



The Role Of Tobacco Excise Revenue Sharing Funds (DBHCHT) In Reducing Tax Evasion

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ABSTRACT

This study examines the relationship between the allocation of DBHCHT for law enforcement and tax evasion efforts, as reflected by the number of illegal cigarette seizures, during the 2021–2023 period using a panel regression model. The research employs a Random Effects Panel Regression model with the Generalized Least Squares (GLS) estimation method. The analysis results indicate that DBHCHT significantly contributes to reducing tax evasion efforts through its positive association with the number of illegal cigarette seizures. Regions receiving relatively larger DBHCHT allocations demonstrate a greater impact in curbing tax evasion attempts. Therefore, the central government should reassess the allocation of DBHCHT for law enforcement and optimize its utilization at the local government level to strengthen oversight capacity in combating the circulation of illegal cigarettes.

INTRODUCTION

Indonesia's position as the largest tobacco producer in ASEAN and the fifth largest in the world underscores the importance of the tobacco sector to the national economy. The macroeconomic impact of the tobacco industry, through cigarette taxes/increased cigarette excise rates, has a positive impact on the economy, increasing economic output and household income (Bella et al., 2023) .

The Indonesian cigarette industry contributes to state revenue through tobacco excise. From 2020 to 2023, tobacco excise contributed more than 93% of state excise revenue, equivalent to more than 8% of total state revenue. State revenue plays a strategic role in supporting national development, including infrastructure, health, education, and other social programs. The substantial contribution of tobacco excise revenue reflects the tobacco industry's strategic role in supporting the Indonesian economy.

Table 1. State Revenue, Excise, and Tobacco Products 2020-2023

Year	State Revenue (Billion)	Revenue (Billion)	Tobacco Product Revenue (HT) (Billion)	Excise-HT Percentage	Percentage Acceptance -HT
2020	Rp1,628,950.53	Rp. 176,309.31	Rp. 170,239.84	96.56%	10.45%
2021	Rp. 2,006,334.00	Rp. 195,517.80	Rp. 188,811.48	96.57%	9.41%
2022	Rp. 2,630,147.00	Rp. 226,880.80	Rp. 218,621.50	96.36%	8.31%
2023	Rp. 2,634,148.90	Rp. 227,210.00	Rp. 213,497.77	93.96%	8.11%

Source : BPS and LAKIN DJBC

The size burden tax cigarettes in Indonesia are quite common tall among other ASEAN countries , namely by 48.9% - 53.8%, though big tax cigarette the still below Thailand (81.3%), Singapore (70.7%), and Malaysia (58.6%) (SEATCA 6th Edition, 2024) . However thus consumption cigarettes in Indonesia are still Enough high . Consumption smoking at age adults in Indonesia are in the range of 28% - 29% and expenditure For tobacco / cigarettes put priority second on a family (BPS, 2023). See height need public to cigarette so with existence improvement rates excise cigarette can trigger increasing circulation cigarette illegal in society (Santoso & Erlando, 2020) .

Survey conducted by the Research and Training Institute Economics and Business Faculty of Economics and Business, Gadjah Mada University shows that circulation cigarette illegal in Indonesia still Enough many and experienced improvement since 2020. Existence cigarette illegal This will push behavior smoking more often with reduce obstacle cost for smokers , so that increase amount smokers and non-smokers beginner (Prieger, 2022) . Cigarettes illegal also increases risk health effects Because No comply regulation government about installation warning health illustrated . The height level radioactive on cigarettes illegal can causing 164,000 deaths early every years , especially in low-income countries low and medium (Ariff et al., 2018; Joossens et al., 2010) . Furthermore, tax evasion through illegal cigarettes threatens the optimization of state revenue, particularly in the excise sector. In 2018, estimated state revenue losses due to illegal cigarette consumption in Indonesia ranged from 24.2 to 42 trillion rupiah, equivalent to 15.8% to 27.5% of tobacco excise revenue (Kasri et al., 2021) .

