



Implication of Implementing the New Local Taxes Regulation on the Regional Income of Badung Regency, Bali Province, Indonesia

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Abstract

Implementing Law Number (No). 28 of 2009 on Local Taxes and Retributions still faces sundry problems in the varied areas, no exception in the Regency of Badung. This research was conducted using a desk study analysis method by compiling information and study results from various research which had been taken before. Some problems facing by the Local Government of Badung Regency regarding with the mentioned law above are related to types of new local taxes, tax base expansion, and freedom to define tax tariffs.

Keywords: Fiscal decentralization; Local Taxes; Badung Regency.

1. Introduction

Enforcing the Law Number (No). 28 of 2009 on Local Taxes and Retributions is a strategic step in decentralizing the fiscal in order to rearrange the monetary relationship between the Central Government and Local Government [5].

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The existence of this regulation delivers a broader authority in the field of local taxing power which is expected to able to provide more loose space for the local government to collect local taxes and retributions according to each local potency and condition [1]. Furthermore, this regulation is hoped to boost increasing community services and local self-help [4]. One of the areas in Indonesia possessing a huge economic potency is the Badung Regency. Becoming a tourist destination center in Bali Province, the economy of this regency is highly depended on tourists visits [7]. Various activities in the tourism sector that are being the main resources of local tax income in this regency. Nevertheless, along with the enforcement of Law Number (No). 28 of 2009 on Local Taxes and Retributions, The Local Government of Badung Regency still faces a number of problems in implementing this regulation.

2. Data and Methodology

The data type used in this research was secondary data coming from a various institution such as Directorate General of Fiscal Balance Ministry of Finance, Ministry of Public Works and Public Housing, The Central Bureau of Statistics dan Regional Revenue Office of Badung Regency. The collected data consisted of the regulations of local taxes collection, the income progress of local own-source revenue and local taxes, economic growth, and population number of Badung Regency.

Those data above were analyzed using a desk study method namely collecting information and study results from various research that had been carried out previously. Further, in this research, a correlation analysis was also taken aiming to seek a correlation among the tax revenue, population increase, and economic growth. To calculate this relationship used a formula developed by Pearson Correlation (Product Moment) referred to [9] as follows.

$$r_{xy} = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{(N \cdot \sum x^2 - (\sum x)^2) \cdot (N \cdot \sum y^2 - (\sum y)^2)}}$$

where,

n = number of data pairs, X and Y

$\sum x$ = Sum number of X variable

$\sum y$ = Sum number of Y variable

$\sum x^2$ = Quadratic of total sum X variable

$\sum y^2$ = Quadratic of total sum Y variable

$\sum xy$ = Multiplication results of total sum X and Y variables

3. Results and Discussion

Before discussing further the implication of enforcing the Law Number (No). 28 of 2009 on Local Taxes and Retributions for the regional revenue, prior we figure out the condition and revenue of Badung Regency. Furthermore, we discuss sundry problems facing in collecting local taxes in this regency after the regulation has been enforced.

3.1. The territorial condition of Badung Regency

The area of Badung Regency administratively elongates from north to south covering approximately 418.52 Km² or about 7.43% of Bali mainland. This regency is divided into 6 sub-districts and 62 villages/urban villages. The northern part of this regency is a mountainous area with fresh air and bordered with Buleleng Regency. Its central part is rice field areas with beautiful and clean sceneries and bordered with Gianyar and City of Denpasar in the east, and Tabanan Regency in the west. The western part of this regency is a lowland with white sandy beach bordered directly to the Indian Ocean. The coastline in this regency is approximately 64 km length and covering 480 Ha as a beach border area. These huge potencies make Badung Regency becoming the center of tourists' destination in Bali with some tourist areas which have been widely recognized popular such as Kuta and Nusa Dua. The magnitude of tourism sector contribution on the economy of Badung Regency renders tourism tax to be the main revenue of local taxes such as taxes for hotels and restaurants.

