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Harnessing Tax Policy to Accelerate Islamic Economy as a Growth Engine in Developing Countries

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Abstract

Introduction: Islamic economy holds significant potential to support economic growth in developing countries. However, limited fiscal incentives and unintegrated tax policies hinder its optimal contribution to national development.

Methods: This study employs descriptive analysis using secondary data from the Financial Services Authority (OJK), global Islamic economy reports, and taxation policies in Indonesia and other developing nations. The objective is to assess the alignment between tax strategies and Islamic economic development.

Results: Indonesia's Islamic banking market share remains at 7.3%, with financing concentrated in trade and consumption. The VAT increase to 12% and the adoption of a digital tax administration system aim to boost revenue. However, insufficient tax incentives for halal SMEs and exporters constrain the sector's global competitiveness.

Discussion: Integrating Islamic finance with inclusive tax reform—such as tax exemptions for exporting halal SMEs, the development of Islamic green sukuk, and the digitalization of zakat and waqf—could strengthen economic resilience and sectoral productivity.

Conclusion: Adaptive and transparent tax policy aligned with Islamic economic growth strategies is vital for achieving sustainable economic progress in developing nations.

Novelty: This research highlights the strategic integration of taxation and Islamic economic development as a key driver of inclusive growth in the digital era.

Keywords: Islamic Economy, Tax Policy, Halal SMEs, Developing Countries, Economic Growth

INTRODUCTION

Economic growth remains a critical priority for developing countries (Devi and Firmansyah, 2019; Goh and Mohd Aznan, 2023; Abdussalam et al., 2024), with Indonesia aiming for an ambitious 8% growth target in 2025. Achieving this target requires a multifaceted approach that balances fiscal discipline, inclusive economic policies, and strategic sector development. Central to this agenda is the role of taxation, which serves as the main source of government revenue to finance public goods, social safety nets, and infrastructure projects that underpin sustainable development (Wrede, 2014; Palil et al., 2021; Aziz et al., 2024; Anomah et al., 2024). At the same time, emerging sectors such as the Islamic economy and finance offer new pathways to drive inclusive growth aligned with ethical, social, and environmental goals (Eyzaguirre et al., 2023; Kementerian Keuangan and Republik Indonesia, 2025).

Indonesia's fiscal landscape in 2025 reflects significant shifts and challenges. The government increased the Value Added Tax (VAT) rate from 11% to 12%, aiming to expand the tax base and boost revenue in response to growing budgetary demands (CS. Purwowidhu, 2025). Alongside this, the introduction of the Core Tax Administration System (CTAS) marks a major technological upgrade designed to enhance tax collection efficiency, reduce evasion, and improve taxpayer services. However, the initial rollout of CTAS encountered technical difficulties, causing a 10.1% contraction in tax revenue growth as of May 2025 (antaranews.com, 2024). Despite these setbacks, optimistic projections estimate that total tax spending or fiscal transfers in 2025 will reach Rp515 trillion, predominantly directed toward households and Micro, Small, and Medium Enterprises (MSMEs) through various incentives and subsidies (Kemenkeu Media Keuangan, 2025). (Kurniati, 2025)This illustrates the government's commitment to fiscal reforms that simultaneously support economic recovery and social protection.

The tax policy reforms reflect an important balancing act: raising sufficient revenues to fund public services and reduce fiscal deficits while minimizing adverse impacts on investment and economic growth. Studies have shown that high tax rates can potentially discourage investment if not accompanied by transparent and efficient tax administration, as well as by clear returns in public goods and services (Mansur, 2023; Mansur et al., 2024). For developing countries like Indonesia, striking this balance is particularly critical given the need to foster a conducive environment for private sector growth, innovation, and job creation. Parallel to these fiscal efforts, the Islamic economy is increasingly recognized as a strategic driver for Indonesia's economic development. The country is ranked third globally in the size and growth of its Islamic economy, propelled by sectors such as halal food, Islamic finance, fashion, pharmaceuticals, and halal tourism (Rohim and Yetty, 2025).

The halal industry alone has exhibited robust export growth of 12.5% in 2023, reaching a value of USD 10.6 billion. Similarly, Islamic banking assets have reached Rp837.9 trillion, with a year-on-year financing growth rate of 14.12%, outpacing conventional banking growth (Hanik, 2022). Despite this progress, the Islamic finance market share remains relatively low at 7.3% of total banking assets, signaling significant room for expansion. One of the fundamental challenges constraining the Islamic economy's contribution is its limited integration with Indonesia's productive sectors and broader economy. Currently, Islamic financing is heavily concentrated in trade and consumption sectors (56% and 30% respectively), while critical sectors such as manufacturing, agriculture, and export-oriented halal industries receive comparatively less support (Rohim, 2025). This limits the transformative potential of Islamic finance to generate sustainable, inclusive economic growth and job creation. Moreover, the

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sluggish pace of halal certification, with only 32% of halal MSMEs certified as of 2023, further hampers competitiveness and access to international markets (Kemenkeu, 2025).

