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A Systems Thinking for Hotel Tax Optimization: Evidence from Tourism Dynamics in Garut Regency

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Abstract

The growth of the tourism sector does not necessarily translate into stronger local fiscal performance. In Kabupaten Garut, hotel tax revenue, despite its close relationship with tourism activities, has not fully reflected its potential contribution to local own-source revenue (PAD). This study aims to analyze hotel tax revenue performance based on effectiveness, growth stability, and contribution to local tax revenue, while identifying strategies to optimize revenue through potential-based target setting, digital monitoring systems, and the integration of tourism and fiscal policies. In this study, optimization refers to improving target accuracy, taxpayer compliance, and sustainable revenue growth. A mixed-methods approach was employed by combining quantitative descriptive analysis with systems thinking. Quantitative analysis measured effectiveness ratios, annual growth rates, and contribution levels using secondary data for the 2015–2022 period. Qualitative data were obtained through semi-structured interviews with officials from the Regional Revenue Agency (BAPENDA) and hotel taxpayers to identify structural constraints and construct a causal loop diagram. The findings indicate that effectiveness ratios exceeded 100% in most years, except in 2017 (90%), demonstrating generally effective tax collection. However, revenue growth remained highly volatile, ranging from –31.52% in 2020 to 52.06% in 2022. Hotel tax contributed an average of 6.72% to total local tax revenue, indicating a moderate fiscal role despite tourism expansion. Institutional capacity limitations, uneven digital system implementation, and taxpayer compliance challenges remain key barriers. The study concludes that sustainable hotel tax optimization requires potential-based target setting, integrated digital monitoring, and stronger coordination between tourism development and local fiscal policy.

KEYWORDS

hotel tax; local revenue; fiscal effectiveness; system thinking; tourism policy.

Introduction

Regional autonomy is defined as the right, authority, and obligation of autonomous regions to regulate and manage their own governmental affairs and public interests (Afonso & Moulton, 2023). The fundamental objective of decentralization is to stimulate regional growth in accordance with local potential, enhance community welfare, and strengthen fiscal independence. In many developing countries, fiscal decentralization has become a central pillar of governance reform, aimed at improving accountability, efficiency, and responsiveness in public service delivery. However, achieving fiscal autonomy requires local governments to develop sustainable revenue bases capable of financing development priorities without excessive reliance on central government transfers.

Strengthening local fiscal capacity is therefore a critical foundation for sustainable public financial management, particularly in sectors with significant economic contributions to regional development (OECD, 2023). The ability of local governments to mobilize and manage local tax potential plays a decisive role in enhancing Local Revenue and reducing dependency on intergovernmental fiscal transfers (Essel, 2025). Fiscal decentralization literature consistently emphasizes that effective local taxation systems not only support revenue generation but also reinforce governance quality, transparency, and development planning coherence. Nevertheless, the realization of fiscal potential often falls short of expectations due to structural, administrative, and behavioral constraints.

Indonesia has responded to the challenges of fiscal decentralization through successive reforms in regional finance and taxation policy. Despite these reforms, significant gaps remain between available fiscal potential and actual revenue realization, particularly in taxes derived from local service and consumption activities, such as hotel and restaurant taxes (Simanjuntak & Saptono, 2025). These taxes are inherently linked to tourism performance, urban development, and local economic dynamics. While tourism expansion may increase economic activity, it does not automatically guarantee proportional improvements in local tax performance. The effectiveness of revenue mobilization depends on administrative capacity, compliance behavior, technological systems, and policy integration.

Kabupaten Garut, located in West Java Province, represents one of Indonesia's prominent tourism destinations, characterized by natural attractions, cultural heritage, and growing hospitality infrastructure (Kabupaten Garut, 2025). The expansion of tourism activities has contributed to increased hotel occupancy rates and business growth. However, this sectoral growth has not been fully reflected in proportional increases in local tax revenue, particularly hotel tax. The contribution of hotel tax to overall PAD remains relatively modest compared to its strategic economic position within the tourism ecosystem. This phenomenon indicates a potential misalignment between tourism development and fiscal optimization.

The primary challenge in optimizing local tax revenue lies in the absence of a comprehensive evaluative framework that integrates fiscal performance indicators, stakeholder perspectives, and strategic policy mapping(Basit & Alkautsar, 2019). Previous studies on local tax performance in Indonesia largely focus on descriptive analyses of effectiveness ratios, contribution levels, and growth trends (Essel, 2025; Farizki et al., 2018; Hariyanto et al., 2022; Karyanto & Sofyani, 2025; Khairina & Anggraini, 2023; LH & Wahyuni, 2024; Minh Ha et al., 2022; Monoarfa et al., 2022; Yolanda & Umanto, 2025). Although these studies provide important empirical insights, they often stop at measuring fiscal indicators without offering structured strategic models for policy prioritization. Consequently, the practical implications for strengthening tax governance remain limited.

In addition to analytical limitations, operational constraints further hinder revenue optimization. Limited human resource capacity within local revenue agencies, suboptimal digital infrastructure, and relatively low taxpayer compliance contribute to revenue inefficiencies (Hyera et al., 2025; Lateefat & Bankole, 2023). In the context of hotel taxation, challenges may include underreporting of turnover, weak monitoring systems, and insufficient integration between tourism policy and fiscal administration. Addressing these interconnected issues requires a systemic perspective rather than fragmented policy interventions.

System thinking offers a holistic analytical approach capable of capturing complex interactions among fiscal targets, administrative capacity, taxpayer behavior, and external economic dynamics (Boral et al., 2026; Braccioli et al., 2024; Ghaffarzadegan & Richardson, 2011; E. R. Lestari et al., 2025; M. Lestari, 2023). By examining feedback loops, structural relationships, and leverage points within the local tax system, system thinking enables policymakers to identify strategic interventions that address root causes rather than symptoms. Hazrati et al. (2020) emphasize that systemic modeling improves decision-making in public finance by revealing dynamic relationships often overlooked in conventional descriptive analysis. Therefore, integrating fiscal performance evaluation with system-based strategic modeling provides a more comprehensive framework for optimizing local revenue.

