpart in the literature on intergovernmental transfers, where the recurring finding is that arrangements alter behaviour in ways their design did not contemplate. Bury, Feld and Burret (2024), quantifying the German equalization scheme across five decades, show that formulas embed implicit marginal rates on subnational revenue effort. Alves and Araujo (2024) and Bernardelli, Paschoalino, Russo and Kortt (2026) find substantial fiscal-incentive effects of transfers on Brazilian municipalities, and Cohen (2023) shows subnational responses to external revenue running in both directions depending on setting.

Two features distinguish the present problem from that literature and make it sharper. In a transfer, the recipient receives money and adjusts its own effort in response; the incentive operates on the recipient. In a shared instrument, the incentive operates on the collector, who is not the recipient and whose adjustment the recipient cannot observe or influence. Saens, Cox and Villalobos (2026) find the flypaper effect conditioned by fiscal capacity, and Singh and Dubey (2026) find shock transmission depending on revenue composition — both indicating that behavioural responses in this field are contingent rather than uniform, which is a reason to specify the mechanism rather than to assume it.

The stress literature indicates when the problem will be most acute. Aikins (2023) shows that intergovernmental revenue shapes how far governments draw on reserves under fiscal pressure, and Yu, Kim and Sim (2022) find fiscal capacity conditioning the scope of local response to a shock. Porto, Puig and Vidal (2026) show subnational budgets adjusting dynamically rather than

immediately. A collector under its own fiscal pressure faces a higher opportunity cost of enforcement effort, so the threshold derived in Section 2.1 rises further precisely when the beneficiary most needs the revenue.

3. METHOD

Under Article 83(1) of Law No. 1 of 2022, Indonesian regencies and cities levy a surcharge of 66 per cent on the principal motor vehicle tax and vehicle transfer duty arising within their territory, in force from 5 January 2025. Under Article 108 of Government Regulation No. 35 of 2023 the tax is assessed by the governor, payment into the district treasury occurs simultaneously with payment into the provincial treasury, recovery action is vested in the governor, and proceeds of recovery are remitted to the district treasury within three working days.

The parameters of the model are therefore fixed by the instruments. The collector retains $s = 0.34$ of the principal. It bears the whole of c , since recovery is its function alone. The beneficiary holds 0.66 of every unpaid liability and no power to pursue it. Article 112 provides for synergy in collection and Article 114 for quarterly reconciliation of revenue data, but neither confers a recovery power on the beneficiary nor obliges the collector to pursue any particular case.

Data on attainment are from the provincial revenue agency dashboard for fiscal year 2025, aggregated to the 35 jurisdictions of Central Java Province, and are operational reporting rather than audited accounts. Table 1 reports attainment against the principal target.

4. RESULTS AND DISCUSSION

The model predicts a shortfall concentrated in hard cases rather than spread evenly, and therefore an aggregate below target with substantial dispersion across collection units and some units at or above target.

Table 1. Attainment of principal collection target, annual vehicle tax, FY2025

Measure	Value	Model prediction
Aggregate attainment	90.0%	Below target
Mean across 35 jurisdictions	95.4%	—
Median across 35 jurisdictions	88.8%	—
Coefficient of variation	0.303	Substantial dispersion
Jurisdictions at or above target	6 of 35	Some units reach target
Weakest jurisdiction	63.6%	Long lower tail

Source: Central Java Regional Revenue Agency dashboard, December 2025 cumulative. Attainment is realized principal divided by pure target. Figures are operational reporting and are not audited.

The observed pattern matches the prediction in each respect. The aggregate falls 10 percentage points short; dispersion is substantial at 0.303; six units exceed target, showing that the target was attainable; and the lower tail extends to 63.6 per cent.

It should be stated plainly that this pattern is also consistent with explanations having nothing to do with the incentive structure — differences in local administrative effort, in base composition, or in how targets were set across units. The evidence is consistent with the model and does not discriminate between it and those alternatives. What the model contributes is an explanation for why the shortfall persists rather than being closed, and that claim is not tested here.

4.1 Discussion

Two questions are frequently conflated in assessments of shared instruments, and separating them is the article's main contribution.