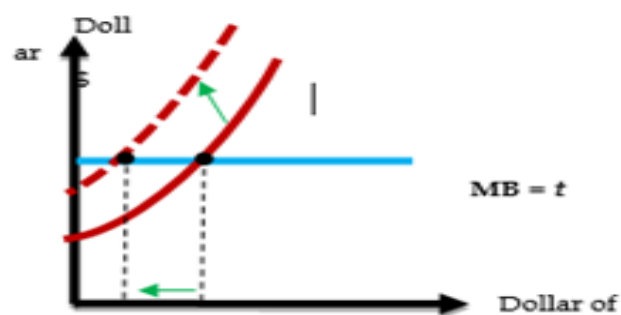
Illegal cigarette trade can be considered a form of tax evasion, where producers or traders avoid paying excise taxes that should be levied on tobacco products (Joossens et al., 2014). Tax evasion is an act in which individuals or entities intentionally avoid paying fiscal/tax obligations that they are legally required to fulfill. Individuals consider their decisions by comparing the benefits of tax evasion with the costs they may face, such as fines or sanctions if caught and punished. The higher the tax rate, the greater the incentive to evade. However, if the probability of being caught increases or the sanctions imposed become more severe, the costs of tax evasion will increase, thereby reducing the incentive to engage in tax evasion (Rosen, 2008) . *The Marginal Benefit* (MB) of an illegal cigarette dealer is the amount of applicable cigarette tax that is not paid, while *the Marginal Cost* (MC) is the amount of sanctions/fines that will be received if they commit tax evasion/distribute illegal cigarettes multiplied by the probability of being caught.

The existence of illegal cigarettes creates negative externalities such as losses in state revenues, threats to public health, and disruptions to competition in the domestic legal cigarette industry. Illegal cigarettes are produced without fulfilling tax obligations, resulting in negative externalities that cannot be internalized through tax mechanisms, as is the case with legal cigarettes. The resulting social costs, including losses in state revenues, ultimately become the responsibility of the government. The Excise Law states that the Tobacco Excise Revenue Sharing Fund (DBHCHT) can be used for industrial development activities, social environmental development, socialization of excise regulations, and the eradication of illegal excisable goods.

DBHCHT is a regional transfer of 3% of domestic excise revenues to excise-producing regions, tobacco-producing regions, and/or other regions. These funds can be used for various activities in community welfare programs, health programs, and law enforcement programs. Monitoring the circulation of illegal cigarettes is indeed the duty and function of the Directorate General of Customs and Excise (DJBC), however, the DBHCHT forces regional governments to help suppress the circulation of illegal cigarettes through preventive and repressive activities in law enforcement programs. The Minister of Finance Regulation states that activities in the field of law enforcement that can be carried out by regional governments, in this case, include industrial development through the development of Tobacco Industrial Zones (KIHT), public education through the socialization of excise regulations, and eradication of illegal cigarettes through information gathering, joint action with the DJBC, and operational support for illegal cigarette supervision.

Production Theory provides a framework for understanding the role of DBHCHT in increasing inputs, such as facilities, infrastructure, and human resources in local governments, to produce outputs in the form of increased effectiveness of law enforcement programs. This effectiveness is reflected in increased public understanding and the increasing number of illegal cigarette arrests. Then, when linked to the previous tax evasion theory, DBHCHT plays a role in increasing the probability of being caught in tax evasion activities. Figure 1 shows that the presence of DBHCHT creates more intensive supervision, thereby increasing the chance of being caught in illegal cigarette distribution. This causes *the Marginal Cost* of tax evasion to increase from MC to MC1 and decreases the optimal amount of tax evasion from R^* to R_1^* . The reduced incentive for tax evasion makes perpetrators reluctant to increase the scale of their illegal activities.

Figure 1. The role of DBHCHT in Reduce Tax Evasion



Source : Rosen (2008) processed Writer

The DBHCHT allocated to law enforcement programs can be used by local governments for both preventive and repressive activities to prevent and reduce tax evasion from illegal cigarettes. However, the increase in DBHCHT continues to be accompanied by an increase in tax evasion, as evidenced by the increasing results of surveys on illegal cigarette circulation over the past three years. Therefore, this study was conducted to examine the role of DBHCHT in reducing tax evasion in the tobacco sector through the number of illegal cigarette seizures. research has shown that the government's budget allocation for law enforcement is related to the circulation of illegal cigarettes in the community. The percentage of the budget allocated for surveillance activities has a positive impact on the number of illegal cigarette seizures (Ria Narasara & Widyawati, 2023) . Budget allocation for *supply chain monitoring* and public education plays a crucial role in reducing the circulation of illegal cigarettes (Allen, 2012) . Meanwhile, a reduction in the budget allocated to local governments can reduce the effectiveness of law enforcement in the region, thereby increasing illegal activity in that area (Saavedra & Romero, 2021) Other studies have shown mixed results regarding the effectiveness of surveillance in specific contexts. Narasara (2022) found that the actual surveillance budget per area actually had

