Tax Policies the System of Tax Regional Hierarchy in Regional Tax Revenues in Indonesia

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The empirical evidence shows that the taxation though various national development programs is essentially for the welfare of community. Taxation is necessary to finance public expenditure. Tax must be distributed administratively and it has to be economically sustainable and politically acceptable. This article will highlight what kind of system that is the best to develop a country like Indonesia in which the tax policies are decentralized to local governments in the form of local taxes and regional levies to increase Original Local Government Revenue (PAD). To obtain valid data, the research used case study applied in three provinces in Indonesia; Special Capital Region of West Java. The research method used was descriptive analytical method estimated using Analytical Network Process approach with expert choice software. The research is successfully showing that through in-depth analysis, Indonesia Government Regional Tax have an imperfect hierarchy, in the level of target, obstacles, actors, and policies that are not interconnected. Actors of the policy of Original Local Government Revenue (PAD) are the important key. Therefore, synergy is required to obtain Original Local Government Revenue (PAD) sources, design tax administration, firmness of law enforcement so that it has implications for economic progress, social justice, and regional political stability.

\textbf{Key words:} Taxes, Tax Policy, Tax Administration, Original Local Government Revenue (PAD), Tax Economy, Tax Hierarchy.
Introduction

Tax policy is a country’s obligation and almost all countries use it as their main income source. Generally, taxation is necessary for the welfare of community through various national development. Various literatures state that taxation has an impact on the development of countries’ economy, social wisdom, community culture, and even political stability. Decentralization of tax policy is one of central government’s efforts to give authority to local governments to collect local taxes based on various potentials of each local governance. In addition, it also becomes the main contribution in Original Local Government Revenue (PAD). Furthermore, it enables local government to have greater proportion of Original Local Government Revenue (PAD) adjusted to faster economic growth (Marques, Pinho, & Montenegro, 2019). The theoretical basis for decentralization of the development of taxes has not shown this (Han% Kung, 2015). Some studies from experts show that the tax policy of Original Local Government Revenue (PAD) directly influences regional policy choices, economic performance in their jurisdiction (Rodden, 2003)(Singh & rinivasan, 2010)(Weingast, 2009). Most of the existing studies focus on the relationship between decentralization of tax and economic performance. There are only few studies have carefully examined the role of tax incentives in making local government’s policies and impacts of taxation for community. By observing the phenomenon of Indonesian government’s tax decentralization scheme, this article would like to identify how the decentralization of Original Local Government Revenue (PAD) policies influences policy choices focusing on the development of local government.

Taxation is the main instrument of social and economic policies. It aims to transfer resources from the private sector to the public sector, distribute governmental fees fairly based on the level of income (Vertical Equity) and community in the similar level of economic condition (Horizontal Equity), and promote economic growth, stability, and efficiency (Yamen, Allam, Bani-Mustafa, & Uyar, 2018). Nowadays, central, regional, and local revenues are almost a third of gross national product. They come from various taxes, fees, cost, and others sources. Taxes cover almost the entire spectrum; income tax, general and selective consumption tax, salary tax, estate and gift tax, as well as professional tax (Biswas, Chakraborty, & Hai, 2017). Taxation policy is such a source of satisfaction and also an object for criticism. State tax revenue is responsive to changes in business activities; therefore, it automatically reduces the impact on change expenditure in private sector income (Freire-González, 2018). Tax is necessary to finance desired public expenditure and ensure that the burden of payment for expenditure is distributed administratively. Inaddition, tax has to be economically sustainable and politically acceptable (Martini, Niemann, & Simons, 2016). Therefore, each country has to have tax policies. However, what kind of tax policy that is the best for a developing country in the millennium era. The best tax policy depends on how much the government spends and for what kind of purpose they spend the tax (Petutschnig, 2017).
Indonesia is considered as the suitable place to examine this hypothesis and the regional autonomy policy supports the study. Tax decentralization provide rights to local government to find new revenues generated by economic growth. It leads to direct budgets for the region to encourage local economic prosperity. Local government encourages industrial growth relying on business taxes and non-budget revenue.