The first is collection efficiency: whether the arrangement processes compliant payments at low cost. On this the surcharge performs well. One counter, one transaction, one apparatus, no duplication across more than five hundred receiving jurisdictions. Bahl and Bird (2018) recommend the arrangement for precisely this reason and the recommendation is sound.

The second is collection incentive: whether the arrangement elicits the effort required at the margin. Here the design is defective, because it reduces the collector's return without reducing its cost and gives the beneficiary an interest without a means of acting on it. The two questions have different answers, and an assessment addressing only the first will conclude that the instrument works.

A remedy is available that preserves the first while addressing the second, and it follows from the model. The problem is that $s < 1$ for the collector on the marginal case. It can be corrected either by raising s at the margin — allowing the collector to retain a larger share of arrears recovered than of current collections — or by transferring c , with the beneficiaries meeting the cost of recovery on cases they wish pursued. Either restores the condition $sL > c$ without requiring the beneficiary to build an enforcement apparatus, and either can be implemented within the existing collection arrangement.

Of the two, raising the retained share on recovered arrears is simpler, since it requires no cost allocation between more than five hundred parties and no case-by-case decision. Its cost is that the beneficiary receives less of what is recovered — but it receives a share of a larger recovered sum, and on the model's logic the additional cases recovered are cases that would otherwise have yielded nothing to anyone. The quarterly reconciliation already required by Article 114 supplies the reporting infrastructure such an arrangement would need.

Three limitations bound the argument. The model treats the collector as maximizing net revenue, which is a simplification of a public organization's objectives. The evidence is a single-year cross-section that is consistent with the model without discriminating in its favour. And the article does not observe arrears directly — the aggregate stock of unpaid liabilities by jurisdiction is not published — so the mechanism is inferred from attainment rather than measured at the margin

where it is said to operate. Obtaining an ageing schedule of vehicle tax receivables by jurisdiction would permit a direct test and is the single most valuable extension available.

4.2 Why the problem is likely to be general

The configuration examined here is not peculiar to Indonesian vehicle taxation. Any arrangement in which one government collects for another creates the same wedge between the collector's return and its cost, and three findings suggest that the resulting behaviour is detectable elsewhere. Vincent and Osei Kwadwo (2022) show that fiscal flows produce spillovers across jurisdictions, so an enforcement decision taken in one place has consequences in another that neither party internalizes. Krishna Chaitanya and Roberto (2026) document unintended consequences of externally funded flows on fiscal transfers, and Masi, Savoia and Sen (2024) find fiscal capacity conditioned by political institutions rather than by resources — both indicating that formal entitlements translate into revenue only through arrangements the entitlement itself does not create.

Two further results bear on how quickly the problem would show. Apeti and Edoh (2023) find payment infrastructure raising tax revenue, which implies that improvements unrelated to enforcement can mask an incentive deficit in aggregate figures. Lucidi (2022) shows fiscal effects varying regionally within one country, so an aggregate attainment figure averages across units whose enforcement conditions differ. Both are reasons to expect the mechanism specified in Section 2.1 to be visible only in disaggregated arrears data, which is where Section 5 recommends looking.

4.3 The threshold expressed as a quantity

The model's central inequality can be given a numerical form using the parameters of the present arrangement, which makes the size of the distortion visible rather than merely its direction.

Let L be the liability outstanding on a given case and c the marginal cost of recovering it. An unshared collector pursues the case whenever L exceeds c . A collector retaining a share s pursues it whenever sL exceeds c , that is whenever L exceeds c/s . With s equal to 0.34, the threshold is c divided by 0.34, or approximately $2.94c$. The recovery threshold is therefore roughly three times what it would be for an unshared instrument, and every case whose liability falls between c and $2.94c$ is one that a rational collector would pursue before the reform and decline to pursue after it.

The distributional character of that band matters. Liabilities on an annual vehicle tax are small individually and numerous, so the population of cases is concentrated at the low end of the liability distribution — precisely the region the widened threshold excludes. The arrangement therefore does not merely reduce recovery proportionally; it removes a disproportionate share of the caseload, because the cases removed are the small ones and the small ones are most of them.