a negative relationship with the number of illegal cigarette seizures. This may be due to geographical challenges and suboptimal resource distribution, or perhaps due to the deterrent effect of illegal cigarette surveillance, which reduces the circulation of illegal cigarettes. Furthermore, research by Indradinata (2024) indicates that illegal surveillance and enforcement activities have not had a significant impact on the circulation of illegal cigarettes. This finding emphasizes the importance of careful planning and targeted implementation of activities to ensure more targeted results and impact in reducing the circulation of illegal cigarettes. Based on previous research, the government's budget allocation for law enforcement has varying impacts on illegal activity in a given region.

LITERATURE REVIEW

Tax Evasion In The Tobacco Sector

In law no. 39 of 2007, excise is defined as a state levy imposed on certain goods with specific properties or characteristics as stipulated by law. These characteristics include: consumption needs to be controlled, distribution needs to be monitored, use can have negative impacts, or use requires state levies for the sake of justice and balance. Tobacco products, whether direct products or derivatives, such as cigarettes, are excisable goods. The most commonly circulated tobacco derivatives are machine-made clove cigarettes (skm), machine-made white cigarettes (spm), hand-rolled white cigarettes (spt), and hand-rolled clove cigarettes (skt).

The Impact of Tax Evasion (Negative Externalities of Illegal Cigarettes)

Externalities are actions taken by producers or consumers that affect other producers or consumers but are not reflected in market prices (Pyndick & Rubinfeld, 2012). Because they are not reflected in market prices, externalities can be a source of economic inefficiency. When companies fail to consider the harms associated with negative externalities, the result is overproduction and unnecessary social costs. In the tobacco industry, cigarettes have various negative impacts on public health and government revenues. Health costs resulting from tobacco-related illnesses are often borne by the government through the healthcare system, creating an additional burden on the state budget.

In an effort to reduce the negative externalities of tobacco consumption, the government has implemented tobacco excise taxes as a fiscal policy instrument. Cigarette taxes, including excise taxes, aim to raise cigarette prices, thereby reducing consumer purchasing power and reducing cigarette consumption (Ho et al., 2018). Revenue from cigarette taxes can be used to fund health programs, development programs, and tobacco control programs. Therefore, cigarette taxes internalize some of the resulting social costs. However, the effectiveness of this policy depends heavily on the level of compliance of all parties with tax regulations, including the obligation to pay excise taxes. The presence of illegal cigarettes often undermines the government's efforts to internalize social costs through cigarette tax/excise mechanisms.

DBHCHT

Law Number 39 of 2007 concerning Excise mandates the use of the Tobacco Excise Revenue Sharing Fund (DBHCHT). State revenue from tobacco excise is distributed to provinces producing tobacco excise at 2%. This amount changed in 2023, as per Article 114 of Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments, DBHCHT is set at 3% of domestic tobacco excise revenue and is distributed to excise-producing regions, tobacco producers, and/or other regions. The increase in DBHCHT is expected to be able to overcome the negative impacts of tobacco products, the impact of Tobacco Excise policies, and/or the impact of national tobacco policies on society.

METHODS

This study was conducted using secondary data in the form of panel data at the district/city level in Indonesia for the period 2021 to 2023. The dependent variable in this study is the number of illegal cigarettes seized obtained from the Directorate General of Customs and Excise. The increase in the number of illegal cigarettes seized projects a decrease in tax evasion in the tobacco sector. Meanwhile, the main independent variable (*interest*) in this study is the DBHCHT for law enforcement, obtained from the Directorate General of Fiscal Balance (DJPK), the amount of which is calculated from the percentage of allocations in the law enforcement sector in accordance with applicable regulations multiplied by the total DBHCHT received. Then, a *dummy DBHCHT* recipient was also used as an independent variable in the initial analysis, which is 1 if the district/city receives DBHCHT and 0 if it does not receive it.