**Literature Review**

**Taxes and Economic Policy**

Tax is the price that has to be paid for a civilization. Thus, it is not surprising that the criteria to identify and design proper tax policies reflect the idea of social justice and as a symbol of the unity of democratic society. The principle of a country’s tax system reflects relative values of community through the political institutions. In this case, political institutions decide the purpose of its use and observe tax instruments explicitly and implicitly in achieving its goals (in ’t Veld, 2019). Taxation facilitates civil community and sets boundaries. Modern community tend to be involved safely, in various social, political, and economic relations reflecting intellectual attitudes. Personal and material economic success depend on a good system of law, health, education, and public safety (Marques et al., 2019). Community will benefit from the creation of a modern life order creating justice. Therefore, they are expected to give contribution in taxation.

Main purposes of taxation policy are to producing, distributing, and achieving non-fiscal policy objectives (such as economic growth and industrial policies). Fiscal economy is based on national income as it has developed over the past few decades. Economy policy is able to stabilize the economy in high employment, maintain price stability, and encourage economic growth and efficiency (Doerenenberg, Peichl, dan Siegloch, 2017). Tax policies have an impact on a country’s political policies and it leads to progressive or less economic distribution. Tax always imposes real costs to community when economic policies are determined as a result of taxation. Regardless of the goals and targets wanted to be achieved by a country through its tax policies, the tax managed, in fact, depends on its effectiveness and how the costs are maintained as minimum as possible to achieve tax policies objectives as much as possible. Generally, tax must be paid by private companies and community directly by deducting salary, investment or payment of goods and services (Abdul Wahab, Ntim, Mohd Adnan, dan Tye, 2018).

The biggest contribution to assess tax is the ability to pay. The principle is for those who can pay more, they must have bigger responsibility. The same goes for benefit policy in which for those who get the most benefits must contribute more (Dwenger, Kleven, Rasul, dan Rincke, 2016). The principle seems to be socially equitable and efficient, however, tax policy is not
that easy to be applied to finance most of government spending. A country’s good economy reflects that tax rates and tax systems work well. Tax can be collected accurately and accountably.

The greater the public sector, the more important it is to have an efficient, fair, and manageable tax system. Good taxation systems depend on a number of social, political, and economic considerations and choices (Alstadsæter, Johannesen, dan Zucman, 2019). Many things must be observed in tax policy, such as administration systems and tax policy analyses required to be revised. A good tax policy is a policy that explicitly considers international, national, and local arrangements. Up to the present, some countries tend to make separated and over-lapping taxation policies in which economic growth purposes are the only thing to be achieved. Tax policies are required to be designed properly. It because of tax affects all aspects of citizens’ life directly and indirectly (Wibowo, Darmanto, dan Pawiyatan Luhur Bendan Dhuwur, 2017).

**Facing Tax Administration**

The industrial revolution era 4.0 creates fundamental and rapid changes in the administration of bureaucracy and the movement of economic growth (Rulinawaty Kasmad, Samboteng, & Mahsyar, 2019). These changes lead the government to conduct digital-based public services. Innovation in tax administration report systems is required. The demand for these changes is caused by the role of tax administration that has a big influence on tax ecosystems such as reducing costs, increasing voluntary compliance of taxpayers, and reducing administrative costs arising from tax payments. Therefore, economic growth and investments are encouraged. Tax administration with the development of technology and information (IT) helps the government to utilize tax systems to be more effective and efficient in providing services and data, setting standards, monitoring taxpayers, and involving non-governmental parties. This will have an impact on managing big data from tax administration more effectively and efficiently and reducing tax gaps nationally and internationally.