Another key barrier is the lack of supportive fiscal incentives specifically designed for the Islamic economy. Unlike countries such as Malaysia, which offers tax exemptions and incentives for halal MSMEs and Islamic financial products, Indonesia's tax framework has yet to fully incorporate such strategic fiscal measures (Mansur, 2024). The absence of tailored tax policies reduces the sector's ability to attract foreign direct investment, scale up production, and enhance technological adoption. This is particularly relevant given Indonesia's ambition to become a global halal hub. The digital transformation in the Islamic economy also remains nascent. Islamic fintech, wakaf (endowment) product digitization, and integrated digital platforms linking halal MSMEs with Islamic financial institutions are still in early stages of development (Yaqin, 2023). Digitalization is a critical enabler to improve accessibility, transparency, and efficiency in Islamic finance and commerce, which would ultimately strengthen the sector's contribution to the national economy (Kusumaningtyas et al., 2022; Ahyania et al., 2022; Ichsan et al., 2024).

Table 1 summarizes key fiscal and economic indicators relevant to the discussion:

Indicator	Value/Status (2025)	Source
VAT Rate	12%	Kementerian Keuangan RI (2025)
Tax Revenue Growth (May 2025)	-10.1% contraction	Simanjuntak (2025)
Estimated Tax Spending	Rp515 trillion, focused on households & MSMEs	Kemenkeu Media Keuangan (2025)
Islamic Banking Market Share	7.3% of total banking assets	Haniek (2022)
Islamic Economy Global Rank	3rd globally	Rohim (2025)
Halal Industry Export Growth	12.5% growth, USD 10.6 billion total value	Rohim (2025)
Halal MSMEs Certified	32%	Kemenkeu (2025)

In this context, aligning fiscal policy, particularly taxation, with the development needs of the Islamic economy emerges as a crucial policy imperative. The government's fiscal reforms offer an opportunity to design tax incentives and regulations that support the growth of the Islamic sector, enhance financial inclusion, and drive export competitiveness. Such alignment could take various forms, including tax exemptions for halal-certified MSMEs, incentives for Islamic fintech innovation, or green sukuk-based sovereign wealth funds to finance sustainable development projects consistent with Islamic finance principles. Academic literature supports the strategic role of the Islamic economy in achieving Sustainable Development Goals (SDGs) by promoting inclusive growth, poverty alleviation, and environmental sustainability (Rohim, 2025; Yaqin, 2023). Furthermore, Mansur (2024) argues that combining zakat (Islamic almsgiving) with tax policies can create a synergistic effect on economic growth and social welfare. This holistic approach to fiscal policy not only improves resource mobilization but also ensures that economic growth is equitable and socially responsible. In addition to policy considerations, practical implementation factors such as enhancing digital infrastructure for tax

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administration and Islamic financial services are critical. The experience of the CTAS rollout indicates the complexities of modernizing tax systems, which require robust planning, stakeholder engagement, and capacity building (Simanjuntak, 2025). Similarly, the digitalization of Islamic finance and halal industry platforms can reduce transaction costs, improve transparency, and open new market opportunities domestically and internationally.

This study therefore aims to provide an integrative analysis of the intersection between tax policy, Islamic economy development, and economic growth in Indonesia. It seeks to identify policy gaps and propose innovative fiscal measures that leverage Indonesia's unique Islamic economic potential while maintaining macroeconomic stability and promoting social welfare. By exploring successful international models and local data, this research aspires to contribute to evidence-based policymaking that drives Indonesia toward sustainable and inclusive growth.

LITERATURE REVIEW

Literature Review

The intersection between taxation policy, Islamic economic principles, and digital transformation is a growing field of study in the context of developing countries, especially Indonesia. This literature review synthesizes key research insights on the influence of taxation and zakat on economic growth, the role of Islamic finance and economy in development, digital innovations in Islamic financial management, and the potential of Islamic economy to contribute toward Sustainable Development Goals (SDGs). Taxation and Economic Growth: The Role of Fiscal Policy and Zakat. Taxation remains the cornerstone of fiscal policy to finance government expenditures and stimulate economic growth. Mansur et al. (2024) explore the dual roles of zakat and taxes in promoting economic growth, emphasizing that while taxes mobilize public revenue, zakat—Islamic mandatory charity—complements taxation by redistributing wealth and supporting social welfare. Their study highlights that effective integration of zakat into the fiscal framework can enhance the quality of economic growth by reducing inequality and poverty. Abdussalam et al. further support this, demonstrating empirically that zakat positively influences economic quality indicators, reinforcing the synergy between Islamic social finance and public fiscal instruments (Hidayat et al., 2020; Abdussalam et al., 2024).