Table 2. Research Variables and Data Sources

No	Variables	Unit	Data source
1	Amount Catch Cigarette Illegal (Cigarette Catch)	Bar (ln)	DJBC
2	DBHCHT Recipient Dummy (d_RecipientRegion)	1 = Recipient 0 = non-recipient	DJPK
3	DBHCHT in the field enforcement law (DBHCHT)	Million Rupiah (ln)	DJPK
4	Amount Enforcement Party External (External Action)	Frequency (ln)	DJBC
5	Average Length of Education (School Years)	Year	BPS
6	Average Per Capita Cigarette Consumption (Cigarette Consumption)	Packaging	BPS
7	Tobacco Production Amount (Tobacco Production)	Ton (ln)	Ministry of Agriculture
8	Regional Characteristics Dummy (d_Region)	1= City 0= Regency	BPS
9	Dummy Year of Implementation of PMK-215 Regulation (d_Regulation)	1= 2022-2023 0= 2021	Ministry of Finance

Source: Author (2024)

In addition to the main variables, several control variables are used to isolate the effect of DBHCHT on the number of illegal cigarette seizures. The first control variable covers external factors, namely enforcement activities carried out by the Directorate General of Customs and Excise (DJBC). The number of enforcement activities carried out by the DJBC is influenced by the size of the available budget. Narasara (2022) in his research showed that increasing the ratio of budget realization for supervision will increase the number of illegal cigarette seizures. The second control variable is years of schooling, which reflects the average education level of residents in a district/city. Individuals with higher education tend to have a deeper awareness of the health risks and legal implications of illegal cigarettes (MacMullen, 2009) .

The next control variable is the average number of cigarettes consumed per capita per week, which reflects the level of demand, purchasing power, and public demand for cigarettes. Higher cigarette consumption, coupled with increased cigarette excise rates, can trigger increased circulation of illegal cigarettes in the community (Santoso & Erlando, 2020) . The fourth control variable is the volume of tobacco production, which represents the potential cigarette production capacity and supply availability, which can influence the supply of illegal cigarettes. Regions that are tobacco producers or cigarette production areas have a positive correlation with the circulation of illegal cigarettes (Nur Azizah & Subur Purwana, 2021) . The fifth variable is regional characteristics, proxied by a *dummy variable* , where cities are given a value of 1 and

regencies are given a value of 0. Cities represent urban areas, while regencies represent rural areas, both of which have different characteristics in terms of population density, agricultural households, and the availability of public facilities (BPS, 2010). Differences in geographic conditions can influence the circulation of illegal cigarettes. Previous research shows that the opportunity to choose and obtain illegal cigarettes in border areas is higher compared to non-border areas (Curti et al., 2018) .

Finally, the control variable for regulatory changes, proxied by a dummy, has a value of 1 for 2022 and 2023 where the DBHCHT allocation for law enforcement is 10% as per PMK-215/PMK.07/2021 and a value of 0 for 2021 where the DBHCHT allocation for law enforcement is 25% as per 206/PMK.07/2020. Reducing the allocation of the supervisory budget to local governments can increase illegal activities in those areas (Saavedra & Romero, 2021) Model testing used *the Lagrange Multiplier Test* and *the Hausman Test* ,

In addition, researchers also attempted to estimate the potential amount of state revenue from fines and state losses arising from tax evasion on illegal cigarettes, which include excise, Value Added Tax (VAT), and regional taxes. The amount of potential state revenue from excise fines is in accordance with Article 54 and Article 55 of the Excise Law, which is a minimum of two times the excise value. Meanwhile, the potential state losses that can be prevented are calculated from the excise tariff and Retail Selling Price (HJE) used using a weighted average for the lowest value for each type of tobacco product. This estimated value calculation was carried out using the mildest scenario to avoid overestimating the potential state revenue and losses.

Table 3. Excise Tariffs and HJE

Type	Weighted HJE (Rupiah per stick)			Weighted Excise Tariff (Rupiah Per Stick)		
	2021	2022	2023	2021	2022	2023
Machine-Rolled Clove Cigarettes (SKM)	1,136.09	1,137.88	1,139.03	602.54	602.82	603.25
Machine-Made White Cigarettes (SPM)						
Hand-Rolled Clove Cigarettes (SKT)						

Source: PMK-198/PMK.010/2020, PMK-192/PMK.010/2021, PMK-191/PMK.0101/2022

RESULTS

Table 4 shows that the DBHCHT recipient *dummy variable* has a positive coefficient and significantly influences the number of illegal cigarettes caught, meaning that DBHCHT recipient areas have 121.8% higher illegal cigarette catches compared to non-DBHCHT recipient areas. The external enforcement variable also has a positive and significant coefficient on the number of illegal cigarette catches. A 1% increase in the number of enforcement activities carried out by the Directorate General of Customs and Excise will result in a 2.28% increase in the number of illegal cigarette catches in that area.