Tax administration has only functioned as domestic laws and interaction tools for taxpayers. Massive IT supports have changed the way taxpayers do the digital tax transactions, no need to face red tape services (Samboteng & Rulinawaty, 2019). Cognitive computing, artificial intelligence, and robotics has supported effective and efficient services. Administration systems ever considered their national taxation systems as the function of domestic laws and interaction in their borders. This perspective has been disappeared in the last decades (Tax Administration 2017, 2017). Advancements in transportation and telecommunication has facilitated trade, transaction, and capital movement, labor, and knowledge systems. Tax administration systems have changed not only the way taxpayers do their responsibility, but also their expectation to the government and tax administration.
There is a network collaboration between various government and private organizations (Alwi & Kasmad, 2018) to encounter the threat of transfer of tax and tax evasion. The government is more agile in providing services (Rulinawaty, Aripin, dan Samboteng, 2020). Tax administration must respond to global changes, make various changes and technological advancements. Transformative changes are not easy, but the results will be very supportive for the government in the broader economic sector.

Tax policy is good when it is implemented effectively using policy drafts concerning about taxation administration. The fact shows that the country’s low economic costs will reduce their ability to provide goods and services. A good taxation policy will require all costs imposed on society and it can be reduced as low as possible. It is expected to achieve the country’s goals such as high income, economic growth, and redistribution as effective as possible. This can be seen in Table 1.

**Table 1: Tax Administration**

| System Design | ● Political support to manage taxation effectively; ● Right, clear, and measurable strategies for achieving goals; ● Sufficient resources |
| Collecting Information and Tax | ● Receiving and collecting information needed for taxpayers, third parties (Government, accountants, banks, etc) ● Storing information online for easier access ● Online and scheduled payments |
| Tax Laws | ● Taxpayers who don’t pay tax are prosecuted and punished according to tax laws and regulations |

Globalization leads tax administration to a new and difficult issue affecting the difficult duty in upholding tax systems. In Tax administration, significant and consistent management is required to implement online transactions, cross-border, provincial, and regional economic transactions.

**Policies to Promote Economic Growth**

Tax policy in developed countries is not only used to increase state income, but also as an instrument to reduce the income gap of the citizens. Several studies have shown that tax policy from economic perspective is seen as an instrument to prevent low economic growth. Tax is one of the factors driving the economy. Besides, it makes other countries interested in investing. High investment will create new jobs, reduce unemployment, and have implications for community welfare. Investment will bring tax revenue to be used as the state income (Doerrenberg et al., 2017). In addition, tax investment policy required to be analyzed.
Low tax rates will bring various investments, while high tax will help a country’s economic growth.

Tax policy affects a country’s macroeconomic outcomes. Countries should conduct the examination in determining tax rates. The key element that stimulates, influences, and directs investor decisions in tax rates (Andrejovská & Puliková, 2018). Optimal tax creation requires policy studies development which depends on the characteristics of a country’s policies such as taxation systems, taxation policies, policy stimulus, and industrial investments. Therefore, economic growth must be facilitated by tax policies.

**Method**

Research Method used was Descriptive Analytics method estimated using Analytical Network Process approach with expert choice software. For policy analysis, the sample selected is from those who have important roles in increasing Original Local Government Revenue (PAD) which are Regional Revenue Agency (BAPENDA) and Development Planning Agency (BAPPEDA) as technical institutions in regional planning and academic circles who have the contribution as decision makers and businessmen. They generally have contribution to the increase in Original Local Government Revenue (PAD). The result of respondents’ assessments or comparison of the element of a hierarchy is processed using Super Decision 2.08 program. Therefore, the priority load and final synthesis (local and global), as well as total perception of respondents using geometric mean.

**Model Quantification**

The stage of model quantification used Analytic Network Process questionnaire in the form of pairwise comparison among elements in the cluster to find out which one has bigger influence (more dominant) and how much the number (by numeric scale 1-9) based on various experts such as academics, politicians, governments, and practitioners.

a) Data Analysis and Synthesis

**Consistency Test**

Measurement of the consistency of a matrix is based on the maximum eigen value.

\[
CI = \frac{\lambda_{\text{maks}} - n}{n - 1}
\]

Notes:

\(\lambda_{\text{maks}} = \) maximum eigen value.