Against this backdrop, this study aims to (1) analyze the effectiveness, contribution, and growth trends of hotel tax revenue in Kabupaten Garut, and (2) develop a strategic model to enhance hotel tax revenue using a system thinking approach. The research employs a mixed-methods design, combining quantitative descriptive analysis of growth rates, effectiveness, and contribution indicators with qualitative system thinking analysis to construct a strategic framework (Alkautsar et al., 2023; Ghaffarzadegan & Richardson, 2011; E. R. Lestari et al., 2025; Macgregor & Cooper, 2022; Schlör et al., 2021).

The originality of this study lies in its integration of empirical fiscal performance assessment with problem-solving-oriented strategic modeling. Unlike prior research that primarily reports fiscal indicators, this study advances a systemic framework that can guide evidence-based policy prioritization. By linking tourism dynamics, administrative capacity, and digital governance within a unified analytical model, this research contributes to the broader discourse on fiscal decentralization and sustainable local revenue management. Furthermore, the proposed framework offers replicable insights for other regional governments seeking to strengthen fiscal independence in the post-pandemic development context.

Methods

This study employs a mixed-methods research design, integrating quantitative fiscal performance analysis with qualitative system-based modeling. The use of mixed methods enables a comprehensive understanding of both measurable revenue performance and the structural factors influencing hotel tax optimization. The quantitative approach provides empirical evidence on fiscal trends, while the qualitative system thinking approach captures dynamic interactions among institutional, behavioral, and policy variables.

The quantitative component applies descriptive fiscal analysis to evaluate hotel tax performance in Kabupaten Garut over the period 2015 – 2024. The analysis focuses on three primary indicators widely used in local public finance evaluation: (Drobyshevsky et al., 2023; Sanz Sanz, 2025; Yossinomita et al., 2025) effectiveness, contribution, and growth rate. The effectiveness ratio measures the degree to which realized hotel tax revenue meets or exceeds the annual revenue target set by the local government. It reflects the performance of revenue planning and collection mechanisms. The formula is:

$$Effectiveness = \frac{Realized\ revenue}{Target\ revenue} \times 100\%$$

An effectiveness ratio above 100% indicates that revenue realization exceeded the target, whereas a ratio below 100% indicates underperformance. This indicator helps assess the accuracy of target-setting mechanisms and administrative performance.

The contribution ratio measures the proportion of hotel tax revenue relative to total Local Own-Source Revenue (PAD). It evaluates the fiscal significance of hotel tax within the broader local revenue structure. The formula is:

$$Contribution = \frac{Hotel\ tax\ realization}{Total\ PAD} \times 100\%$$

This indicator is essential for understanding whether growth in the tourism sector translates into meaningful fiscal contributions.

Table 1. Profile of Interview Informants

Informant Code	Position	Institution	Role in Hotel Tax Administration
I1	Head of BAPENDA	BAPENDA Garut	Responsible for local tax policy and revenue strategy
I2	Head of Data Collection Division	BAPENDA Garut	Oversees taxpayer registration and tax data management
I3	Head of Supervision Division	BAPENDA Garut	Responsible for tax monitoring and compliance supervision
I4	Head of Information Technology Division	BAPENDA Garut	Manages digital tax systems and data integration
I5	Officer, Technical Implementation Unit (UPT)	BAPENDA Garut	Handles operational administration of hotel tax
I6	Officer, Technical Implementation Unit (UPT)	BAPENDA Garut	Conducts field monitoring and verification
I7	Officer, Technical Implementation Unit (UPT)	BAPENDA Garut	Provides taxpayer services and reporting support

The growth rate captures annual percentage changes in hotel tax revenue and reflects revenue stability and sensitivity to external shocks. The formula is:

$$Growth = \frac{Realization_n - Realization_{n-1}}{Realization_{n-1}} \times 100\%$$

This measure enables the identification of volatility patterns, crisis impacts (e.g., pandemic effects), and post-crisis recovery dynamics.

The quantitative data consist of official secondary data on hotel tax targets, realizations, and total local tax revenue obtained from the Regional Revenue Agency (BAPENDA Garut) for the fiscal years 2015–2024. The analysis is conducted using descriptive statistical techniques to identify trends, fluctuations, and structural gaps between potential and realization.

The qualitative component adopts a system thinking approach to explore structural and dynamic factors influencing hotel tax performance (Farrow & Collis, 2026; Štumpf, Čihák, Janeček, et al., 2025). System thinking is particularly suitable for public finance analysis because local taxation systems involve complex interactions among administrative capacity, taxpayer behavior, policy design, technological infrastructure, and tourism sector dynamics. The qualitative process consists of several stages: (1) Problem Identification, identifies core issues related to hotel tax potential, tax collection processes, administrative capacity, digital infrastructure, and taxpayer compliance (Bustomi et al., 2019; Lowatcharin & Setthasuravich, 2025); (2) Variable Mapping, key variables influencing hotel tax revenue are identified and categorized into structural (e.g., human resources, digital systems), behavioral (e.g., compliance levels), and external (e.g., tourism growth, economic shocks) factors; (3) Causal Relationship Analysis, relationships among variables are analyzed to determine feedback mechanisms and causal linkages. This stage identifies reinforcing loops (e.g., improved digital monitoring increases compliance, which increases revenue) and balancing loops (e.g., external crises reducing tourism demand and tax revenue); (4) Development of Causal Loop Diagram (CLD), the identified relationships are visualized in a Causal Loop Diagram (CLD), which serves as a strategic tool for identifying leverage points and policy intervention priorities. The CLD facilitates systemic understanding of how different components of the local tax system interact dynamically.

This study uses secondary data consisting of official fiscal records, including annual targets and realizations of hotel tax revenue and total PAD for the period 2015–2024 obtained from the Regional Revenue Agency (BAPENDA) of Kabupaten Garut and related regional financial reports. In addition, primary qualitative data were collected through semi-structured interviews with seven key informants from BAPENDA who are directly involved in hotel tax administration. The informants included the Head of BAPENDA, the Head of the Data Collection Division, the Head of the Supervision Division, the Head of the Information Technology Division, and three officers from the Technical Implementation Unit (UPT) responsible for hotel and restaurant tax administration.

Informants were selected using purposive sampling based on their roles and experience in local tax administration and supervision (See Table 1). The interview guide covered several themes, including hotel tax administration procedures, monitoring mechanisms, digital system utilization, taxpayer compliance issues, and institutional challenges in tax collection. Interview data were analyzed using thematic coding to identify key variables and causal relationships influencing hotel tax performance. These findings were subsequently synthesized to construct the causal loop diagram (CLD), which illustrates the dynamic interactions among tourism activity, administrative capacity, digital systems, compliance behavior, and revenue performance.