Other control variables that significantly influence the number of illegal cigarette catches are cigarette consumption, tobacco production, and a regional characteristic *dummy* . A 1% increase in per capita cigarette consumption will increase the number of illegal cigarette catches by 4.6%. A 1% increase in tobacco production will increase the number of illegal cigarette catches in that area by 0.103%.

Table 4. Regression Results for All Districts/Cities

Variables	Coefficient	p-Value	SE
d_Recipient Area	1,218	0,000 ***	0.236
ln_ExternalAction	2,284	0,000 ***	0.091
School Years	- 0.094	0.255	0.083
Cigarette Consumption	0.046	0.001 **	0.014
ln_Tobacco Production	0.103	0.006 **	0.037
d_Region	0.952	0.002 **	0.302
d_Regulations	- 0.183	0.142	0.125
_cons	3,430	0,000 ***	0.791
N	1,416	Notes: * p<0.05, ** p<0.01, *** p<0.001	
R2	0.6775		
VIF	6.55		

Source: Author (2024)

Main Analysis**Table 5. Regression Results for Regencies/Cities Using DBHCHT**

Variables	Model 1	Model 2	Model 3
ln_DBHCHT	0.307 *** (0.0590)	0.143 *** (0.0446)	0.120 * (0.0476)
ln_ExternalAction		1,927 *** (0.122)	1,951 *** (0.126)
School Years		0.009 (0.0833)	- 0.073 (0.0983)
Cigarette Consumption		0.0501 ** (0.0181)	0.054 ** (0.0187)
ln_Tobacco Production		0.008 (0.0428)	0.028 (0.0461)
d_Region			0.486 (0.390)
d_Regulations			- 0.183 (0.165)
_cons	9,845 *** (0.340)	4,374 *** (0.898)	5,026 *** (0.939)
N	879	879	879
R-sq	0.0807	0.5660	0.5674
VIF	1.00	6.88	7.35

Standard errors in parentheses

* p<0.05, ** p<0.01, *** p<0.001

Source: Author (2024)

The model used was Model 3, which has the highest *R-square value* . Although multicollinearity still exists, it is not a problem as long as the observed VIF does not exceed 10 (Chatterjee & Simonoff, 2013) . Based on the estimation results, the equation model in this analysis is:

$$\ln_TangkapanROkok_{it} = 5,026 + 0,120 \ln_DBHCHT_{it} + 1,951 \ln_PenindakanEskternal_{it} - 0,073 LamaSekolah_{it} + 0,054 KonsumsiRokok_{it} + 0,028 \ln_ProduksiTembakau_{it} + 0,486 d_Wilayah_{it} - 0,183 d_Peraturan_{it}$$

Similarly, with enforcement activities by the Directorate General of Customs and Excise (DJBC), the external enforcement variable has a positive and significant effect on the number of illegal cigarette seizures. A 1% increase in this activity will increase the number of illegal cigarette seizures by 1.951%. The results shown by law enforcement activities funded by DBHCHT and external enforcement activities are in line with the *Tax Evasion theory* . Both activities can increase the chances of detecting tax evasion activities through increased supervision and strengthened law enforcement activities. This increased opportunity will reduce the optimal amount of tax evasion. This reduced incentive for tax evasion makes perpetrators reluctant to increase the scale of their illegal activities.