Two features of the design compound this. The collector's marginal cost c does not fall when its share falls: the same visit, notice or enforcement action is required whatever the destination of the proceeds. And the beneficiary, which holds 66 per cent of every excluded case, cannot substitute its own effort, because Article 108 of the implementing regulation vests assessment, collection and

enforcement exclusively in the governor. The excluded band is therefore not merely unpursued by the collector; it is unpursuable by anyone.

4.4 Two objections

The first objection is that public revenue administrations do not maximize net revenue and so the model misdescribes them. Collection targets are set administratively, officials are assessed against them, and statutory duty rather than marginal return governs whether a case is pursued. The objection is partly right and the article concedes it in the limitations. Two considerations limit its force. Targets are themselves set on the principal amount, of which the province retains 34 per cent, so the administrative incentive tracks the fiscal one rather than counteracting it. And the model does not require officials to compute a threshold; it requires only that effort be finite and allocated, which produces the same ordering whether the allocation is deliberate or emergent from workload pressure.

The second objection is that the attainment evidence is too weak to support the argument. This is accepted and stated in Section 4.1: the cross-sectional pattern is consistent with the model and does not discriminate between it and alternatives resting on local effort, base composition or target-setting. The article's claim rests on the structure of the arrangement rather than on the evidence, and the evidence is offered as consistency rather than as a test. A reader who rejects the empirical material entirely can still assess the argument, because the threshold result in Section 4.3 follows from the statutory parameters alone.

4.5 Limitations

Four limitations bound the analysis. The arrears stock by jurisdiction is not published, so the mechanism is inferred from attainment rather than observed at the margin where it is said to operate; Section 5 identifies an ageing schedule of receivables as the extension that would permit a direct test. The attainment data cover the first year of the arrangement, in which administrative novelty affects every unit, so the cross-section may reflect transition rather than steady state.

The model treats the collector as a single decision-maker with a well-defined objective, which abstracts from the internal structure of a revenue administration operating through dozens of service offices with their own targets and staffing. And the marginal cost c is not observed; the threshold result in Section 4.3 is expressed as a multiple of c rather than in currency, which establishes the direction and relative magnitude of the distortion without establishing how many cases in fact fall within the excluded band. Estimating that would require case-level cost data that no revenue administration in this system publishes.

4.6 Summary of findings

The analytical results are three. Where a tax is collected by one government and shared with another, the collector's recovery threshold rises from c to c/s , where s is its retained share and c its marginal recovery cost. With s equal to 0.34, the threshold rises by a factor of approximately 2.94.

And because the excluded band lies at the low end of the liability distribution, where the caseload is concentrated, the proportion of cases excluded exceeds the proportion of liability value excluded.

The institutional findings are two. The receiving jurisdictions hold 66 per cent of every affected receivable and no power to pursue any of it, since Article 108 of Government Regulation No. 35 of 2023 vests assessment, collection and enforcement exclusively in the governor. And the three mechanisms the framework supplies in place of a recovery power — the remittance duty, the collection synergy provision and the quarterly reconciliation duty — impose obligations of conduct rather than conferring powers of enforcement.

The empirical material is consistent with the model without testing it: aggregate attainment of 90.0 per cent on the annual vehicle tax, a coefficient of variation of 0.303 across the 35 jurisdictions, six units at or above target and a weakest unit at 63.6 per cent. Section 4.1 states why this pattern does not discriminate between the model and its alternatives, and Section 4.4 repeats the concession.

4.7 The remedy assessed against its own costs

A remedy proposed without its costs is an incomplete recommendation, and the differential retention arrangement suggested above has three that should be stated.

The first is that it creates a boundary requiring definition. If the collector retains a larger share of arrears recovered than of current collections, the distinction between the two categories acquires financial consequence, and a collector holding some discretion over when a liability is classified as in arrears gains an interest in that classification. The remedy therefore requires the arrears definition to be fixed externally — by reference to a statutory due date rather than to administrative practice — and requires the classification to be reported in the quarterly reconciliation the framework already mandates.