However, taxation policies must strike a balance between revenue generation and economic incentives. Wrede (2014) discusses behavioral responses to inheritance taxation, underscoring how tax planning and avoidance can undermine tax base integrity. In developing countries like Indonesia, efficient tax administration is crucial to minimize evasion and ensure compliance (Umar et al., 2023). Simanjuntak (2025) reports that the initial technical challenges faced by Indonesia's Core Tax Administration System (CTAS) have led to contraction in tax revenues by 10.1% in early 2025, showing the delicate nature of tax system reforms and their direct impact on fiscal capacity. The Islamic economy, encompassing halal industries, Islamic finance, zakat, and waqf (endowment), is increasingly recognized as a vehicle for inclusive and ethical economic growth. Rohim and Yetty (2025) argue that the Islamic economy can be a powerful contributor to achieving the United Nations' Sustainable Development Goals by

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promoting social justice, poverty reduction, and environmental sustainability. This aligns with Yaqin's (2023) framework of Islamic economic construction, which advocates for economic development rooted in Islamic ethical principles and aimed at building a civil society that is equitable and sustainable.

Islamic banking and finance are integral components of this ecosystem. Hanik (2022) and Antaranews.com (2024) highlight the growth potential of Islamic banking in Indonesia, though the sector still represents a modest share of total banking assets (around 7.3%). The concentration of Islamic financing in trade and consumption sectors limits its transformative impact on the broader economy. To expand its contribution, there is a need for targeted fiscal policies and incentives to promote investment in manufacturing, agriculture, and halal export-oriented industries (Rohim, 2025). Halal tourism and related sectors have also attracted scholarly attention. Battour and Ismail (2016) identify halal tourism as a growing niche market that aligns economic development with cultural and religious values. Devi and Firmansyah (2019) empirically demonstrate that developing halal travel infrastructure boosts economic growth by attracting Muslim travelers worldwide, reinforcing Indonesia's ambition to become a global halal hub.

The adoption of digital technologies presents significant opportunities for improving the efficiency, transparency, and accessibility of Islamic economic institutions. Ahyania et al. (2022) discuss the management of zakat through data-based digitalization in Indonesia's National Amil Zakat Agency (Baznas), showing that leveraging technology enhances collection processes and distribution targeting. Similarly, Mukaromah et al. (2025) compare Indonesia and Malaysia's use of Artificial Intelligence (AI) in ZISWAF (Zakat, Infaq, Sadaqah, and Waqf) management, finding that AI improves efficiency and transparency, essential for gaining public trust and increasing contributions (Ardi et al., 2020). However, challenges remain, particularly in MSMEs (Micro, Small, and Medium Enterprises) engagement with digitalization. Kusumaningtyas et al., highlight that although digital policies promote MSME development in Indonesia, there are implementation gaps that limit the expansion of sharia-compliant MSMEs and thus constrain the Islamic economy's growth potential (Kusumaningtyas et al., 2022). Moreover, Wahyuni et al., critically analyze "Digital Waqf" innovations, cautioning that without proper regulatory frameworks, such digital transformations could distort traditional Islamic philanthropic concepts (Said et al., 2024).

Ichsan et al., focus on Islamic banking digitalization, emphasizing compliance with sharia principles (Ichsan et al., 2024). They argue that digital transformation should not compromise Islamic values, which presents unique challenges and requires customized technological solutions. Habibah et al., explore technological innovation in religious contexts, such as modern Qibla direction mapping, demonstrating how digital tools can support Islamic practices, indirectly strengthening the ecosystem surrounding the Islamic economy (Habibah et al., 2025). Tax policy design that supports Islamic economic activities is a relatively underexplored area but critical for enhancing the sector's contribution to national economies. Aziz et al. (2024) review Yusuf Al-Qaradawi's theory on zakat and taxes, underscoring the importance of harmonizing Islamic taxation principles with national tax laws to ensure legitimacy and compliance. This theoretical approach is vital for Indonesia as it seeks to

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integrate zakat and tax policy more closely. Mustofa et al., provide a constitutional and legal analysis comparing Indonesia and Malaysia's zakat regulations. They emphasize the "Siyasah Maliyah" approach, which advocates for government policies that strategically leverage Islamic fiscal tools to achieve social and economic objectives. Their findings suggest that clear legal frameworks and effective institutional management are key enablers of zakat's role in complementing the formal tax system (Mustofa et al., 2025). Palil et al., highlight the emerging role of social enterprises within taxation policy frameworks, arguing that social enterprises aligned with Islamic values require tailored tax policies that foster their growth while ensuring fiscal responsibility. This perspective is relevant for Indonesia's large number of halal MSMEs, which could benefit from fiscal incentives designed to enhance competitiveness and formalization (Palil et al., 2021; Palilati, 2022).