To enhance analytical credibility, the study applies triangulation of data sources and methods. Secondary fiscal records were compared with insights obtained from interviews with BAPENDA officials and relevant policy documents. This triangulation enables cross-validation between quantitative fiscal indicators and qualitative findings derived from the systems thinking analysis. By integrating descriptive fiscal evaluation with qualitative system modeling, the study provides a more comprehensive understanding of the structural factors influencing hotel tax performance and supports the formulation of evidence-based policy recommendations.

Result and Discussion

Analysis of Effectiveness, Growth Rate, and Contribution of Hotel Tax Revenue

Hotel tax constitutes one of the key components of local taxation contributing to Local Own-Source Revenue (PAD) in Kabupaten Garut. This revenue source possesses distinctive characteristics, as its performance is highly dependent on tourism development, regional economic dynamics, and the accuracy and compliance of turnover reporting by taxpayers. Fluctuations in visitor arrivals, hotel occupancy rates, and broader macroeconomic conditions directly influence the level of tax realization.The analysis of effectiveness, growth rate, and contribution is conducted to comprehensively assess the performance and development trends of hotel tax revenue in

Table 2. Target, Realization, Effectiveness, and Growth Rate of Hotel Tax Revenue in Kabupaten Garut (2015–2024)

Year	Target (IDR)	Realization (IDR)	Effectiveness (%)	Growth Rate (%)
2015	6.582.000.000	6.873.301.142	104.43%	–
2016	7.100.000.000	7.365.686.722	104.41%	7.13%
2017	8.000.000.000	7.229.140.123	90.36%	-1.83%
2018	7.300.000.000	7.641.975.522	104.65%	5.71%
2019	8.300.000.000	8.806.696.333	106.10%	15.24%
2020	5.000.000.000	6.050.471.079	120.61%	-31.52%
2021	5.500.000.000	6.513.436.392	118.43%	8.01%
2022	12.500.000.000	9.941.129.348	81.15%	52.06%
2023	12.500.000.000	11.359.991.146	90.88%	14.70%
2024	11.000.000.000	11.800.704.163	107.25%	3.85%

Source: BAPENDA, 2025

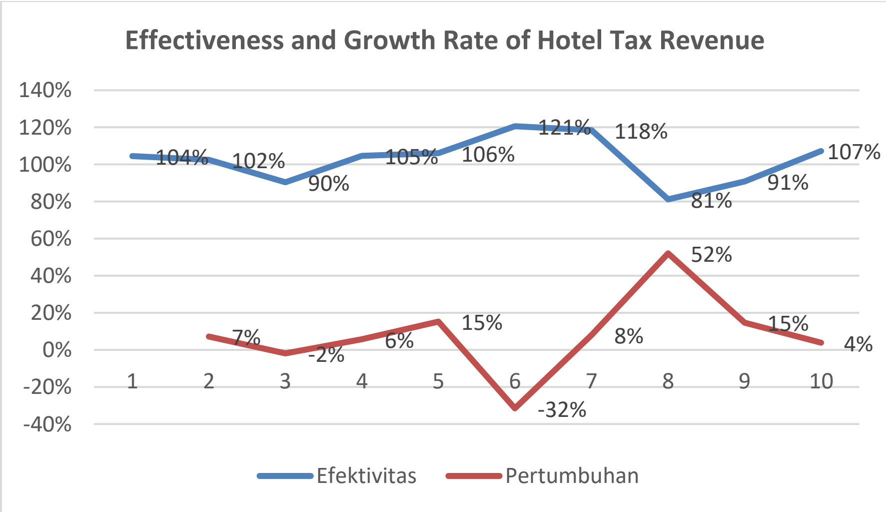

Figure 1. Effectiveness and Growth Rate of Hotel Tax Revenue in Kabupaten Garut, 2015–2024

Table 3. Contribution of Hotel Tax Revenue to Total Local Tax Revenue in Kabupaten Garut, 2015–2024

Year	Hotel Tax (IDR)	Local Tax (IDR)	Contribution (%)
2015	6.873.301.142	74.195.746.325	9.26
2016	7.365.686.722	83.398.777.015	8.83
2017	7.229.140.123	113.025.412.527	6.40
2018	7.641.975.522	128.132.823.275	5.96
2019	8.806.696.333	131.575.124.090	6.69
2020	6.050.471.079	116.413.508.512	5.18
2021	6.513.436.392	126.827.804.598	5.15
2022	9.941.129.348	157.571.464.634	6.29
2023	11.359.991.149	173.835.630.663	6.53
2024	11.800.704.163	167.719.443.637	6.95
Average	–	–	**6.72**

Source: BAPENDA 2025

Kabupaten Garut. The effectiveness ratio evaluates the extent to which realized revenue achieves the annual target, reflecting both the accuracy of fiscal planning and the efficiency of tax administration. The growth rate analysis captures annual changes in revenue, enabling the identification of volatility patterns and sensitivity to external shocks, including economic downturns or tourism disruptions. Meanwhile, the contribution ratio measures the relative significance of hotel tax within the structure of total PAD, thereby indicating whether tourism expansion is proportionally translated into fiscal capacity enhancement.

Hotel tax revenue in Kabupaten Garut during the 2015–2024 period exhibits a fluctuating performance pattern (see Figure 1). In the early years (2015–2016), revenue realization slightly exceeded the established targets, with effectiveness ratios consistently above 100%. This pattern suggests that revenue planning during this period was relatively conservative, allowing realized collections to surpass projected figures. However, in 2017 the effectiveness ratio declined to 90.36%, indicating that revenue realization did not meet the established target. This outcome may indicate that the increased revenue target was not fully supported by sufficient tax intensification efforts. In addition, the shortfall may also reflect broader sectoral conditions affecting hotel business activity during that period.