The second is distributional. The receiving jurisdictions would receive a smaller share of recovered arrears than of current collections, and jurisdictions differ in the proportion of their entitlement that falls into arrears. Those with weaker compliance environments would bear more of the cost of the arrangement, and these are, on the evidence of the companion analysis, disproportionately the jurisdictions with lower fiscal capacity. The arrangement corrects an incentive defect and introduces a mildly regressive distributional one, which is a trade rather than a free improvement.

The third is that the remedy addresses only the margin. It restores the collector's incentive to pursue cases in the excluded band; it does not give the receiving jurisdictions any power over their own revenue, and the structural position identified in Section 4.3 — 66 per cent of a receivable held by a party that cannot act on it — remains. Whether that position should be altered is a question of legal design rather than of incentive engineering, and it is not one this article resolves.

Taken together, the three costs do not defeat the proposal but they change its character. It is not a technical correction restoring an arrangement to its intended operation; it is a second design choice, with its own distributional consequences, made to compensate for a defect in the first. Presenting it as the former would repeat the error the article identifies in the original design, which

was to treat a question with distributional and incentive content as though it were purely administrative.

4.8 Policy implications

The analysis points to one change that is narrow enough to be implemented within the existing framework, and to two questions that are not resolved by it.

The change is the differential retention arrangement set out in Section 4.2 and costed in Section 4.7: allow the collecting province to retain a larger share of arrears recovered than of current collections, with the arrears boundary fixed by reference to the statutory due date rather than to administrative practice, and with the classification reported through the quarterly reconciliation that Article 114 already requires. This restores the condition $sL > c$ at the margin without duplicating enforcement machinery in more than five hundred receiving jurisdictions, and it requires no new reporting infrastructure.

The first unresolved question is measurement. No test of the mechanism is possible while the stock of vehicle tax arrears by jurisdiction remains unpublished, and no calibration of the retained share is possible without it either. Requiring an ageing schedule of receivables by jurisdiction in the quarterly reconciliation would supply both, and would additionally give the receiving jurisdictions the only instrument they currently lack that is within the framework's gift: information about what is owed to them.

The second is structural and lies beyond incentive design. Sixty-six per cent of every affected receivable belongs to a government that cannot issue an assessment, compel payment, or commence recovery. Whether a revenue entitlement should be conferred without any means of realising it is a question of legal architecture rather than of collection economics, and the remedy proposed here mitigates its consequences without answering it.

5. CONCLUSION

A tax collected by a province and belonging two-thirds to its regencies and cities creates a recovery threshold higher than an unshared instrument would, because the collector retains 34 per cent of what it recovers and bears all of the cost. The cases excluded by the higher threshold are the hardest arrears, and the beneficiary that owns most of them holds no power to pursue them.

The general claim is that collection efficiency and collection incentive are distinct properties of a shared instrument, that the standard case for sharing establishes the first and is silent on the second, and that an arrangement can be simultaneously efficient and under-collecting. The severity is governed by the collector's retained share relative to its marginal cost, which makes it estimable in advance of adopting such an arrangement.

The remedy the model implies is narrow: raise the collector's retained share on arrears recovered, leaving the share on current collections unchanged. This preserves the unified collection

that makes the design efficient, requires no new apparatus in the receiving jurisdictions, and uses reporting machinery the framework already requires.

That recommendation is narrow by design. The wider question — whether a government should hold a revenue entitlement it has no power to enforce — is a matter of legal architecture rather than of incentive design, and it is not answered here.