\(n = \) matix size
CI = consistency index

3.1.1 The maximum eigenvalue of a matrix will not be smaller than the n value, therefore, there is no negative CI value. The closer maximum eigenvalue is to the size of the matrix, the more consistent the matrix is. Furthermore, if they are equal, the matrix is 100% or 0% inconsistent. Meanwhile, the formulation of consistency ratio (CR) can be done with the equation:

\[ CR = \frac{CI}{RI} \]

Notes:
CI = consistency index
RI = random index value whose value is determined from Table 3.2
CR = consistency ratio

The accepted limit of consistency ratio of a matrix is 10% below. It means that inconsistency below 10% is still acceptable. Meanwhile, if the value is more than that, there must be a revision of the assessment because the level of inconsistency that is too large can lead to an error.

Table 3: Random Index Value (RI)

<table>
<thead>
<tr>
<th>N</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI</td>
<td>0.00</td>
<td>0.00</td>
<td>0.58</td>
<td>0.90</td>
<td>1.12</td>
<td>1.24</td>
<td>1.32</td>
<td>1.41</td>
<td>1.45</td>
<td>1.49</td>
<td>1.51</td>
<td>1.48</td>
<td>1.56</td>
<td>1.57</td>
</tr>
</tbody>
</table>

Population and Sample

The selection of region in this study is conducted in three regions:

Government and Development Coordination Agency of Region I: represented by Bogor Regency and City

Government and Development Coordination Agency of Region II: represented by Purwakarta Regency and Karawang Regency

Government and Development Coordination Agency of Region III: represented by Cirebon City, Cirebon Regency, and Indramayu Regency

Government and Development Coordination Agency of Region IV: represented by Garut Regency
Result and Discussion

Indonesia Government Local Tax

As the part of governance arrangements regulation in terms of authority and financial relations between Central Government and Regional Government. Problems still raising are the delegation of various functions has not yet run maximally as the implication of limited fiscal capacity in many regions in Indonesia. Various ways are done to overcome the inequality. In reality, the gap still becomes a fact and an important message in managing Indonesia’s state finances. The system developed in the autonomous regional government to increase resources and effectiveness in the administration of government and public services requires serious efforts in structuring the management of state finances. This management provides adequate space for the utilization of regional potential and strategic environmental potential to be managed maximally. Therefore, significant impact on strengthening regional fiscal capacity can be achieved.

The success of regional autonomy is seen based on the financial capability of local government in increasing their capacity to run the governmental function with the support of Original Local Government Revenue (PAD). The regional autonomy policy supports each local government to look for sources of Original Local Government Revenue (PAD). Therefore, local government relies on regional taxes and levies based on the principle of democracy, equity and justice, community participation, and accountability by observing regional potential.

Indonesia consists of 34 provinces and 514 regencies/cities. The implementation of the regional autonomy systems does not seem to be in line with expectations. It is because of the increase in regional independence rate has not shown yet, despite the potential increase in Original Local Government Revenue (PAD) that can be developed. In 2019, the average of provincial Original Local Government Revenue (PAD) only reached 34.1% of the total revenue. The highest percentage of Original Local Government Revenue (PAD) to the regional income was 67.72% in DKI Jakarta Province, and the lowest is 6.61% in West Papua Province. Meanwhile, in terms of the ratio of regency/city revenue per province, it shows that the average ratio of Original Local Government Revenue (PAD) to the regional income is 12.2%, while the largest component comes from other legal Original Local Government Revenue (PAD), which is 56.6%.

The decentralization policy in Indonesia which tends to be more in expenditure than revenue is the focus implication of stability becoming a priority of the central government. In many countries, even in developed countries. In this case, bureaucracy and local government administration generally do not have capacity constraints, management of revenue resources for public sector funding always dominated by the central government. For certain
conditions, revenues among the level of government may be interrelated and efforts to increase local government revenue can also support an increase in central government revenues. Developed countries having a relatively high ratio of tax to GDP generally also provide considerable tax authority and/or other revenue management to local government (Besley & Persson, 2014).