The effectiveness of hotel tax revenue collection during the 2015–2021 period generally remained above 100%, ranging between 104% and 106%, except in 2017 when effectiveness declined to 90%. During the COVID-19 pandemic period (2020–2021), revenue targets were adjusted downward in response to the economic disruption affecting the tourism and hospitality sectors. As a result, although actual hotel tax realization declined compared with previous years, the reduced targets made realization appear relatively higher in comparison. Consequently, the effectiveness ratio increased to

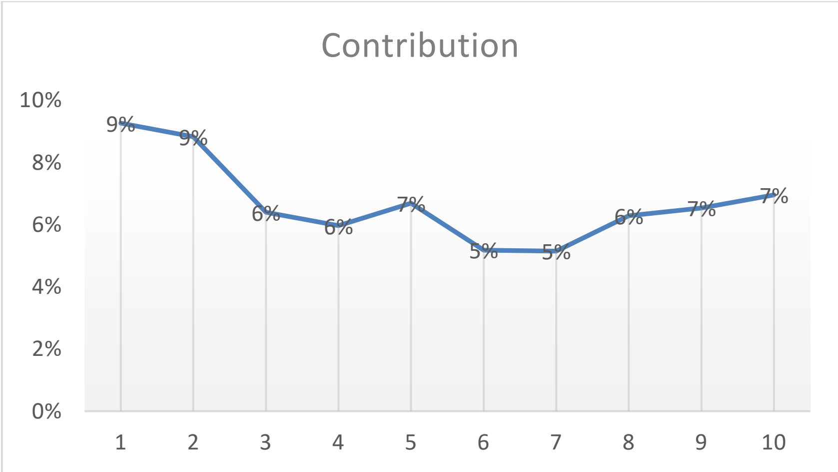

Figure 2. Contribution Hotel tax

above 100%, reaching approximately 118% in certain years. This apparent improvement in effectiveness should therefore be interpreted cautiously, as it largely reflects more conservative and realistic target-setting mechanisms rather than substantial improvements in tax collection performance.

In contrast, during the 2022–2023 period, revenue targets were substantially increased to above IDR 12 billion. However, realization remained below the established targets, resulting in a decline in effectiveness to approximately 81–91%. This pattern suggests that the increased revenue targets may not have been fully aligned with the actual revenue performance of the hotel sector during that period. In 2024, the target was adjusted downward to IDR 11 billion, while realization reached IDR 11.8 billion, resulting in the effectiveness ratio once again exceeding 100%.

The growth rate of hotel tax revenue exhibits a similar fluctuating pattern. Significant increases occurred in 2019 (15.24%) and 2022 (52.06%), while sharp contractions were recorded in 2017 (-1.83%) and 2020 (-31.52%). Post-pandemic stabilization is observed in 2023–2024, with moderate growth ranging between 3% and 15%. These findings indicate that hotel tax revenue is highly sensitive to external factors, particularly national crises such as the COVID-19 pandemic, which directly affected tourism activity and economic performance.

In addition to its effectiveness and growth trends, hotel tax revenue also contributed an average of 6.72% to total local tax revenue in Kabupaten Garut during the 2015–2024 period, with the highest contribution recorded in 2015 at 9.26% (see Table 3).

Table 2 indicates that the average contribution of hotel tax to total local tax revenue in Kabupaten Garut during the 2015–2024 period was 6.72%. This finding suggests that although hotel tax represents a consistent source of local revenue, its relative fiscal weight remains moderate within the overall local tax structure. Following the end of the COVID-19 pandemic, the contribution of hotel tax demonstrated a gradual increase during the 2022–2024 period. This upward trend corresponds with the reopening of tourism activities and hotel operations after pandemic-related restrictions were lifted. The recovery of visitor arrivals and hospitality services contributed to improved revenue performance, thereby strengthening the relative share of hotel tax in total local tax revenue.

The contribution of hotel tax to total local tax revenue in Kabupaten Garut exhibited a generally declining trend during the 2015–2021 period (see Figure 2). This pattern contrasts with the continued expansion of the tourism sector during the same timeframe, which experienced sustained growth in visitor numbers and hospitality activities. The divergence between tourism development and hotel tax contribution indicates the presence of a fiscal gap, suggesting that tourism sector growth has not been fully translated into optimal hotel tax revenue. This gap may reflect structural and administrative constraints, including limitations in tax intensification, monitoring mechanisms, and taxpayer compliance. It also suggests that economic expansion in the tourism sector does not automatically ensure proportional improvements in fiscal performance without effective governance and revenue management strategies.

In the post-pandemic period (2022–2024), however, the contribution rate shows a gradual increase. This improvement may be associated with the gradual recovery of tourism-related economic activities following the lifting of COVID-19 restrictions. The upward trend indicates a partial restoration of fiscal performance, although the sustainability of this improvement depends on continued administrative strengthening and better alignment between tourism development and local fiscal management.

Certainly. Below is the revised System Thinking Analysis section rewritten fully in coherent academic paragraph form, suitable for an international journal manuscript.

System Thinking Analysis

The system thinking analysis of hotel tax revenue in Kabupaten Garut was conducted through a structured process consisting of problem identification, mapping of key variables, and analysis of causal relationships within the local tax system. This approach enables a holistic understanding of how structural, institutional, behavioral, and external factors interact dynamically to influence hotel tax performance.

Kabupaten Garut is widely recognized for its leading natural tourism destinations, including the Cipanas hot spring area, Papandayan Mountain, Darajat Crater, and several coastal attractions in the southern region. These tourism assets represent substantial economic potential that is directly correlated with hotel tax revenue. The post-pandemic increase in domestic tourism has further created opportunities to enhance hotel tax collections. However, this potential has not been fully optimized. Investment in new hotel establishments remains limited, and a significant proportion of accommodation facilities consists of non-star hotels and small guesthouses, where compliance in turnover reporting tends to be lower. As a result, the taxable base is not entirely captured, limiting the realization of optimal revenue.

Under Regent Regulation No. 44 of 2024 concerning Procedures for Local Tax Collection, hotel tax in Kabupaten Garut is administered through a self-assessment system. This mechanism places considerable reliance on the accuracy of taxpayer-reported turnover and the supervisory capacity of the

Table 4. Key Process Flow, Actors, System Mechanisms, and Problems in Hotel Tax Administration