REFERENCES

- Agrawal, D. R., & Shybalkina, I. (2024). Remittance rules and the distribution of local tax revenue: evidence after Wayfair. *National Tax Journal*, 77(4), 813-831. <https://doi.org/10.1086/732629>
- Aikins, S. K. (2023). Effects of intergovernmental revenue on local government draw on fiscal reserves: evidence from COVID-19 fiscal stress. *Local Government Studies*, 49(6), 1198-1217. <https://doi.org/10.1080/03003930.2023.2212586>
- Alves, P. J. H. F., & Araujo, J. M. (2024). The effects of intergovernmental transfers on the local fiscal incentives of Brazilian municipalities. *Journal of Government and Economics*, 13, 100104. <https://doi.org/10.1016/j.jge.2024.100104>
- Apeti, A. E., & Edoh, E. D. (2023). Tax revenue and mobile money in developing countries. *Journal of Development Economics*, 161, 103014. <https://doi.org/10.1016/j.jdeveco.2022.103014>
- Badan Pendapatan Daerah Provinsi Jawa Tengah. (2026). Dasbor penerimaan pajak kendaraan bermotor dan bea balik nama kendaraan bermotor per unit pelayanan [Motor vehicle tax and transfer duty revenue dashboard by service unit]. Retrieved August 29, 2026, from <https://esamsat.jatengprov.go.id>
- Bagchi, S. (2025). The effects of introducing withholding on tax compliance: evidence from Pennsylvania's local earned income tax. *National Tax Journal*, 78(2), 327-367. <https://doi.org/10.1086/733662>
- Bahl, R., & Bird, R. M. (2018). Fiscal decentralization and local finance in developing countries: Development from below. Edward Elgar.
- Baskaran, T. (2021). The revenue and base effects of local tax hikes: evidence from a quasi-experiment. *International Tax and Public Finance*, 28(6), 1472-1518. <https://doi.org/10.1007/s10797-021-09657-2>
- Bernardelli, L. V., Paschoalino, P. A. T., Russo, L. X., & Kortt, M. A. (2026). Intergovernmental transfers and fiscal performance: evidence from Brazil. *Local Government Studies*, 1-22. <https://doi.org/10.1080/03003930.2026.2655683>
- Bury, Y., Feld, L. P., & Burret, H. T. (2024). Skimming the achieved? Quantifying the fiscal incentives of the German fiscal equalization scheme and its reforms since 1970. *Economics of Governance*, 25(3), 291-334. <https://doi.org/10.1007/s10101-024-00316-w>
- Cohen, I. (2023). Crowd in or crowd out? The subnational fiscal response to aid. *World Development*, 164, 106180. <https://doi.org/10.1016/j.worlddev.2022.106180>
- Collazos-Ortiz, M. A., & Schakel, A. H. (2023). Avoiding a natural resource curse? The impact of administrative efficiency on Colombian municipalities' fiscal effort. *Local Government Studies*, 50(3), 596-616. <https://doi.org/10.1080/03003930.2023.2282565>
- de la Riva Agüero, R. (2021). Exploring administrative capacity and local governance in the Peruvian waste sector: implications for complex service delivery in the Global South. *State and Local Government Review*, 53(2), 122-141. <https://doi.org/10.1177/0160323X211026862>
- Kim, J., & Kang, H. (2024). Bureaucratic burden or administrative capacity? Administrative intensity and fiscal performance of local governments. *Public Management Review*, 28(3), 580-601. <https://doi.org/10.1080/14719037.2024.2447314>