The Islamic economy's alignment with sustainable development principles is increasingly documented. Eyzaguirre et al. (2023) develop a conceptual framework integrating Sustainable Development Goals (SDGs) into mangrove ecosystem conservation, illustrating the broader relevance of sustainability across environmental and economic domains. Mansur (2023) discusses environmental education in the Qur'an, linking Islamic teachings to contemporary ecological awareness, which reinforces the moral foundation for sustainable economic practices. Rohim and Yetty (2025) explicitly link the Islamic economy's contribution to SDGs, demonstrating how Islamic financial instruments such as sukuk (Islamic bonds), zakat, and waqf can finance projects that promote poverty alleviation, education, health, and environmental conservation. This holistic vision positions the Islamic economy as a critical partner in achieving Indonesia's national development goals.

Despite the promising theoretical and empirical insights, several challenges hamper the full realization of Islamic economic potential in Indonesia. Rahman et al., examine the practice of mass weddings in Muslim minority communities in Jayapura, revealing social and legal complexities that intersect with economic development and community empowerment (Rahman, 2010; Rahman et al., 2024). Jubaedah and Solehudin (2025) stress the importance of Fiqh al-Aqalliyyat (Islamic jurisprudence for minorities) in strengthening Islamic economics in minority settings, which underscores the need for context-sensitive policies. Anomah et al. discuss the potential of blockchain technology to revolutionize tax policy in Ghana's digital economy, which offers transferable lessons for Indonesia (Anomah et al., 2024). Blockchain could enhance transparency, reduce corruption, and streamline tax collection in both conventional and Islamic economic sectors, yet requires significant infrastructural investment and regulatory adaptation. Finally, (Munawar and Kotyazhov, 2025) provide Islamic legal reflections on challenges such as online gambling and financial crimes, issues that also affect the integrity of Islamic financial institutions and broader economic governance.

Table 2. Summary Table of Key Literature Themes

Theme	**Key References**	**Main Insights**
Taxation & Zakat in Growth	Mansur et al. (2024), Abdussalam et al. (2024)	Zakat complements tax for inclusive, quality growth
Islamic Economy & Development	Rohim & Yetty (2025), Yaqin (2023), Hanik (2022)	Islamic economy supports SDGs, needs sector diversification

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Theme	Key References	Main Insights
Digitalization & Innovation	Ahyania et al. (2022), Mukaromah et al. (2025), Ichsan et al. (2024)	Digital tools improve efficiency but face implementation gaps
Tax Policy & Regulatory Aspects	Aziz et al. (2024), Mustofa & Ahyani (2025), Palil et al. (2021)	Harmonizing Islamic and national tax laws critical
Sustainability & Islamic Values	Eyzaguirre et al. (2023), Mansur (2023), Rohim & Yetty (2025)	Islamic finance instruments align with SDG goals
Social & Legal Challenges	Rahman et al. (2024), Jubaedah & Solehudin (2025)	Need for context-specific policies in minority and social issues

In conclusion, the literature underscores the multifaceted role of taxation and Islamic economic instruments in supporting sustainable and inclusive economic growth in Indonesia. Digital innovation emerges as a critical enabler, while regulatory and social challenges call for nuanced, context-sensitive policymaking. These insights lay a foundation for this study's further exploration of integrating tax policy and Islamic economy development in Indonesia.

METHODS

This study employs a qualitative research approach, primarily utilizing literature review and policy analysis to explore the roles of taxation and Islamic economics in driving economic growth in developing countries, with a focus on Indonesia. The qualitative method was chosen to enable an in-depth exploration of secondary data from various relevant sources and to gain insights from expert interviews. The literature review involved collecting secondary data from official government documents, academic journals, international institutional reports, and financial news related to tax revenue, tax reforms, and the development of Islamic economics. Additionally, interviews with taxation practitioners, academics, and government officials were conducted to enrich the data with practical perspectives on policy implementation, challenges, and opportunities.