Key Process Flow	Actors	System Mechanism	Identified Problems
Taxpayer Registration (Hotel Sector)	BAPENDA; Tourism Office; Village/Sub-district Authorities	Manual registration and e-PAD database	Not all hotels/accommodations are registered, particularly non-star hotels and small homestays; inter-agency data synchronization remains suboptimal.
Determination of Tax Base and Rate	BAPENDA; Taxpayers	Self-assessment based on reported turnover	Reported turnover is often inaccurate (under-reporting); absence of routine verification of actual turnover.
Reporting and Issuance of SPTPD	Taxpayers; BAPENDA	Manual SPTPD and electronic SPTPD (e-SPTPD)	Delays in reporting and errors in turnover data; e-SPTPD system not fully optimized across all taxpayers.
Payment and Tax Remittance	Taxpayers; Regional Bank; Payment Channels	Self-assessment via transfer to regional treasury	Some taxpayers delay payment; issuance of SKPDKB required for non-compliant taxpayers.
Supervision and Audit	BAPENDA; Regional Inspectorate	Manual audits and e-PAD data review	Limited fiscal staff; not all hotels are audited annually; lack of standardized data-driven digital audit procedures.
Law Enforcement and Sanctions	BAPENDA; Civil Service Police Unit; Licensing Office	SKPDKB issuance; license suspension; business closure	Inconsistent enforcement of administrative sanctions; some taxpayers file objections to tax assessments.
Inter-Agency and Stakeholder Coordination	BAPENDA; Tourism Office; Regional Bank; Village Authorities; Business Actors	Tourism and local tax coordination forums	Insufficient data coordination between Tourism Office (occupancy data) and BAPENDA; absence of a permanent evaluation forum for tourism taxation.

Regional Revenue Agency (BAPENDA). Consequently, revenue realization is highly dependent on both taxpayer compliance and the effectiveness of monitoring mechanisms. In this context, the growing digital economy presents an opportunity for strengthening verification processes. Interviews with BAPENDA officials indicated that data from online travel agency platforms such as Traveloka and Agoda could potentially be used to verify hotel turnover reporting and strengthen tax monitoring. However, the implementation of such integration would require regulatory support and institutional cooperation with digital platform providers. Such integration could improve the transparency of hotel transactions and support more accurate tax monitoring mechanisms.

Findings from interviews and observations involving BAPENDA officials and hotel taxpayers reveal that hotel tax performance in Garut is influenced by a combination of external and internal factors. Externally, tourism dynamics, local and national events, and global economic disruptions—particularly the COVID-19 pandemic—constitute dominant variables. When tourist arrivals increase, hotel occupancy rates rise, directly expanding turnover and tax revenue. Conversely, during periods of crisis, occupancy rates decline sharply, resulting in significant reductions in revenue realization. This illustrates the strong sensitivity of hotel tax revenue to fluctuations in the tourism sector and broader economic stability.

From the perspective of the tax authority (fiscus), several operational constraints hinder optimal revenue collection. First, the number of tax officers specifically assigned to hotel tax administration is limited relative to the number of potential taxpayers. Existing personnel are primarily engaged in administrative processing, such as receiving tax returns and data entry, leaving limited capacity for field supervision or turnover audits. Second, technological and digitalization capacity remains uneven. The implementation of tapping box systems and integration with point-of-sale (POS) systems has not been fully realized, partly due to technical and monitoring limitations. Moreover, the capacity of tax officers to analyze and utilize external data sources, including online booking platforms, remains insufficient, reducing the effectiveness of cross-verification mechanisms. Third, the absence of standardized and consistently implemented supervisory procedures results in monitoring activities that are more incidental than systematic. This increases the risk of undetected under-reporting. Additionally, tax officers are responsible for managing multiple types of local taxes, including property tax, land and building acquisition tax, electricity tax, and restaurant tax, which divides institutional focus and weakens enforcement intensity for hotel tax.

From the taxpayer perspective, compliance-related challenges further contribute to suboptimal revenue performance. Small-scale and non-star hotels frequently engage in under-reporting of turnover, particularly in contexts where monitoring systems are weak and digital integration is limited. The relatively small number of star-rated hotels compared to the region's tourism potential also constrains the expansion of high-value taxable accommodation services. Transparency issues persist because turnover reporting relies heavily on self-declared tax returns (SPTPD). Without integrated digital monitoring systems, tax authorities face significant difficulties in verifying the accuracy of reported figures. Furthermore, data from online travel agencies are not automatically connected to the regional tax administration system. Limited tax literacy and awareness among smaller hotel operators further weaken formal compliance and reporting accuracy.

Overall, these interconnected issues demonstrate that hotel tax performance in Kabupaten Garut cannot be understood solely through descriptive fiscal indicators. Instead, it reflects a complex system shaped by tourism dynamics, institutional capacity, technological infrastructure, regulatory frameworks, and taxpayer behavior (see Table 4). The system thinking approach therefore provides a foundation for identifying feedback mechanisms and leverage points that can inform strategic interventions to enhance hotel tax revenue in a sustainable and systematic manner.

Mapping of Problems and Causal Variables

Based on the preceding findings, several interrelated structural problems influencing hotel tax performance in Kabupaten Garut can be identified (see Table 5). These problems reflect causal relationships among tourism dynamics, institutional capacity, taxpayer behavior, and fiscal planning mechanisms. First, hotel occupancy rates exhibit significant fluctuations driven by tourism trends, local and national events,

Table 5. Key Variables in the System Thinking Model of Hotel Tax Revenue in Kabupaten Garut

Type of Variable	Description
Hotel Tax Revenue (Y)	The primary outcome variable of the system, representing overall fiscal performance and revenue achievement.
Hotel Occupancy Rate (X_1)	Influenced by tourism dynamics, local and national events, and regional economic conditions.
Hotel Turnover (X_2)	Derived from occupancy rate multiplied by the average room tariff; represents the tax base for hotel tax calculation.
Taxpayer Compliance (X_3)	Influenced by tax literacy, monitoring intensity, enforcement mechanisms, and quality of fiscal services.
Fiscal Capacity (X_4)	Refers to the number of personnel and supervisory competence within BAPENDA responsible for hotel tax administration.
Digital System Utilization (X_5)	Includes the implementation of tapping box systems, POS (Point-of-Sale) integration, and electronic tax reporting (e-SPTPD).
Tax Target Setting (X_6)	Determined based on projected assumptions or actual sectoral potential and fiscal capacity.
Tourism Policy (X_7)	Includes tourism promotion, event organization, and infrastructure support affecting visitor flows.
Inter-Agency Coordination (X_8)	The level of collaboration between BAPENDA, the Tourism Office, financial institutions, and

and external shocks such as the COVID-19 pandemic. Since hotel tax revenue is directly derived from turnover generated by accommodation services, variations in occupancy levels immediately affect tax realization. This establishes a strong causal link between tourism activity and fiscal performance.