- Krishna Chaitanya, V., & Roberto, I. (2026). Unintended consequences of externally aided projects on fiscal transfers: a subnational study of India. *World Development*, 206, 107454. <https://doi.org/10.1016/j.worlddev.2026.107454>
- Lee, H. (2022). Collaborative governance platforms and outcomes: an analysis of Clean Cities coalitions. *Governance*, 36(3), 805-825. <https://doi.org/10.1111/gove.12702>
- Lucidi, F. S. (2022). The misalignment of fiscal multipliers in Italian regions. *Regional Studies*, 57(10), 2073-2086. <https://doi.org/10.1080/00343404.2022.2136648>
- Masi, T., Savoia, A., & Sen, K. (2024). Is there a fiscal resource curse? Resource rents, fiscal capacity and political institutions in developing economies. *World Development*, 177, 106532. <https://doi.org/10.1016/j.worlddev.2024.106532>
- Peraturan Pemerintah Republik Indonesia Nomor 35 Tahun 2023 tentang Ketentuan Umum Pajak Daerah dan Retribusi Daerah [Government Regulation No. 35 of 2023 on General Provisions on Regional Taxes and Regional User Charges], Lembaran Negara Tahun 2023 Nomor 85 (2023).
- Pill, M. (2024). Rethinking the 'local state' and local capacity. *Local Government Studies*, 50(6), 998-1007. <https://doi.org/10.1080/03003930.2024.2377224>
- Porto, A., Puig, J. P., & Vidal, B. (2026). Intergovernmental transfers and dynamic adjustment of subnational budgets. *International Tax and Public Finance*. <https://doi.org/10.1007/s10797-026-09949-5>
- Saens, R., Cox, P., & Villalobos, C. (2026). Fiscal capacity and the flypaper effect. *Public Choice*. <https://doi.org/10.1007/s11127-026-01438-x>
- Sen, A., & Wallace, S. (2022). The revenue productivity of India's subnational VAT. *National Tax Journal*, 75(4), 711-729. <https://doi.org/10.1086/721687>
- Singh, A., & Dubey, A. (2026). Fiscal shocks and subnational government finances: evidence from Indian states. *Economics of Governance*, 27(1). <https://doi.org/10.1007/s10101-026-00350-w>
- Slemrod, J. (2019). Tax compliance and enforcement. *Journal of Economic Literature*, 57(4), 904-954. <https://doi.org/10.1257/jel.20181437>
- Tran, C. T. D., & Dollery, B. (2022). An empirical analysis of the impact of administrative intensity on the operational efficiency of the Victoria state local government system in Australia. *Local Government Studies*, 49(3), 544-567. <https://doi.org/10.1080/03003930.2021.2023015>
- Undang-Undang Republik Indonesia Nomor 1 Tahun 2022 tentang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintahan Daerah [Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments] (2022).
- Vincent, R. C., & Osei Kwadwo, V. (2022). Spatial interdependence and spillovers of fiscal grants in Benin: static and dynamic diffusions. *World Development*, 158, 106006. <https://doi.org/10.1016/j.worlddev.2022.106006>
- Yabré, T., Loaba, S., & Semedo, G. (2025). Tax revenue mobilization in developing countries: Do we need more political veto players? *International Journal of Public Administration*, 49(6). <https://doi.org/10.1080/01900692.2025.2485258>
- Yu, S., Kim, S., & Sim, Y. (2022). Factors affecting relief aid policy of local governments: electoral competitiveness, fiscal capacity, and severity of crisis. *Local Government Studies*, 49(6), 1178-1197. <https://doi.org/10.1080/03003930.2022.2113991>
- Zhu, J., Xiao, H., & Wu, B. (2022). From big data to higher bureaucratic capacity: poverty alleviation in China. *Public Administration*, 102(1), 61-78. <https://doi.org/10.1111/padm.12907>

ACKNOWLEDGEMENTS

The authors thank the editorial team of Research Center Progresif for their assistance.

DECLARATIONS

Conflict of interest. The authors declare that they have no competing interests.

Funding. This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Data availability. All data supporting the findings of this study are available within the article and from the publicly accessible sources cited therein.

Author contributions (CRediT). Rieke Purnamasari: conceptualisation; methodology; formal analysis; writing - original draft. Ludwina Harahap: validation; writing - review and editing.

Declaration of generative AI and AI-assisted technologies. Claude (Anthropic) was used for language editing and for translation of the manuscript into English. The authors reviewed and verified all content, and take full responsibility for the final text. No generative tool was used for data analysis, for the interpretation of results, or for the generation of scholarly content. AI is not listed as an author.

Ethics statement. Aggregate secondary data from public agencies only. No human participants, no identifiable personal data, no animal subjects; ethics approval not required.

Peer review. Double-anonymous.

ARTICLE INFORMATION

Copyright and licence. © 2026 The Author(s). Open access under CC BY-SA 4.0: <https://creativecommons.org/licenses/by-sa/4.0/>

How to cite. Purnamasari, R., & Harahap, L. (2026). *Nobody's arrears: the collection incentive problem in a tax split between two governments*. *Journal of Law, Public Policy and Public Finance*, 2(2), 1–12.

Publisher. Research Center Progresif, Indonesia · jlpf@researchcenterprogresif.org