The purpose of strengthening local governance functions for the provision of public services will be not ideal if it is not followed by the linkage of funding sources. Local government revenues through fund transfer have been the main component. However, the provision of services through Original Local Government Revenue (PAD) is necessary to be supported. The commitment of the central government to support funding to local government through the provision of substantial transfer funds will certainly be more constrained when the central government’s ability in managing the revenue sources is not running optimally. In terms of the relation between central government and local government, funding uncertainties will affect to the failure in achieving the target of national program in which the commitment and support by local government in the implementation itself is required. Even though it is assumed that there is no a Principal Agent Problem (a problem arising from differences in objectives among parties), there is still a risk of uncertainty for local government to implement services provision obligations if there is no sufficient funding needs or if there are considerable restrictions on access and administration of funding from central government.

The policy of granting autonomy for local government is also inseparable from the implementation of other decentralization policies continued, especially those related to political and administrative decentralization. In Indonesia, with the stages of administrative decentralization, fiscal from expenditure sides, and political decentralization, it is such a natural thing to be adopted when discal decentralization for revenue sides. As the part of political investment, regional leaders will be responsive to the local population’s needs, including to adjust types of services that can be provided with the forms of funding that can be managed. Meanwhile, administrative devolution causing most of civil servants also automatically implies that there are quite a lot of service functions performed by the regional government including in this case that are related to the management of revenue resources.

Generally, the potential of Original Local Government Revenue (PAD) has not been explored to the fullest. It is because of lack of regional creativity in determining the cultural superiority and original potential of the region, compliance, and taxpayer awareness / relatively low levies, weak legal systems and local revenue administration, apparatus weakness, bureaucratic fears of failure to run the programs, lack of optimism in achieving targets. On the other hand, expenditures used to run the program (mark-up) of each budget since the beginning so that the tax budget used to improve the quality of public services is not effective.
Tax Policies of West Java Government

The compilation of a hierarchy of policies to increase Original Local Government Revenue (PAD), especially those originating from regional taxes and levies of regencies and cities in West Java, is based on general problems and local financial conditions. The hierarchy policies of the increase in Original Local Government Revenue (PAD) revenues originating from regional taxes and levies in regencies and cities in West Java.

The Identification on Each Level

• **Level 0: Focus**
The focus of the hierarchy in general is the increase in Original Local Government Revenue (PAD) revenues originating from Regional Taxes and Local Retributions of Regencies and Cities in West Java. The formulation of the focus is based on a decrease in regional income from Regional Taxes in regencies and cities in West Java during the fiscal year of 1998/1999 that reached 2.69%. In addition, however, since the fiscal year of 1999/2000, the revenue of regencies and cities in West Java for Regional Retribution has increased by 61.41 percent. Therefore, the policy to increase Original Local Government Revenue (PAD) revenues originating from Regional Taxes and Local Retributions of Regencies and Cities in West Java can increase regional income and be able to finance regional developments.

• **Level 1: Target**
The purpose of the target level is to observe the comparison of priorities of various targets to be achieved, related to the increase in Original Local Government Revenue (PAD) revenues originating from Regional Taxes and Local Retributions of Regencies and Cities in West Java. There are two targets that must be considered based on priority order; first, to increase the flexibility of regional government in planning development programs, second, to provide and improve the quality of public services to the community.

• **Level 2: Obstacles**
The purpose of this level is to observe the comparison of various obstacles affecting the achievement of desired goals. Obstacles influencing the target are the role of Regional taxes and retributions that are classified as small in total regional revenues, weak mechanism, supervision, and financial planning, low motivation and public awareness to pay regional taxes and levies, and capabilities of collection administration in the region that are not yet efficient.