Second, low compliance in turnover reporting remains a critical issue. Under-reporting of revenue by hotel operators, particularly small-scale and non-star establishments, reduces the effective tax base. In a self-assessment system, this behavior weakens revenue accuracy and creates a discrepancy between actual economic activity and reported tax obligations. The problem is further exacerbated by limited monitoring capacity.

Third, the tax base itself remains structurally constrained. The relatively small number of star-rated hotels—despite substantial tourism potential—limits high-value taxable transactions. A dominance of small accommodations with lower room rates and weaker administrative compliance reduces aggregate tax revenue potential. Fourth, verification of actual turnover is limited due to the incomplete integration of digital monitoring systems such as POS (Point-of-Sale) integration and tapping box technology. Without real-time transaction data, tax authorities rely heavily on self-reported figures submitted through tax returns (SPTPD). The absence of automated cross-verification mechanisms increases the risk of undetected under-reporting.

Fifth, inconsistencies in revenue target-setting contribute to distorted effectiveness ratios. In certain years, targets were set too conservatively, leading to artificially high effectiveness rates. In other periods, targets were overly ambitious relative to sectoral capacity, resulting in underperformance. This indicates a weak alignment between fiscal planning and realistic sectoral potential. Finally, institutional capacity constraints within BAPENDA further limit optimal revenue management. The limited number of qualified personnel dedicated to hotel tax supervision restricts routine audits and systematic monitoring. High workloads across multiple tax types dilute enforcement intensity, thereby weakening compliance control mechanisms.

System Thinking Pattern: Causal Relationships

The causal relationships among the key variables in the hotel tax system can be described as follows:

1. An increase in hotel occupancy (X_1) leads to an increase in hotel turnover (X_2), which subsequently increases hotel tax revenue (Y).
2. An improvement in the digital system (X_5) enhances transparency, which strengthens taxpayer compliance (X_3) and ultimately increases hotel tax revenue (Y).
3. An increase in fiscal capacity (X_4) improves supervision and monitoring, which in turn enhances taxpayer compliance (X_3).
4. An excessively high tax target (X_6) increases pressure on both tax officers and taxpayers, potentially reducing taxpayer compliance (X_3).
5. Strengthened tourism policy (X_7) increases hotel occupancy (X_1), which leads to higher hotel turnover and ultimately greater hotel tax revenue (Y).
6. Improved inter-agency coordination (X_8) enhances data validation and reporting accuracy, thereby improving overall system effectiveness.

Structure of Feedback Loops (Causal Loop Diagram)

The dynamic interactions among these variables form several reinforcing and balancing feedback loops:

1. Reinforcing Loop (R1 – Digitalization and Compliance Loop). Improvements in the digital system (X_5) increase transparency, which enhances taxpayer compliance (X_3). Higher compliance leads to increased hotel tax revenue (Y), which strengthens fiscal capacity (X_4). Enhanced fiscal capacity enables further investment in digitalization, reinforcing improvements in the digital system (X_5). This loop illustrates a positive feedback mechanism that supports sustainable revenue growth through technological strengthening.
2. Balancing Loop (B1 – Tourism and Target Adjustment Loop). Strengthened tourism policy (X_7) increases occupancy (X_1), leading to higher turnover and increased tax revenue (Y). However, higher revenue may prompt upward adjustments in the tax target (X_6). If targets rise excessively, pressure on tax officers and taxpayers intensifies, potentially reducing compliance and stabilizing revenue growth. This loop demonstrates a balancing mechanism that moderates excessive fiscal expectations.
3. Balancing Loop (B2 – Target and Effectiveness Loop). When the tax target (X_6) is set too high, effectiveness declines. Reduced effectiveness can weaken public trust and decrease taxpayer compliance, ultimately lowering tax revenue (Y). As revenue decreases and administrative pressure intensifies, authorities are compelled to readjust targets to more realistic levels. This loop highlights the importance of realistic and potential-based target setting in maintaining system stability.

The hotel tax management model in Kabupaten Garut, as illustrated in the Causal Loop Diagram (CLD) (Figure 3), consists of three principal feedback structures: the digitalization–compliance reinforcing loop, the tourism–revenue balancing loop, and the target–effectiveness

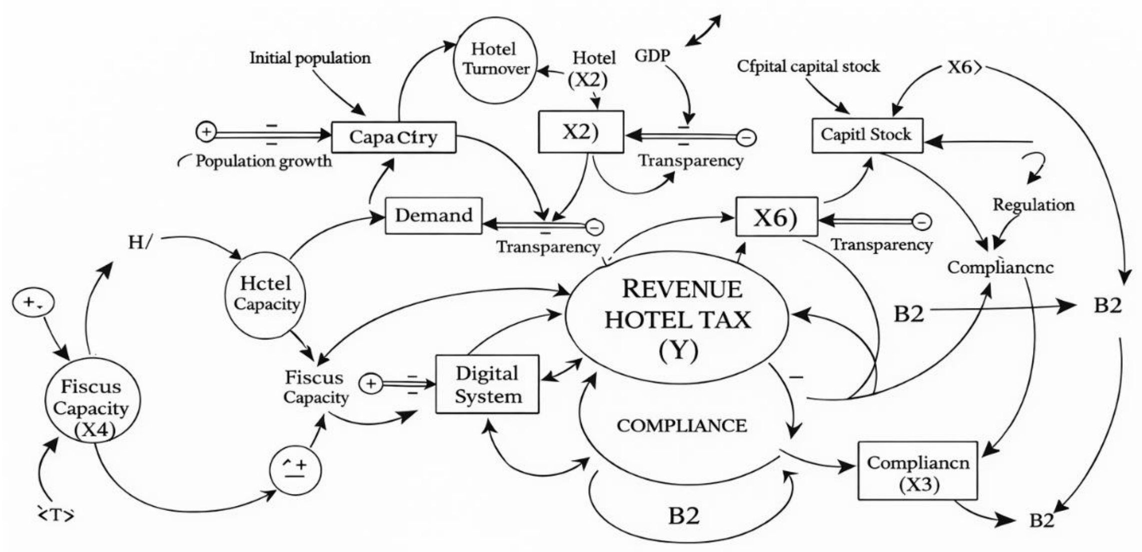

Figure 3. Revenue Hotel Tax System

balancing loop. The reinforcing loop highlights the positive feedback mechanism whereby improvements in digital systems enhance transparency, strengthen taxpayer compliance, and increase tax revenue, which subsequently expands fiscal capacity and supports further digital investment. This loop demonstrates the strategic importance of technological modernization in sustaining long-term revenue growth.