The influence of external enforcement variables is much greater than that of DBHCHT on the number of illegal cigarette seizures. This is understandable, because the Directorate General of Customs and Excise (DJBC) is the government agency tasked with overseeing the circulation of illegal cigarettes, while the local government, through DBHCHT, plays a role in operational support for the implementation of illegal cigarette eradication activities. Furthermore, the small influence of DBHCHT law enforcement on the number of illegal cigarette seizures may be influenced by the small budget allocated by local governments for law enforcement programs. Case studies in five districts (Table 8) show that the allocation of funds for illegal cigarette eradication activities is much smaller than for outreach activities. Illegal cigarette eradication activities can have a direct impact on the number of illegal cigarette seizures, given that the activity takes the form of enforcement/illegal cigarette capture operations in the field with the DJBC, while outreach activities do not directly affect the number of illegal cigarette seizures. This shows that local governments allocate more funds to preventive activities. However, the outreach activities designed by local governments to date are considered inefficient (Ahsan et al., 2024) . Therefore, the local government needs to evaluate the socialization activities that have been carried out and reconsider the allocation of DBH CHT when designing an illegal cigarette eradication program.

Table 6 Use of DBHCHT for Law Enforcement Per Activity in 2023

No	Province	Regency	Percentage of Usage DBHCHT Law Enforcement		
			Industrial Development	Socialization	Eradication of Illegal BKC
1	West Nusa Tenggara	-	-	67.56%	32.44%
2	East Java	Bangkalan	-	79.05%	20.95%
3	East Java	Sumenep	70.93%	22.34%	6.73%
4	East Java	Pamekasan	-	57.52%	42.48%
5	East Java	Lacquer	-	85.88%	14.12%
Total			20.88%	56.54%	22.58%
Average			832.7	2,255.1	900.4

Source: DJBC

One of the consistent and significant control variables affecting the number of illegal cigarette seizures is cigarette consumption. Cigarette consumption and illegal cigarette circulation have a complex relationship and can influence each other (Goodchild et al., 2022) . High cigarette consumption can increase the circulation of illegal cigarettes to meet their cigarette needs. High cigarette prices due to increased excise rates make them seek cheaper alternatives. The increased circulation of illegal cigarettes in the community can increase the opportunity for authorities to obtain illegal cigarettes. Equation (2) shows that external enforcement and cigarette consumption have a greater influence on the number of illegal cigarette seizures compared to DBHCHT law enforcement.

Meanwhile, the variables of education level, tobacco production volume, regional characteristics *dummy* , and regulatory change *dummy* do not significantly influence the number of illegal cigarettes caught at the 5% level. The level of education and the amount of tobacco production of the population in a region may not directly influence the distribution and arrest of illegal cigarettes. Furthermore, the reduction in the DBHCHT allocation for Law Enforcement from 25% to 10% is not sufficient to make a significant difference in the number of illegal cigarettes caught. However, the negative coefficient of the regulatory *dummy* is a cause for concern, as this negative direction indicates that the reduction in allocation can lead to a decrease in the number of illegal cigarettes caught. This risks reducing the effectiveness of law enforcement due to a decrease in the budget allocation for law enforcement programs.

Subsample Analysis

The Java-Bali region (including Nusa Tenggara) is the region with the majority of DBHCHT nominal amounts higher than other regions. This region also has a relatively high average DBHCHT absorption rate, at 91.65%, compared to 86.47% outside Java-Bali. The researchers then took the median DBHCHT value (Rp 40.9 million) and divided the sample into two groups: those above the median and those below the median. The goal was to compare regions with relatively higher DBHCHT law enforcement usage with those with relatively lower DBHCHT law enforcement usage.

Table 7 Subsample Analysis Estimation Results

Variables	Java-Bali	Outside Java-Bali	Below the Middle Value	Above the Middle Value
In_DBHCHT	0.198 *	-0.035	-0.009	0.309 **
In_ExternalAction	1,645 ***	2,237 ***	2,302 ***	1,584 ***
School Years	0.059	-0.059	-0.058	0.023
Cigarette Consumption	0.088 *	0.079 **	0.056 **	0.071 *
In_Tobacco Production	-0.017	0.047	0.157	-0.002
d_Region	-0.234	0.745	0.341	0.145
d_Regulations	0.002	-0.300	-0.409	0.063
_cons	4,141 **	4,025 **	4,379 **	3,806 *
N	437	442	440	439
R-sq	0.5997	0.5501	0.5816	0.5121

* p<0.05, ** p<0.01, *** p<0.001

Source: Author (2024)

Table 7 shows that law enforcement's DBHCHT significantly impacts the number of illegal cigarette seizures in the Java-Bali subsample and subsamples above the median. However, in areas outside Java-Bali and below the median, law enforcement's DBHCHT has no effect on the number of illegal cigarette seizures. Meanwhile, external enforcement and cigarette consumption consistently have a positive and significant impact in each subsample. Likewise,

other control variables, namely years of schooling, tobacco production, regional characteristic *dummies* , and regulatory *dummies* , are consistently insignificant across all subsample areas.