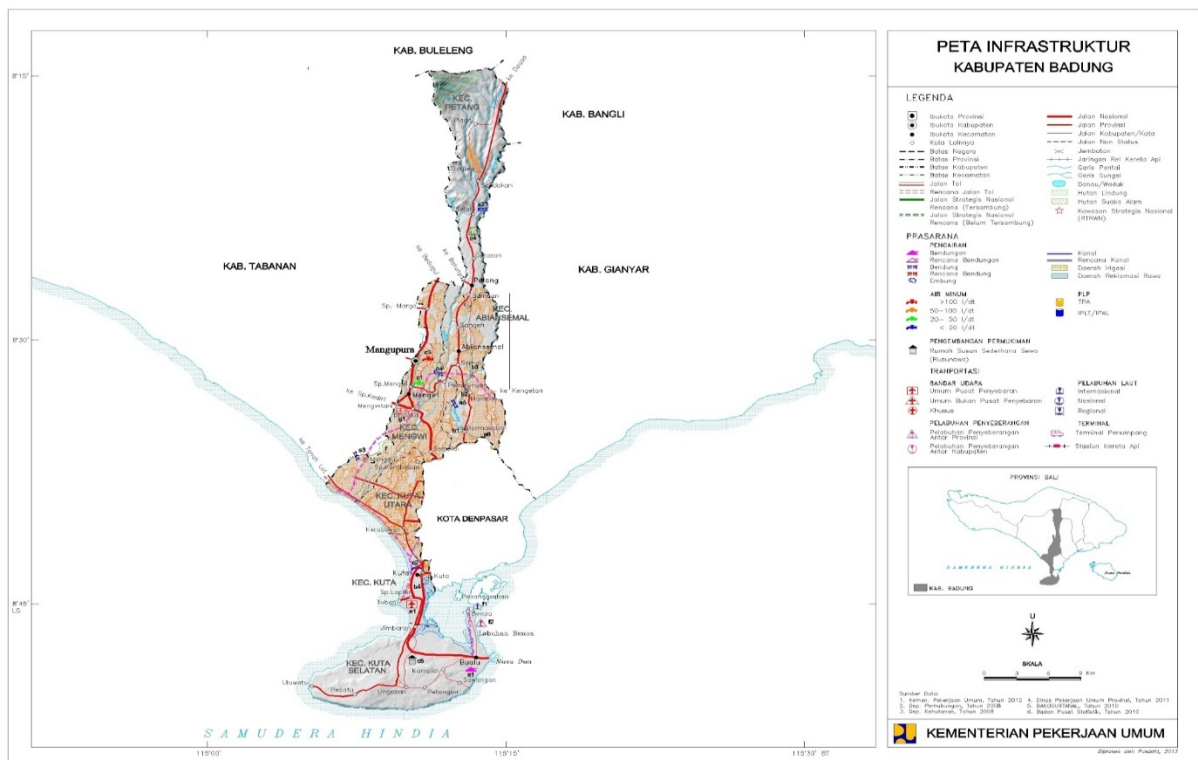


Figure 1: The territorial map of Badung Regency

Source: [3]

As one of the local revenue resources, the Government of Badung Regency collects the local tax based on the regulations governing it in the form of the Local Regulation. In line with enforcing the Law Number (No). 28 of 2009 on Local Taxes and Retributions, types of local taxes that are collected getting increasing. The various types of intended taxes are able to be explained in the following table.