The tourism–revenue balancing loop reflects the dynamic interaction between tourism development and tax realization. While enhanced tourism policies increase occupancy and turnover, leading to higher tax revenue, overly optimistic revenue targets may generate administrative pressure that moderates system performance. Similarly, the target–effectiveness balancing loop emphasizes the risks associated with unrealistic target setting. Excessively high targets reduce effectiveness ratios and may undermine taxpayer compliance and public trust, ultimately stabilizing or even reducing revenue growth

The integration of these feedback loops within a systemic model provides BAPENDA Garut with a structured analytical framework to formulate more adaptive and evidence-based fiscal policies. The model suggests that sustainable hotel tax optimization requires simultaneous intervention in multiple leverage points. First, tax targets should be determined based on actual sectoral potential and real occupancy data rather than nominal trend assumptions. Second, digital system strengthening—through tapping box implementation, POS integration, and enhanced data analytics—should be prioritized to improve transparency and monitoring capacity. Third, tourism policy must be strategically aligned with local fiscal policy to ensure that sectoral growth is effectively translated into revenue enhancement.

Interpretation of Key Findings

Effectiveness of Target Setting and Tourism Sector Dynamics

The data for the 2015–2024 period indicate that the effectiveness ratio of hotel tax collection in Kabupaten Garut frequently exceeded 100%, particularly during 2015–2016 and 2018–2021. However, a high effectiveness ratio does not necessarily reflect superior tax collection performance. Instead, it was strongly influenced by conservative target-setting practices or significant downward revisions of revenue targets, particularly during the COVID-19 pandemic. The apparent effectiveness surge reaching up to 118% in 2020–2021 resulted primarily from drastic reductions in revenue targets rather than from substantial improvements in administrative capacity or taxpayer compliance.

Conversely, the decline in effectiveness during 2022–2023 (81–91%) suggests that post-pandemic revenue targets were increased aggressively without fully accounting for the actual recovery pace of the tourism sector. Although tourism activities gradually resumed, hotel occupancy rates and turnover had not yet returned to pre-pandemic levels, causing revenue realization to fall short of expectations. These findings highlight weaknesses in the target-setting mechanism, which remains predominantly based on nominal annual trends rather than on realistic assessments of sectoral potential and capacity. This result aligns with previous studies conducted in Yogyakarta and Badung, which similarly found that effectiveness ratios can be distorted by inappropriate target-setting practices (Linlin et al., 2024; Putu & Kisnayanti, 2021).

This finding is consistent with the concept of tax effort, which emphasizes that tax performance should be evaluated relative to the underlying revenue potential rather than merely against administratively determined targets. When revenue targets are set conservatively, effectiveness ratios may exceed 100% even though the actual tax effort remains limited. In the public sector performance measurement literature, such situations are often described as target bias, where indicator outcomes reflect planning assumptions rather than genuine improvements in administrative capacity or compliance.

Growth Rate Dynamics

The growth rate of hotel tax revenue exhibits substantial volatility over the observed period. Significant increases were recorded in 2019 (15.24%) and 2022 (52.06%), reflecting expansion and post-crisis rebound phases. In contrast, sharp contractions occurred in 2017 (-1.83%) and 2020 (-31.52%), underscoring the vulnerability of hotel tax revenue to external shocks, particularly the COVID-19 pandemic. The relatively moderate growth observed in 2023–2024 (3–15%) indicates that the hotel sector remains in a gradual recovery phase rather than entering a structurally sustained growth trajectory.

From a public finance perspective, such volatility also reflects the level of fiscal resilience of local revenue systems. Fiscal resilience refers to the capacity of local governments to absorb economic shocks, adjust fiscal strategies, and recover revenue performance after periods of disruption. The observed rebound in hotel tax revenue following the COVID-19 crisis suggests that the local fiscal system demonstrates a degree of adaptive capacity. In this context, strengthening digital monitoring systems, improving taxpayer compliance, and aligning tourism policy with fiscal planning represent forms of adaptive governance that can enhance the resilience of local revenue management

These findings reinforce prior research demonstrating that hotel tax revenue is highly sensitive to external tourism-related factors (Irawan, 2023; Rikayana, 2020). The volatility pattern confirms the structural dependence of hotel tax performance on tourism dynamics, which are largely beyond direct control of local fiscal authorities.

Contribution of Hotel Tax to Local Tax Revenue

The average contribution of hotel tax to total local tax revenue during the analysis period was only 6.72%, indicating that despite its strategic linkage to tourism, its role within the local tax structure remains limited. The declining contribution trend during 2015–2021—despite tourism growth—reveals that increases in tourism activity were not fully translated into proportional improvements in hotel tax revenue.

This phenomenon reflects a structural gap between tourism growth and hotel tax optimization. Similar findings have been reported in previous studies which identify inefficiencies in converting sectoral economic growth into fiscal revenue. The gap suggests internal constraints, including turnover under-reporting, limited supervisory capacity of tax authorities, and suboptimal utilization of digital monitoring systems. Although the gap began to narrow during 2022–2024 as tourism gradually recovered post-pandemic, it has not been fully resolved (Hiro et al., 2025).

System Thinking Analysis

The management challenges associated with hotel tax revenue in Kabupaten Garut demonstrate that linear and sectoral approaches are insufficient to comprehensively explain revenue dynamics. Fluctuations in occupancy rates, supervisory limitations, and inconsistencies in target-setting underscore the necessity of adopting a system thinking perspective to capture the interconnectedness among variables (Keeshani Saeed et al., 2020; Salam et al., 2024).

Through the Causal Loop Diagram (CLD), the dynamics of hotel tax management can be structured into three interacting feedback loops. The first loop, the digitalization–compliance reinforcing loop, represents a positive feedback mechanism. The integration of digital systems—such as tapping boxes, POS bridging, and e-SPTPD—enhances turnover transparency. Improved transparency strengthens the accuracy of tax base determination and reduces opportunities for under-reporting. Increased taxpayer compliance leads to higher hotel tax revenue, which in turn strengthens fiscal capacity, enabling further investment in digital systems. This reinforcing cycle illustrates the strategic importance of technological modernization in sustaining revenue growth.