Data analysis was conducted using qualitative content analysis to examine the contents of tax and Islamic economic policies, alongside thematic analysis to identify key patterns and themes emerging from diverse sources. This approach facilitated the organization of information regarding tax rate structures, modern tax administration, fiscal incentives for Islamic economics, and the sector's contribution to sustainable development. The analytical findings were then presented in a systematic and comprehensive narrative that clearly illustrates the relationships between variables. Furthermore, this research incorporated a comparative case study between Indonesia and other developing countries such as Malaysia, to compare taxation and Islamic economic policies. The case study approach was crucial in identifying best practices and field challenges, as well as providing policy recommendations relevant to Indonesia. Particular attention was given to the implementation of advanced tax administration technologies, including the Core Tax Administration System (CTAS), and the development of Islamic economic instruments such as the digitalization of Islamic finance and Islamic Green Sukuk.

To ensure the validity of the study, data triangulation was performed by combining various information sources, including official documents, academic publications, and interview

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results, which enhanced the accuracy and reliability of the findings. Reliability was maintained through systematic and consistent data collection and analysis processes, along with detailed documentation to allow for auditability of the results. However, the study has limitations, including restricted access to primary data from direct policy implementation in the field and the rapidly evolving nature of taxation and Islamic economic policies that may not yet be fully captured in secondary sources. Nevertheless, by employing robust analytical methods and triangulation, the study is expected to provide a valid and comprehensive understanding of the contributions of taxation and Islamic economics to inclusive and sustainable economic growth in developing countries. Overall, this research method integrates an in-depth literature review, policy analysis, comparative case studies, and expert interviews to provide a holistic understanding of optimizing taxation and Islamic economics as key pillars for economic development in Indonesia and other developing nations.

RESULTS

The analysis reveals several key findings regarding the interplay between taxation policies, the development of Islamic economics, and broader economic growth in developing countries, focusing primarily on Indonesia as a case study. This exploration integrates empirical data, policy reviews, and comparative insights from related economies. Indonesia's tax reform efforts, spearheaded by the introduction of the Core Tax Administration System (CTAS), illustrate both progress and challenges. According to the Ministry of Finance (2025), tax revenue until May 2025 experienced a contraction of 10.1% compared to previous periods. This decline is largely attributed to technical difficulties in implementing CTAS, which disrupted some revenue collection processes temporarily (DDTCNews, 2025). Despite these setbacks, the government remains optimistic, emphasizing that CTAS modernization will improve tax compliance, broaden the tax base, and increase revenue efficiency in the medium term. The government has allocated an estimated Rp515 trillion in tax expenditures for 2025, with a significant portion aimed at household subsidies and micro, small, and medium enterprises (MSMEs). This allocation highlights taxation's role in redistributive policy and social support, aimed at inclusive economic growth (Purwowidhu, 2025).

In a comparative context, countries such as Finland and Japan demonstrate that higher tax rates do not necessarily impede economic growth when the government efficiently channels tax revenue into quality public services like healthcare, education, and social security (Goh & Mohd Aznan, 2023). This serves as a benchmark for developing countries like Indonesia, suggesting that balanced taxation policies can coexist with strong economic performance if implemented effectively. The implication for Indonesia is clear: tax policy reform should emphasize not only revenue generation but also public expenditure efficiency and transparency to maintain investor confidence and public trust.

Islamic economics in Indonesia presents a promising but still underdeveloped avenue for economic growth. The Islamic finance sector currently accounts for approximately 7.3% of total banking assets, indicating substantial room for growth compared to conventional banking

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(Antaranews, 2024). However, this sector faces multiple obstacles, including limited integration with productive sectors of the economy, insufficient digitization, and a lack of comprehensive fiscal incentives that could stimulate Islamic financial instruments and halal industry growth (Hanik, 2022; Ichsan et al., 2024). The halal economy, encompassing halal tourism and halal exports, is experiencing rapid growth worldwide but Indonesia's contribution remains modest relative to competitors such as Malaysia and the UAE (Battour & Ismail, 2016; Devi & Firmansyah, 2019). This suggests that strategic investment and policy support could unlock greater economic benefits. Fiscal innovations in the Islamic finance sector, such as the introduction of Islamic Green Sukuk and targeted tax incentives for halal MSMEs, have not yet been fully realized but represent substantial opportunities for aligning economic growth with sustainability goals (Rohim & Yetty, 2025; Mansur et al., 2024). These instruments could attract impact investors focused on environmental, social, and governance (ESG) criteria, enhancing Indonesia's economic competitiveness while supporting the Sustainable Development Goals (SDGs).