Table 1: Type, Definition and Regulation Governing Local Taxes of Badung Regency

No.	Type of Local Taxes	Definition of local tax type based on each regulation	Regulation
1.	Hotel Taxes	Taxes on services providing by hotels	Regional Regulation No. 15 of 2011
2.	Restaurant Taxes	Taxes on services providing by restaurants	Regional Regulation No. 16 of 2011
3.	Tax for Acquisition Duty of Right on Land and Building	Taxes on acquisition Duty rights on land and/or building	Regional Regulation No. 14 of 2010 as revising through the Regional Regulation No. 28 of 2013
4.	Entertainment Tax	Taxes on carrying out entertainments	Regional Regulation No. 17 of 2011
5.	Tax on Non-Metallic Minerals and Rocks	Taxes on mining activities for non-metallic minerals and rocks which are resourced from both inside and/or on the surface of the Earth to be utilized.	Regional Regulation No. 20 of 2011
6.	Ground Water Tax	Taxes on taking up and/or utilizing ground water	Regional Regulation No. 1 of 2011
7.	Advertisement Tax	Taxes on setting advertisements	Regional Regulation No. 18 of 2011
8.	Parking Tax	Tax on setting up parking areas outside of roads, providing by the regarding with main business and a business unit, including the services for safekeeping of motorized vehicles	Regional Regulation No.14 of 2011
9.	Urban-Rural Land and Building Tax	Tax on land and/or building owned, occupied, and/or utilized by individual or institution, except areas applying for business activities of plantation, forestry, and mining.	Regional Regulation No. 3 of 2012
10.	Street lighting tax	Tax on utilizing electricity, both self-generating and gaining from other resources	Regional Regulation No. 19 of 2011

Note: Tax on the Swift's nest is not regulated due to the potential tax from this object in this regency is not exist.

Source: [8]

3.2. Description of Local Tax revenue of Badung Regency

Enforcing the Law Number (No). 28 of 2009 on Local Taxes and Retributions provides a bigger authority for Municipality Government/Regency Government in collecting their local taxes. The tax type augmentation and tax basis enhancement should be able to increase the local revenue. Based on the data from the Ministry of Finance and the Central Bureau of Statistics, the target of Local Own-Source Revenue in 2017 was Rp 3,823.18 billion, and its realization exceeded Rp 4,172.46 billion. The realization of this revenue in that year had reached the predetermined target. Overall components of the realization forming the Local Own-Source Revenue exceeds each target that had been determined previously. The Local Taxes revenue that was targeted as many as Rp 3,308.38 billion, fortunately, the realization of the target has been surpassed its revenue exceeding Rp 3,490.16 billion. So, does the Local Retributions, its defined target was Rp 101,13 billion, is able to reach Rp 128.72 billion. Furthermore, the realization of Local Government Corporate Revenue and Separated Local Wealth Management Revenue attains Rp 255.93 billion, surpassing the determined target was as many as Rp 237.15 billion. While the realization of Others Original Local Government Revenue exceeded Rp 297.65 billion, also surpasses the determined target as many as Rp 176.51 billion.