The second loop, the tourism–revenue balancing loop, reflects the structural dependence of hotel tax revenue on external tourism dynamics. Increased tourism activities and event organization stimulate higher hotel occupancy, which raises turnover and tax revenue. However, this loop is inherently balancing because it is vulnerable to external shocks. Economic crises or tourism disruptions can rapidly reduce occupancy levels, thereby weakening tax revenue. This structure highlights that while tourism expansion enhances revenue potential, its sustainability is subject to macroeconomic stability and external risk factors.

The third loop, the target–effectiveness balancing loop, captures the relationship between revenue target-setting and perceived fiscal performance. When revenue targets are set excessively high, effectiveness ratios decline even if nominal realization increases. Declining effectiveness may erode public trust and taxpayer compliance, ultimately reducing revenue performance. Conversely, realistic and potential-based targets enhance effectiveness, reinforce public confidence, and provide a more stable foundation for subsequent fiscal planning. This loop underscores the critical role of adaptive and data-driven target-setting mechanisms.

It is important to note that the Causal Loop Diagram (CLD) developed in this study represents an exploratory and diagnostic framework rather than a quantitatively validated simulation model. The CLD is intended to map the structural relationships among key variables influencing hotel tax performance and to identify potential leverage points for policy intervention. While the model provides a conceptual representation of system dynamics, it does not estimate the magnitude of causal relationships or simulate policy scenarios. Therefore, the framework should be interpreted as an analytical tool for understanding systemic interactions rather than as a fully operational policy simulation model.

The system thinking model suggests three strategic priorities for optimizing hotel tax revenue in Kabupaten Garut: (1) establishing revenue targets based on real sectoral potential and actual occupancy data; (2) strengthening digital systems to enhance turnover transparency and supervisory effectiveness; and (3) integrating tourism policy with local fiscal policy to ensure that sectoral growth is effectively translated into fiscal capacity. Through digital strengthening and responsive management of tourism and target policies, hotel tax can play a more optimal role as a pillar of local fiscal independence (Moscardo, 2020; Štumpf, Čihák, & Janeček, 2025; Sunaningsih et al., 2025).

Beyond the specific context of Kabupaten Garut, the systemic framework developed in this study provides broader analytical insights for regions whose local revenue structures are closely linked to tourism activities. The interaction between tourism dynamics, administrative capacity, digital monitoring systems, and tax target-setting mechanisms represents a structural pattern commonly found in decentralized fiscal systems. Therefore, the system thinking approach and the strategic priorities identified in this study may serve as a transferable analytical framework for other tourism-oriented regions seeking to strengthen local revenue mobilization and improve fiscal resilience.

Limitations and Cautions

This study has several limitations that should be acknowledged. First, the system thinking analysis primarily relies on qualitative data derived from interviews with tax officials and hotel taxpayers, complemented by macro-level secondary data on growth rates, effectiveness, and contribution of hotel tax revenue. While this approach provides a structural understanding of causal relationships, it does not incorporate detailed micro-level quantitative data that could strengthen analytical precision.Specifically, the study does not include disaggregated data on hotel occupancy rates, taxpayer compliance levels, taxpayer segmentation (e.g., star-rated versus non-star hotels), or digital transaction records. The absence of such micro-level indicators limits the ability to quantify the strength of relationships among variables identified in the Causal Loop Diagram (CLD). Consequently, the system thinking model developed in this research remains conceptual and explanatory rather than quantitatively validated.

Moreover, the CLD framework identifies patterns of causal interaction based on observed structural issues but does not measure the magnitude or elasticity of relationships between variables. As such, the findings should be interpreted as a systemic diagnostic model rather than a predictive or simulation-based model.

Recommendations for Future Research

Future research should build upon this system thinking framework by employing a System Dynamics approach that integrates quantitative secondary and micro-level data to estimate the magnitude of relationships among variables. By incorporating occupancy rates, taxpayer compliance indicators, hotel segmentation data, and digital transaction records, subsequent studies can develop simulation models to assess policy scenarios and forecast revenue outcomes under different conditions.

In addition, future studies should examine the role of digital literacy, taxpayer behavior, and institutional capacity in greater depth using mixed quantitative methods, such as panel data analysis or structural modeling. This would enable more precise measurement of the impact of digital systems, enforcement intensity, and tourism dynamics on local tax performance.

For the Regional Revenue Agency (BAPENDA) of Kabupaten Garut, the CLD structure developed in this study provides an important conceptual foundation for designing more adaptive and evidence-based fiscal policies. By strengthening internal supervision, integrating tourism and fiscal policies, and optimizing digital monitoring systems, hotel tax revenue can be enhanced sustainably as a strategic pillar of local fiscal independence.

Conclusion

Based on the findings of this study, several conclusions can be drawn. First, regarding the effectiveness, growth rate, and contribution of hotel tax revenue in Kabupaten Garut, the effectiveness ratio generally indicates satisfactory performance, as revenue targets were consistently achieved in most years. However, this apparent performance contains structural weaknesses in the target-setting mechanism. Revenue targets continue to rely predominantly on nominal annual trends rather than on realistic assessments of sectoral potential and actual hotel capacity. As a result, high effectiveness ratios do not always reflect genuine improvements in tax collection capacity or taxpayer compliance.

Second, the growth rate of hotel tax revenue exhibits high volatility and is strongly influenced by external factors, particularly tourism dynamics and national crises. Revenue growth declined sharply during the COVID-19 pandemic and rebounded significantly in the post-pandemic period, demonstrating the structural dependence of hotel tax revenue on tourism activity, event organization, and macroeconomic stability. This volatility underscores the vulnerability of hotel tax revenue to external shocks beyond direct fiscal control.

Third, the contribution of hotel tax to total local tax revenue showed a declining trend during the 2015–2021 period, despite growth in the tourism sector. This indicates that increases in tourist arrivals and tourism activities were not fully translated into proportional improvements in hotel tax contribution. Although the contribution began to increase during the 2022–2024 post-pandemic recovery period, the gap between tourism growth and fiscal optimization has not been entirely eliminated.

Finally, the system thinking model developed in this study identifies three strategic priorities for improving hotel tax revenue in Kabupaten Garut. These include establishing revenue targets based on actual sectoral potential and real occupancy data, strengthening digital systems to enhance turnover transparency, monitoring, and supervisory capacity, and integrating tourism policy with local fiscal policy to ensure that tourism expansion effectively contributes to sustainable local fiscal independence.

Author contributions

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