In the previous analysis, reducing the DBHCHT allocation percentage for law enforcement from 25% to 10% had no effect on the number of illegal cigarette seizures. However, further research (subsample analysis) showed that in regions with higher budget absorption and relatively higher DBHCHT utilization, law enforcement DBHCHT in those regions can significantly impact the number of illegal cigarette seizures. Greater use of DBHCHT in law enforcement can have a stronger impact on reducing tax evasion efforts.

Estimates of Potential State Revenue and Losses

Table 8. Estimates of Potential State Revenue and Losses

Mark	2021	2022	2023	Total
Potential State Revenue (Fines)	400.101.167.79 6	554,733,053,99 1	754,541,622,73 5	1,709,375,844,52 2
Estimate State Losses	255.154.424.68 7	355,888,376,37 3	484,868,439,66 4	1,095,911,240,72 4
Excise	200,050,583,89 8	277,366,526,99 5	377,270,811,36 8	854,687,922,261
VAT	35,098,782,399	50,785,196,678	69,870,547,159	155,754,526,236
Regional Tax	20,005,058,390	27,736,652,700	37,727,081,137	85,468,792,226

Source: processed by the author (2024)

CONCLUSION

The study's findings indicate that the allocation of Tobacco Excise Revenue Sharing Funds (DBHCHT) for law enforcement significantly reduces tax evasion in various districts/cities across Indonesia. Panel data regression analysis using Generalized Least Squares (GLS) for the period 2021 to 2023 revealed that regions receiving and utilizing DBHCHT for law enforcement demonstrated a significant reduction in tax evasion through an increase in the number of illegal cigarette seizures. DBHCHT provides financial support for local governments to implement various law enforcement activities, from outreach to monitoring and joint operations with the Directorate General of Customs and Excise to eradicate illegal cigarettes.

Length of education, tobacco production volume, and regional characteristics did not significantly impact the number of illegal cigarette seizures. Regulatory changes, such as the allocation of DBHCHT for law enforcement from 25% to 10%, did not significantly impact the number of illegal cigarette seizures. However, subsample research results showed that regions with relatively higher DBHCHT nominal amounts significantly reduced tax evasion compared to regions with relatively lower funds. This suggests that a larger DBHCHT allocation contributes more effectively to reducing tax evasion in the tobacco sector through the eradication of illegal cigarettes.

The estimated potential state revenue from fines for illegal cigarettes seized during the 2021-2023 period is estimated to reach 1.7 trillion Rupiah. Meanwhile, the estimated state losses prevented due to excise, VAT, and regional tax evasion reached 1.09 trillion Rupiah. This significant estimate indicates the importance of strengthening oversight and law enforcement by local governments and the Directorate General of Customs and Excise. These efforts are necessary to suppress tax evasion in the tobacco sector, which not only results in lost potential state revenue but also threatens business competition in the legal cigarette market.

Based on the research results, it is recommended that the central government consider reviewing the current 10% allocation of DBHCHT for law enforcement. Increasing the DBHCHT allocation for law enforcement is necessary to mitigate potential losses to state revenue through

more targeted and sustainable illegal cigarette eradication efforts. The utilization of DBHCHT by local governments should be focused on preventive activities and accompanied by innovation in its implementation to increase the efficiency and effectiveness of the program. Furthermore, local governments need to strengthen cooperation with the Directorate General of Customs and Excise (DJBC) by increasing the capacity of local law enforcement officers, implementing joint enforcement operations, and fostering better synergy to increase the effectiveness of illegal cigarette eradication efforts and prevent potential state losses due to tax evasion.

This study has several limitations, leaving gaps that can be addressed for improvement. Future research is expected to expand the study period to obtain a more comprehensive picture of the long-term effectiveness of DBHCHT. Furthermore, more detailed data can be used, such as the actual use of DBHCHT for each activity, namely for industrial development, outreach, and eradication of illegal cigarettes. Data on the number of illegal cigarette seizures can be separated by source, such as independent data from the Directorate General of Customs and Excise (DJBC) and results from joint operations with local governments.

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