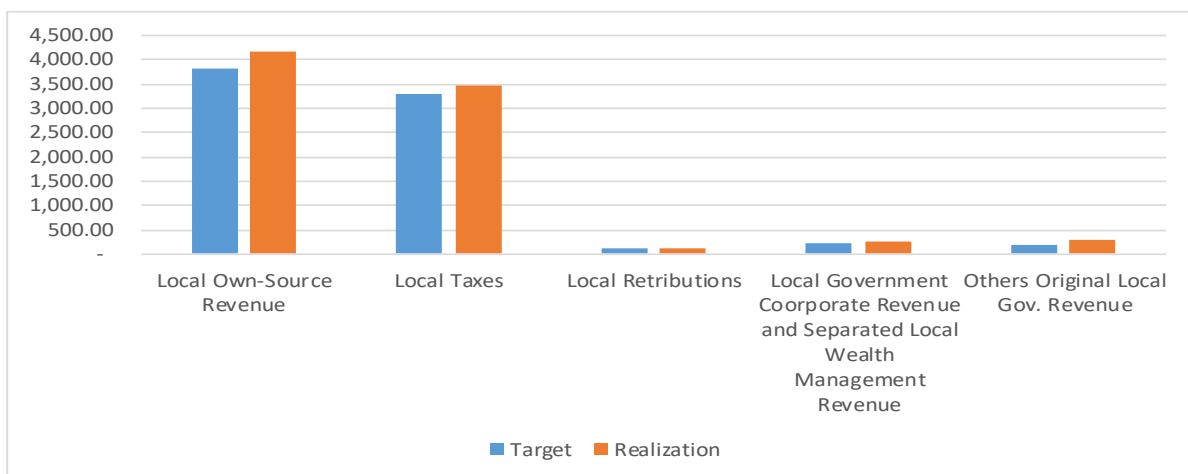


Figure 2: Target and realization of Local Own-Source Revenue and various forming components in 2017

Source: [2] and [11]

3.3. Development of Local Own-Source Revenue and Local Taxes

By enforcing the Law Number (No). 28 of 2009 on Local Taxes and Retributions, the local tax revenue in the period of eight recent years undergoes increasing that contributes to the Local Own-Source Revenue. The revenue of local taxes escalated significantly as many as 172 percents from Rp 1,281.69 billion in 2011 to be Rp 3,490.16 billion in 2017. It boosted an increasing of the Local Own-Source Revenue almost 200 percent starting from Rp 1,406.26 billion in 2011 becoming Rp 4,172.46 billion in 2017. Furthermore, it grew in an average of 18.34 percent during the period of 2011 to 2017. The growing of the local taxes also inlined with happening Badung Regency where it contributes to the escalating Local Own-Source Revenue, which is in an average of

20,06 percent in the same period.

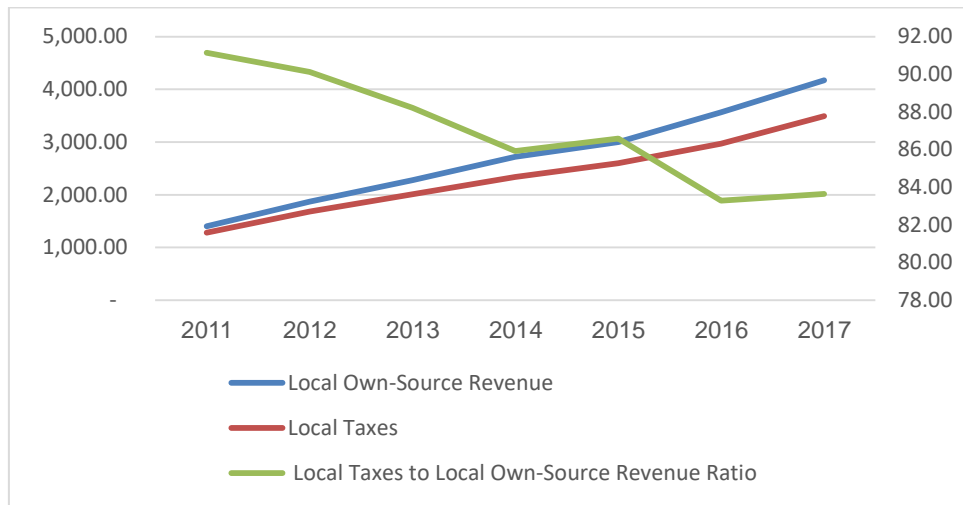


Figure 3: The development of Local Own-Source Revenue and Local Taxes (in billion rupiahs) and Local Taxes to Local Own-Source Ratio (in percent) during a period of 2011-2017

Source: [11]

However, an increase of the Local Own-Source Revenue and Local Taxes above is indeed inversely proportional with the shares of Local Taxes on Local Own-Source Revenue that tends to be declined. This condition is caused by the revenue components of locally-generated revenue also tends to undergo an increase, especially the Local Government Corporate Revenue and Separated Local Wealth Management Revenue and Others Original Local Government Revenue. The Local Government Corporate Revenue and Separated Local Wealth Management Revenue uplifted drastically more than 600 percent from as many as Rp 35.59 billion in 2011 to be Rp 255.93 billion in 2017.