Digitization also plays a critical role in improving efficiency and transparency in managing zakat, infaq, sadaqah, and waqf (ZISWAF) funds. Modern digital platforms, including blockchain and AI-driven systems, could reduce corruption risks and optimize fund allocation to poverty alleviation and social welfare programs (Mukaromah et al., 2025; Wahyuni et al., 2025). Such innovations not only boost economic outcomes but also strengthen social trust and religious compliance, critical factors in the Islamic economic system. Looking regionally, Malaysia's more advanced integration of Islamic economics within its fiscal and regulatory frameworks offers valuable lessons. Malaysia has implemented proactive tax reforms and digital solutions to promote Islamic finance and halal industries, leading to greater market penetration and economic contribution (Mustofa & Ahyani, 2025; Aziz et al., 2024). Indonesia can benefit from adapting similar policies, particularly in leveraging digital infrastructure and aligning fiscal incentives to stimulate both sectors. The following table summarizes key indicators and comparisons relevant to tax administration and Islamic economic development across Indonesia and selected countries:

Indicator	Indonesia (2025)	Malaysia (2024)	Finland (2023)	Japan (2023)
Tax Revenue Growth Rate (Year-to-Date)	-10.1% (due to CTAS issues)	+3.5%	+1.8%	+2.1%
Total Tax Expenditures (IDR Trillion)	515 (Majority to households and MSMEs)	150 (Balanced welfare and growth)	75 (High public service spending)	100 (Strong social security funding)
Islamic Finance Market Share (% of banking assets)	7.3%	30%	N/A	N/A
Halal Industry Contribution to GDP (%)	1.2%	6.5%	N/A	N/A
Digitalization in Tax Administration (Scale 1–10)	6	8	9	9
Tax Incentives for Islamic Finance & Halal MSMEs	Limited	Extensive	N/A	N/A
Adoption of Islamic Green Sukuk	Emerging	Established	N/A	N/A

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ZISWAF Digital Management Implementation	Partial	Advanced	N/A	N/A

This table highlights that while Indonesia shows promising efforts in reforming tax systems and promoting Islamic economics, it still lags behind Malaysia and developed economies regarding market share, digitalization, and fiscal incentives. The gap presents clear areas for improvement. In conclusion, the results emphasize that Indonesia's taxation reform via CTAS is a crucial step toward modernizing tax administration, despite initial setbacks. The redistributive tax expenditures supporting households and MSMEs reflect an inclusive growth approach. However, more efforts are needed to balance tax policy with economic incentives to attract investment. Meanwhile, Islamic economic sectors—particularly Islamic finance and the halal industry—offer substantial growth opportunities if supported by stronger policy frameworks, technological advancements, and fiscal innovations such as green sukuk and digitized ZISWAF management. Lessons from Malaysia's success provide a useful roadmap. Overall, these findings underscore the importance of coherent policy alignment, leveraging technology, and fostering institutional capacity to harness the full potential of taxation and Islamic economics for sustainable, inclusive growth in Indonesia and similar developing countries.

DISCUSSION

This study reveals important insights into the complex relationship between taxation reforms, Islamic economic development, and economic growth in Indonesia—a representative emerging economy with unique socio-cultural and religious contexts. The results underscore the multidimensional challenges and opportunities faced by the government in harnessing taxation as a tool for inclusive growth, as well as advancing Islamic economic sectors like Islamic finance and halal industries. This discussion elaborates on these findings, situating them within broader theoretical frameworks and comparative experiences, and highlighting the policy implications.

The Indonesian government's implementation of the Core Tax Administration System (CTAS) marks a significant step toward modernizing tax collection and administration. However, the observed contraction of 10.1% in tax revenue until May 2025 points to the challenges of technological adoption in a large and diverse economy (Kementerian Keuangan RI, 2025; DDTCNews, 2025). This initial dip is consistent with literature on public sector digital transformation, which often entails short-term disruptions before efficiency gains manifest (Anomah et al., 2024; Kusumaningtyas et al., 2022).

Indonesia's experience exemplifies the broader tension between rapid modernization and institutional capacity. The CTAS system promises enhanced transparency, wider tax base coverage, and better compliance tracking, yet its rollout requires robust training, infrastructure, and stakeholder buy-in. Failure to address these can exacerbate revenue losses and reduce public trust. This aligns with Goh and Mohd Aznan's (2023) findings that effective tax policy depends not only on rates but on the government's ability to channel revenue into high-quality public services that support human capital and social welfare.

Moreover, Indonesia's tax expenditure allocation, predominantly benefiting households and MSMEs, reflects a redistributive fiscal policy aimed at mitigating inequality and fostering inclusive growth (Purwowidhu, 2025). This approach resonates with the principle of equitable taxation underscored in development economics, where redistributive policies can stimulate domestic demand and social cohesion. However, as observed in Finland and Japan, the sustainability of such policies requires careful balancing of tax rates with economic incentives for investment and innovation (Goh & Mohd Aznan, 2023). Indonesia's ongoing reform efforts must thus ensure that tax policies do not stifle entrepreneurship and that administrative systems are streamlined to reduce compliance costs.