• **Level 3: Policy Actors**
This level contains parties or actors who have influence in overcoming and solving existing various obstacles (the level above). Therefore, there are five actors as the representatives of
many existing actors, local government elements consisting of Regional Revenue Office of regencies and cities in West Java, Development Planning Agency (BAPPEDA) and Regional House of Representatives of regencies and cities in West Java, academics circles, and businessmen.

- **Level 4: Policies**

  The purpose of this level is to observe the comparison of policy priorities that can be implemented to improve regional financial capacity, especially increasing Original Local Government Revenue (PAD) originating from Regional Taxes and Local Retributions of Regencies and Cities in West Java. There are alternative policies include: increasing taxing power of the region, expanding the principle of regional tax revenues and retributions, as well as strengthening collection process, implementation of supervision mechanism, and better financial planning and socialization to encourage public awareness in patting regional taxes and retributions, increasing the efficient collection administration in the region, and reduce the cost of collection.

**Model Estimation**

Selected respondents (Regional Revenue Agency (BAPENDA) and Development Planning Agency (BAPPEDA) in regencies and cities in West Java) have an important role in increasing Original Local Government Revenue (PAD) revenues originating from Regional Taxes and Local Retributions of Regencies and Cities in West Java. They roles are as technical institutions in regional planning, academic circles who have the contribution as decision makers and businessmen who can contribute to the increase in Original Local Government Revenue (PAD) originating from Regional Taxes and Retributions.
<table>
<thead>
<tr>
<th>Region and Development Coordination Agency of Region I (Bogor Regency and City)</th>
<th>Level O Focus</th>
<th>Level 1 Target</th>
<th>Level 2 Obstacles</th>
<th>Level 3 Policy Actors</th>
<th>Level 4 Policies</th>
<th>Random Index Value (RI)</th>
</tr>
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<tbody>
<tr>
<td>Selection of policies for optimizing regional taxes and retributions collection in increasing Original Local Government Revenue (PAD) revenues in regencies and cities in West Java</td>
<td>Increase the discretion of local government in planning regional development programs</td>
<td>The role of regional taxes and levies classified as small in the total regional revenues</td>
<td>Regional Revenue Agency (BAPENDA)</td>
<td>Increasing regional taxing power</td>
<td>0.07</td>
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<tr>
<td>Provision and improvement of the quality of public services to the community</td>
<td>Weak mechanism, supervision, and financial planning</td>
<td>Academics</td>
<td>Expanding the principle of regional tax revenues and retributions, as well as strengthening collection process</td>
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<td></td>
<td>Low motivation and public awareness to pay regional taxes and levies</td>
<td>Regional House of Representatives</td>
<td>Conducting socialization and counseling to encourage public awareness in paying regional taxes and retributions</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Capabilities of collection administration in the region that are not yet efficient</td>
<td>Businessmen</td>
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<td>Development Planning Agency (BAPPEDA)</td>
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<thead>
<tr>
<th>Region and Development Coordination Agency of Region II (Purwakarta Regency and Karawang Regency)</th>
<th>Level O Focus</th>
<th>Level 1 Target</th>
<th>Level 2 Obstacles</th>
<th>Level 3 Policy Actors</th>
<th>Level 4 Policies</th>
<th>Random Index Value (RI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection of policies for optimizing regional taxes and retributions collection in increasing Original Local Government Revenue (PAD) revenues in regencies and cities in West Java</td>
<td>Increase the discretion of local government in planning regional development programs</td>
<td>The role of regional taxes and levies classified as small in the total regional revenues</td>
<td>Regional Revenue Agency (BAPENDA)</td>
<td>Increasing regional taxing power</td>
<td>0.06</td>
<td></td>
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<tr>
<td>Provision and improvement of the quality of public services to the community</td>
<td>Weak mechanism, supervision, and financial planning</td>
<td>Academics</td>
<td>Expanding the principle of regional tax revenues and retributions, as well as strengthening collection process</td>
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<tr>
<td></td>
<td>Low motivation and public awareness to pay regional taxes and levies</td>
<td>Regional House of Representatives</td>
<td>Conducting socialization and counseling to encourage public awareness in paying regional taxes and retributions</td>
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<td></td>
<td>Capabilities of collection administration in the region that are not yet efficient</td>
<td>Businessmen</td>
<td></td>
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<td></td>
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<td>Development Planning Agency (BAPPEDA)</td>
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</table>
| **Government and Development Coordination Agency of Region III (Cirebon City, Cirebon Regency, and Indramayu Regency)** | Selection of policies for optimizing regional taxes and retributions collection in increasing Original Local Government Revenue (PAD) revenues in regencies and cities in West Java | • Increase the discretion of local government in planning regional development programs  
• Provision and improvement of the quality of public services to the community  
• The role of regional taxes and levies classified as small in the total regional revenues  
• Weak mechanism, supervision, and financial planning  
• Low motivation and public awareness to pay regional taxes and levies  
• Capabilities of collection administration in the region that are not yet efficient | • Regional Revenue Agency (BAPENDA)  
• Academics  
• Regional House of Representatives  
• Businessmen  
• Development Planning Agency (BAPPEDA)  
• Increasing regional taxing power  
• Expanding the principle of regional tax revenues and retributions, as well as strengthening collection process  
• Implementation of better supervision and financial planning  
• Conducting socialization and counseling to encourage public awareness in paying regional taxes and retributions | 0.03 |
The results of calculations and assessments of Development Planning Agency (BAPPEDA) respondents in regencies and cities in West Java are as follows:

### Level 1: Target
Development Planning Agency (BAPPEDA) assessments to observe the comparison of priorities of various targets to be achieved, related to the increase in Original Local Government Revenue (PAD) revenues originating from Regional Taxes and Local Retributions of Regencies and Cities in West Java are as follows:

1. Increase the flexibility of local government in planning regional development programs (0.500)
2. Provision and improvement of the quality of public services to community (0.500)

### Level 2: Obstacles
Development Planning Agency (BAPPEDA) assessments in observing the comparison of various obstacles affecting the achievement of desired goals are as follows:

1. The role of regional taxes and levies classified as small in the total regional revenues (0.311)
2. Weak mechanism, supervision, and financial planning (0.304)
3. Low motivation and public awareness to pay regional taxes and levies (0.260)
4. Capabilities of collection administration in the region that are not yet efficient (0.105)

### Level 3: Actors
Development Planning Agency (BAPPEDA) assessments to observe the comparison of parties or actors who have influence in overcoming and solving existing various obstacles (the level above) based on the priority are as follows:

1. Development Planning Agency (BAPPEDA) of cities and regencies in West Java (0.330)
2. Regional House of Representatives of Regencies and cities in West Java (0.266)
3. Regional Revenue Agency (BAPENDA) in cities and regencies of West Java (0.228)
4. Academics (0.117)
5. Businessmen (0.059)

### Level 4: Policies
Development Planning Agency (BAPPEDA) assessments to observe the comparison of policy priorities that can be implemented to improve regional financial capacity, especially increasing Original Local Government Revenue (PAD) originating from Regional Taxes and Local Retributions of Regencies and Cities in West Java are as follows:

1. Implementation of better supervision and financial planning (0.264)
2. Improving the efficiency of collection administration in the region and reducing excessive cost of collection (0.246)
3. Expanding the principle of regional tax revenues and retributions, as well as strengthening collection process (0.190)
4. Conducting socialization and counselling to encourage public awareness in paying regional taxes and retributions (0.174)
5. Increasing regional taxing power (0.126)

According to the comparison of priorities of policy alternatives based on the perspective of governmental institutions such as Development Planning Agency (BAPPEDA), Regional Revenue Agency (BAPENDA), House of Representatives of Regencies, academics circles, and businessmen of regencies and cities in West Java, the policy recommendations are expected to optimize tax collection and regional retributions in increasing Original Local Government Revenue (PAD) in regencies and cities in West Java:

**Increase the Efficiency of Collection Administration in the Region and Reduce Excessive Cost of Collection**

Policies that can be implemented by regencies and cities in West Java are improving tax administration procedures through simplifying tax administration, increasing collection efficiency of each type of collection and reducing excessive cost of collection leading to a high cost economy that has a distortion impact on the regional economy. There are two factors determining regional financial sources originating from regional taxes; the principle of tax imposition and tax rates. Higher tax imposition does not always produce maximum total revenues. It depends on the response of taxpayers, requests and supply of goods originating from higher tax rates. This is expected to be a major consideration for local government in exploring financial resources from local taxes. Local taxes are not always about charging higher tariffs only, but must pay attention to aspects of the efficient administration of collection and reduce excessive cost of collection to achieve maximum total revenues.

**Expand the Principle of Regional Tax Revenues and Retributions, As Well as Strengthening Collection Process**

Policies implemented to expand the principle of revenues that can be collected by the region, in which in terms of economic calculations are considered potential, are identifying new/potential taxpayers and the number of taxpayers, improving object databases, improving valuation, calculating revenue capacities of each type of levies. In addition, efforts to strengthen the collection process include speeding up regulation drafts, changing tariffs, especially levies and increasing human resources.
Implement Better Supervision Mechanism and Financial Planning

Things that can be improved are implementing impromptu and periodic checks, improving the monitoring process, applying sanctions against tax and levies arrears, and increasing tax payments and services provided by the region. Furthermore, for better financial planning, it is expected to improve coordination with relevant agencies in the region.

Conducting Socialization and Counselling to Encourage Public Awareness in Paying Regional Taxes and Retributions

Conducting socialization and counselling to encourage public awareness in paying regional taxes and retributions in local development.

Increasing Regional Taxing Power

Another problem related to Original Local Government Revenue (PAD) is limited regional taxing power that is reflected in the low contribution of Original Local Government Revenue (PAD) to State Budget (APBD). This situation does not support the accountability of the use of regional budgets, in which the limitation to transfer funds from central government to finance regions’ needs should ideally be covered by the region by adjusting tax principles or tax rates of the region. This can only be done if taxing power policies from the region is expanded.

Conclusion

Elements considered in determining the regional financial capability to increase regional finances, especially the increase in Original Local Government Revenue (PAD) originating from local taxes and levies in regencies and cities in West Java are as follows:

- **Level 0 : Focus**
  - Selection of policies for optimizing regional taxes and retributions collection in increasing Original Local Government Revenue (PAD) revenues in regencies and cities in West Java
- **Level 1 : TARGET**
  - Increase the discretion of local government in planning regional development programs
  - Provision and improvement of the quality of public services to the community
- **Level 2 : OBSTACLES**
  - The role of regional taxes and levies classified as small in the total regional revenues
  - Weak mechanism, supervision, and financial planning
  - Low motivation and public awareness to pay regional taxes and levies
o Capabilities of collection administration in the region that are not yet efficient

• Level 3: ACTORS
  o Regional Revenue Agency (BAPENDA)
  o Academics
  o Regional House of Representatives
  o Businessmen
  o Development Planning Agency (BAPPEDA) of regencies and cities in West Java

• Level 4: POLICIES
  o Increasing regional taxing power
  o Expanding the principle of regional tax revenues and retributions, as well as strengthening collection process
  o Implementation of better supervision and financial planning
  o Conducting socialization and counselling to encourage public awareness in paying regional taxes and retributions
  o Improving the efficiency of collection administration in the region and reducing excessive cost of collection

Policy alternatives based on the priority order that might be implemented to increase regional finances, especially Original Local Government Revenue (PAD) revenues originating from Regional Taxes and Local Retributions of Regencies and Cities in West Java are as follows:

• Increase the efficiency of collection administration in the region and reduce excessive cost of collection
• Expand the principle of regional tax revenues and retributions, as well as strengthening collection process
• Implement better supervision mechanism and financial planning
• Conducting socialization and counselling to encourage public awareness in paying regional taxes and retributions
• Increasing regional taxing power
REFERENCES