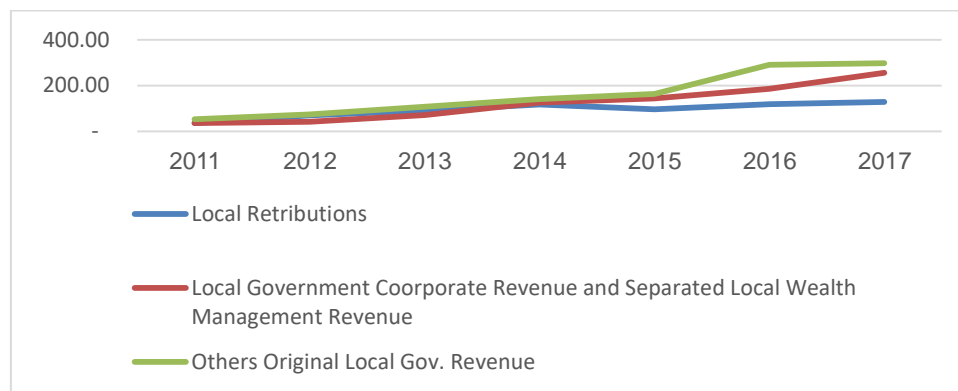


Figure 4: The Progress of Local Retributions, Local Government Revenue and Separated Local Wealth Management Revenue, and Others Original Local Government Revenue (in billion rupiahs) in the period of 2011-2017

Source: [11]

While the Others Original Local Government Revenue also escalates significantly more than 460 percent from Rp 53.15 billion in 2011 becoming Rp 297.65 billion in 2017. Furthermore, the average Local Government Corporate Revenue and Separated Local Wealth Management Revenue in the time span of 2011 to 2017 is high enough namely more than 40 percent annually. In the other hand, the average Others Original Local Government Revenue in the same period increased more than 35 percent.

3.4. Revenue progress and proportion of sundry Local Tax types

Based on Figure 5 exhibits that the local tax revenue of Badung Regency is highly dominated by revenue coming from hotel taxes. The magnitude of this tax type revenue surpasses Rp 2,029.98 billion, or more than 58 percent of total local tax revenue that is approximately Rp 3,479.01 billion in 2017. The next higher tax revenue is devoted by the Acquisition Duty of Right on Land and Building dan Restaurant Tax namely Rp 492.74 billion (14.21 percent) and Rp 451.93 billion (13.62 percent), respectively. This condition is not surprisingly, in the light of Badung Regency is the central tourist destination in Bali Province.