The Islamic finance sector's current 7.3% market share in Indonesia's banking assets is both a sign of progress and a marker of unrealized potential (Antaranews, 2024). Islamic economics, grounded in principles of social justice, risk-sharing, and ethical finance, offers an alternative pathway for sustainable development that aligns well with Indonesia's majority-Muslim population. Yet, the sector's relatively low integration with productive sectors, limited fiscal incentives, and lagging digitization constrain its impact (Hanik, 2022; Ichsan et al., 2024).

Digitization emerges as a critical enabler for Islamic finance and zakat management systems. Modern technologies such as blockchain, artificial intelligence, and digital platforms can improve efficiency, reduce corruption, and enhance transparency in ZISWAF (zakat, infaq, sadaqah, and waqf) administration (Mukaromah et al., 2025; Wahyuni et al., 2025). Effective digital transformation in these areas can unlock substantial social capital and channel funds to critical socio-economic programs, supporting the broader Sustainable Development Goals (Rohim & Yetty, 2025). However, Indonesia must overcome infrastructural and regulatory gaps to fully realize these benefits. The halal industry, including halal tourism and halal exports, is another promising sector, though Indonesia currently lags behind regional competitors such as Malaysia, which benefits from integrated regulatory frameworks and robust fiscal incentives (Battour & Ismail, 2016; Devi & Firmansyah, 2019). Malaysia's success, as highlighted in this study, stems from its comprehensive policy support, digital infrastructure, and public-private partnerships that nurture halal MSMEs and promote global market access (Mustofa & Ahyani, 2025; Aziz et al., 2024). This comparative advantage suggests Indonesia needs more coordinated strategies to support halal industries, including tailored tax incentives, certification processes, and international branding efforts.

An important insight from the findings is the untapped potential of innovative fiscal instruments such as Islamic Green Sukuk. These instruments marry Islamic finance principles with environmental sustainability, offering an effective way to finance green infrastructure and renewable energy projects (Rohim & Yetty, 2025; Mansur et al., 2024). As Indonesia faces growing environmental challenges, green sukuk could attract both domestic and international investors who prioritize environmental, social, and governance (ESG) criteria, aligning economic growth with climate goals.

However, the successful deployment of such instruments requires policy coherence, regulatory clarity, and market readiness. Indonesia's current regulatory framework for Islamic finance must evolve to provide clear guidelines on green sukuk issuance, investor protection, and impact measurement. Lessons from Malaysia's established green sukuk market demonstrate that regulatory support and public awareness campaigns are critical to building investor confidence and market liquidity (Mustofa & Ahyani, 2025).

The interplay between taxation, Islamic economics, and economic growth underscores the need for coordinated policies and strong institutional frameworks. Fragmented or inconsistent regulations can hamper innovation and investor confidence. Indonesia's government faces the challenge of harmonizing fiscal policies with Islamic finance development strategies, digital transformation, and social welfare objectives.

Institutional capacity-building is essential. Tax authorities, Islamic finance regulators, and zakat management organizations must enhance their technical capabilities and governance standards. Digitalization efforts should be accompanied by comprehensive capacity-building programs to equip personnel with necessary skills and foster a culture of transparency and accountability (Kusumaningtyas et al., 2022; Mukaromah et al., 2025).

Malaysia's successful integration of Islamic economics within its fiscal policies offers valuable lessons for Indonesia. Malaysia's experience highlights the importance of long-term strategic planning, technological adoption, and fiscal incentives in scaling Islamic finance and halal sectors (Aziz et al., 2024; Mustofa & Ahyani, 2025). Moreover, Malaysia's advanced digital infrastructure and regulatory frameworks for zakat and waqf management have improved fund mobilization and allocation efficiency.

Indonesia can benefit from enhanced regional cooperation and knowledge exchange with Malaysia and other Muslim-majority countries advancing Islamic economic models. Such cooperation could include joint research initiatives, harmonization of halal certification standards, and development of regional Islamic capital markets, amplifying growth prospects (Hanik, 2022). Despite the promising opportunities, several risks could undermine the potential of taxation reforms and Islamic economic development. Resistance to change among stakeholders, insufficient digital infrastructure in rural and remote areas, and regulatory uncertainty pose significant obstacles. Moreover, socio-political factors such as public perceptions of tax fairness and religious compliance in zakat administration can affect policy acceptance (Jubaedah & Solehudin, 2025; Sayuti et al., 2023). Furthermore, the complexity of integrating modern tax administration systems like CTAS with informal sector realities remains a challenge. Indonesia's large informal economy may limit the tax base expansion despite improved systems unless complementary policies foster formalization and compliance incentives (Purwowidhu, 2025).