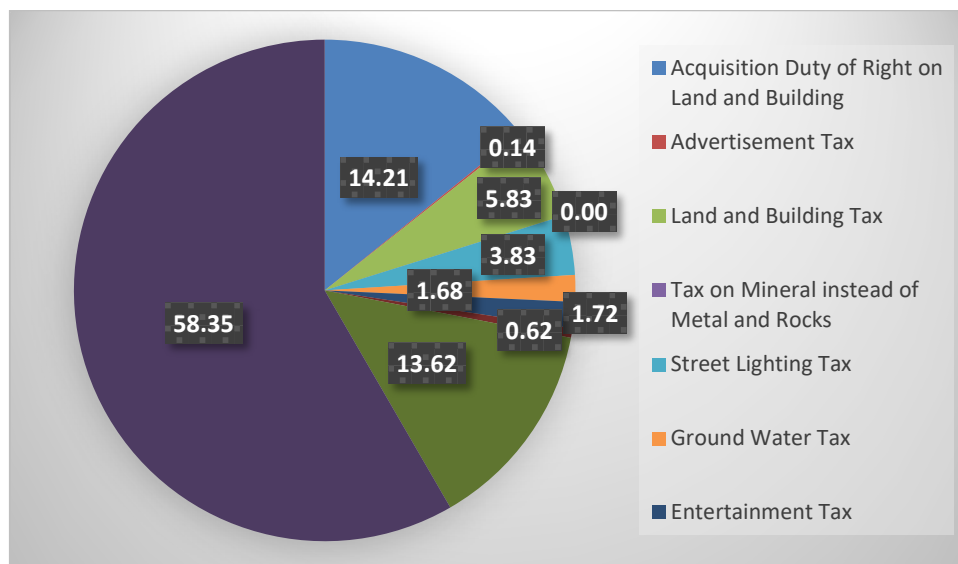


Figure 5: The contribution of various local tax types on the total local tax revenue of Badung Regency in 2017

Source: [8]

Apprehending to the realizing revenue achievement of sundry local tax type compared with the targets that had been defined, signifies that there are some tax types that surpassed targets or reaching more than 100 percent in 2017. These tax types are the Parking Tax with a realization approximately Rp 21.50 billion from its target namely as Rp 17.87 billion (120.29 percent of achievement); Restaurant Tax with the realization as Rp 473.85 billion from its target Rp 451.93 billion (104.85 percent of achievement); Entertainment Tax with the realization achieved Rp 58.42 billion from its target as Rp 57.16 billion (102.22 percent of achievement); Hotel Tax with the realization Rp 2,029.98 billion from its target Rp 2,013.91 billion (100.80 percent of achievement); dan Acquisition Duty of Right on Land and Building with a realization of Rp 494.21 billion from its target as Rp 492.74 billion (100.30 percent of achievement). Unfortunately, the lowest achievement of tax type of defined

target is Advertisement Tax with its realization of Rp 4.84 billion from the target as many as Rp 14.00 billion (34.58 percent of achievement).

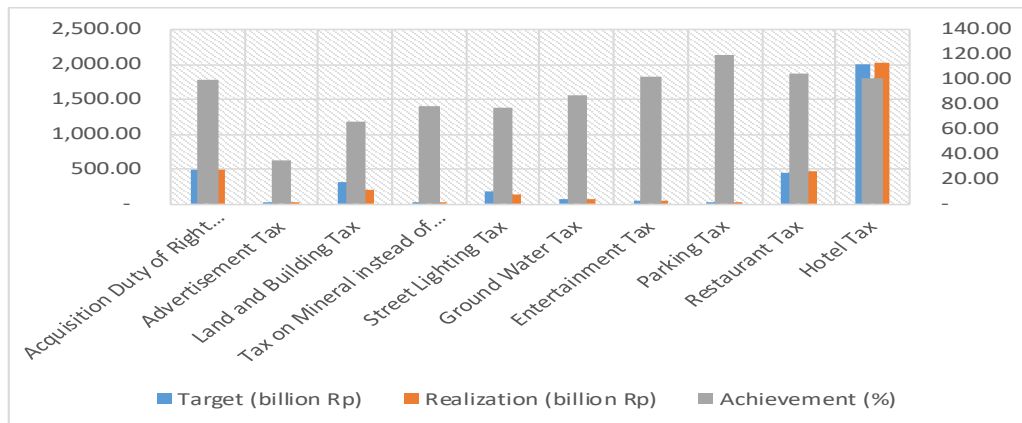


Figure 6: Target, Realization and Accomplishment of Each Local Tax Type of Badung Regency in 2017

Source: [8]

3.5. The relationship among Local Taxes, population increase, and economic growth

The local tax revenue escalates continuously in line with an increase of population in the Regency of Badung. This is relevant with a hypothesis proposed by [6] with an indication that the population that is accompanied by the increase of per capita income, is able to broaden the potency of taxpayers in Badung Regency. The correlation analysis indicates that the local taxes possess a high correlation with the total population showing by a coefficient value of approximately 0.99. Notwithstanding, this result calculation of correlation the coefficient between the local tax revenue and economic growth provides a value of -0.75.

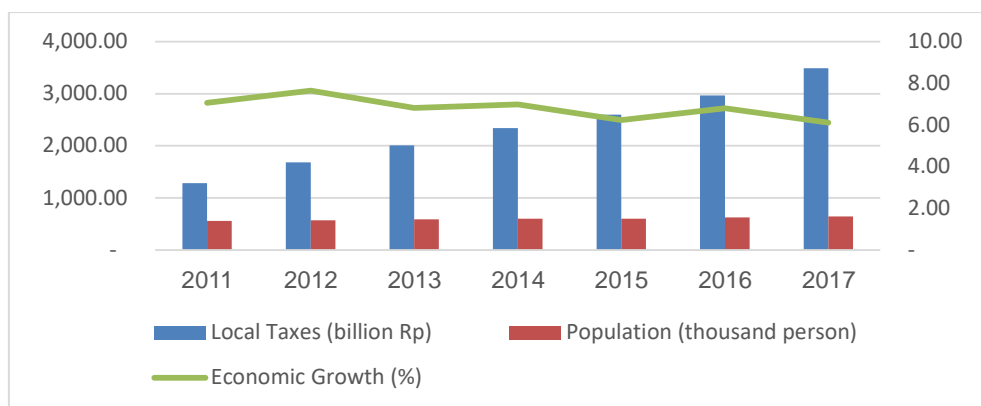


Figure 7: The progress of Local Taxes, Population and Economic Growth of Badung Regency

Source: [11]

Although the economic growth of Badung Regency in some recent years experienced a little slow, the local tax

revenue was able to be uplifted. This is due to the sectors dominating the economy of Badung Regency such as Accommodation and Food Service Activities, and Transportation and Storage, are still able to contribute on escalating the local tax revenue of this regency. Based on Figure 7 represents that more than 70 percent of the total tax revenue of Badung Regency is provided by hotels and restaurants.

3.6. Some problems in enforcing new Local Tax regulation

Based on the research results of [10] that problems facing by the Government of Badung Regency in enforcing the Law Number (No). 28 of 2009 on Local Taxes and Regulations are, some of them, regarded with collecting the new types of local taxes, basis expansion of taxes, and discretion of defining tax tariffs.

1) Problems in expanding tax basis

As experienced by other local governments, The Government of Badung Regency also faces some problems in widening the tax basis. Those problems are like no sufficing understandings yet and varied interpretation on the Law Number (No). 28 of 2009 on Local Taxes and Retributions, that is worried to carry out a mistake in enforcing this regulation. Another problem is difficulty in enforcing this regulation technically on expanding the tax basis. Becoming the main tourist destination in Indonesia, Badung Regency possesses more than a thousand units of homestay (villas) belonging by foreigners with the constantly changing occupants. Due to the transaction of renting those homestays are taken overseas, the Regional Revenue Office of Badung Regency experienced difficulty in collecting their hotel taxes.

Furthermore, many private living homes changed to be homestays with un-clearly ownership due to be often rotating. Another case also occurring the establishment of new homestays that processed permits for private houses. This condition resulted in difficulties collecting the hotel taxes, or even those properties as though to be free of hotel taxes.

The Indonesian Hotels and Restaurants Association (Perhimpunan Hotel dan Restoran Indonesia), functions as representatives of hotels that are obligated to pay hotel taxes, are very objection to this situation. This is due to they did not pay any hotel taxes, resulting in they had lower operational costs that make them more competitive. This condition leads to competition in the field of hotel business to be inconducive.

In another side, for hotels that had paid taxes are most still burdened also with other “a half official” levies coming from traditional villages. Most of the traditional village in Badung Regency defines a levy as much as Rp 2.5 million per hotel annually or US\$ 1 per room per year to support social activities of communities in the villages. In addition, those hotels are also overburdened to pay retribution of waste management as much as Rp 100,000, - per room per month.