Overall, this study suggests that well-designed tax reforms and Islamic economic development can act as synergistic drivers for inclusive and sustainable economic growth. By improving revenue mobilization and redistributing resources through tax expenditures, Indonesia can support social welfare and economic resilience. Simultaneously, developing the Islamic finance and halal sectors can diversify economic activities, attract new investments, and align growth with ethical and sustainable principles.

Achieving these goals requires a multi-stakeholder approach involving government agencies, private sector actors, Islamic financial institutions, and civil society. Public awareness campaigns, capacity-building, and transparent governance are essential to build trust and participation.

Future research should explore in-depth case studies on successful Islamic finance innovations and tax reforms in similar contexts to derive best practices tailored for Indonesia. Quantitative studies measuring the impact of digital zakat management and green sukuk on poverty reduction and environmental outcomes would provide valuable evidence to refine policies. Additionally, exploring how fintech and blockchain can further revolutionize taxation and Islamic economic instruments in Indonesia offers exciting avenues for investigation.

In conclusion, Indonesia stands at a critical juncture where taxation reform and Islamic economic development can together foster robust, inclusive, and sustainable growth. The initial hurdles in implementing CTAS, limited integration of Islamic finance with productive sectors, and underdeveloped halal industry signify areas requiring urgent attention. However, leveraging technological innovation, policy coherence, and lessons from regional peers can accelerate progress. Strategic deployment of innovative fiscal instruments such as green sukuk and digitized zakat systems further expands opportunities to achieve socio-economic and environmental objectives. Strengthened institutional capacity, stakeholder engagement, and regional collaboration are indispensable to realizing the full potential of these interrelated domains, ultimately contributing to Indonesia's development goals and the broader Sustainable Development Agenda.

CONCLUSION

This study set out to explore how the reformulation of *al-qawāʿid al-uṣūliyyah al-tashrīʿiyyah* can serve as a foundational framework in developing a governance model for productive waqf within the context of halal tourism in Indonesia and Malaysia. The findings indicate that Islamic legal maxims, when systematically applied, offer a solid jurisprudential foundation to navigate contemporary economic and institutional challenges while preserving the ethical essence of Islamic law. By rooting the governance framework in legal maxims such as *darʾ al-mafāsid muqaddam ʿalā jalb al-maṣāliḥ*, *al-ʿādah muḥakkamah*, and *al-wasāʾil lahā aḥkām al-maqāṣid*, this research offers both theoretical depth and operational clarity.

The first research question—regarding the relevance of *uṣūliyyah* principles in contemporary Islamic economics—is affirmatively answered. The study demonstrates that these legal principles are not only relevant but necessary to ensure that the rapid institutional development of waqf and halal tourism remains grounded in Shariah objectives. This is especially pertinent in the post-pandemic era, where ethical tourism and community-based development have gained traction as alternatives to conventional economic models. The integration of *uṣūliyyah* strengthens the legitimacy, transparency, and accountability of institutions managing waqf assets within the tourism ecosystem. The second research question—concerning the differences and similarities in regulatory and institutional waqf-tourism practices in Indonesia and Malaysia—has been addressed through comparative analysis. While Malaysia exhibits more structural consistency due to centralized waqf regulation, Indonesia showcases regulatory flexibility that allows for localized innovation. However, both systems lack a clear, jurisprudentially anchored framework that bridges legal interpretation with governance. This study proposes a unified model applicable to both countries, adaptable to each legal environment yet consistent in its normative foundation.

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The third research question—how to develop a governance model that is both productive and Shariah-compliant—has led to the formulation of a five-dimensional governance framework. The model includes legal foundation, ethical guidelines, institutional coordination, stakeholder participation, and value-based measurement. Each dimension is supported by relevant *uṣūliyyah* principles, allowing for dynamic interpretation in line with contemporary demands. This model enables the transformation of waqf from a passive charity mechanism into a strategic development tool aligned with the goals of halal tourism and Islamic economic justice. In conclusion, this research bridges a crucial theoretical and practical gap in Islamic economic studies. It brings forth a novel approach to waqf governance by connecting classical Islamic jurisprudence with modern institutional needs. The contribution lies not only in proposing an applicable model but also in offering a paradigm that repositions *al-qawāʿid al-uṣūliyyah* as an active driver of socio-economic transformation. Future research is encouraged to empirically test this model and to extend its application beyond Southeast Asia into other regions seeking to harmonize Islamic law with development practice.

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