In the context of restaurant taxes, actually, there is a huge potential in expanding the restaurant tax basis that is not able to be realized. This can be recognized through numbers of tourists visiting Bali exceeding thousands of people in a month by travell agencies. Those visiting tourists pay their travel based on options of destination packets. In the packets are included with eating that is commonly directed to the certain houses or locations

belonging to the same travel agency. Houses or locations that are intended actually do not have any restaurant permission, where the Regional Revenue Office of Badung Regency cannot collect their restaurant taxes.

2) Problems in defining tax tariffs

One of the important changes from the Law Number (No). 28 of 2009 on Local Taxes and Retributions is an existence of Local Governments to define tariffs of taxes. This regulation indeed only sets a maximum or minimum limit, that the local governments are expected to able to decide their own tariffs according to the economic characteristics of their areas. If the local governments deem needing to a fiscal policy more softly to attract investment in their areas in order to increase the economic growth higher, those local government can decide a lower tariff of taxes from the maximum limit or even free up the local taxes within a certain period of time. This can be inferred that the majority of local governments in Indonesia are not still able to define yet tariff of taxes according to their local characteristics of the economy.

Based on the explanation above, various problems facing by local governments in Indonesia (including the government of Badung Regency) in the context applying tax tariffs some of them are:

- No possessing qualified apparatus and competent human resources yet in the field of regional finance. A lack in this aspect is highly related with an ability to understand the local economic characteristics through capabilities in conducting simulation to calculate the impact of enforcing the tax tariffs on the local economic condition and regional revenues. Currently, there is a supposition that the higher tariff rate, the revenue is going to be higher and it will be better for the local economy. By this assumption, defining tariffs by low quality of apparatus and human resources also will cause a low understanding on the stipulation of this regulation, especially regarding with the authority to specify inheritance rates or wills.
- Defining the lowest limit of Acquisition Value of Non-Taxable Object as much as Rp 60 million for each taxpayer is appraised too high, that the potencies of regional revenue are much lower.
- Defining the local tax tariffs frequently do not involve the local stakeholders yet, which is it has less support and low commitment in implementing it.

3) Problems in collecting the new types of taxes

Sundry problems facing by the government of Badung Regency in collecting two new types of local taxes, the Acquisition Duty of Right on Land and Building, and Rural-Urban Land and Building Tax, such as:

a) Lack readiness of Badung Regency Government in managing the both tax types

The lack of readiness in administering both tax types mainly is caused by a limited time to prepare everything regarding with diverting both taxes and a less qualified human resource in terms of quality and quantity. As result in, the regulation governing these local taxes in some parts indicates showing weakness due to only tend imitating from Central Government or similar regulation setting by other local governments that have local characteristics absolutely not similar.

Further, switching the Acquisition Duty of Right on Land and Building, and Rural-Urban Land and Building Tax also needs staff technically possessing capability in data collection, assessment, administration, and services well to taxpayers. Unfortunately, staffs fulfilling these qualifications are still limited in numbers for several local government in Indonesia including in Badung Regency.

b) Sales value of taxable object too lower than market price

The low of Sales Value of Taxable Object becomes an influential factor in lowering the local tax revenue. This turns into an attention of Badung Government Regency on the gap between the Sales Value of Taxable Object and the market price. Even though, the authority to adjust the Sales Value of Taxable Object has been the duty of Badun Regency Government.

c) Receivables of land and building tax

Switching the authority in collecting the Rural-Urban Land and Building Tax from Central Government to the Local Government of Badung Regency certainly is followed by diverting this tax type. However, diverting the receivables in relatively large number is able to complicate the local government of Badung Regency to collect billing the tax. This is mainly due to the inaccurate data which is worried about the receivables of this Land and Building Tax to be encumbered the Budgeted Local Government Revenues. The receivables of this Land and Building Tax are kept recording as receivables of Land and Building Tax which can be findings of the State Audit Agency, and in future, they are potential becoming the law problems.

4. Conclusions and Policy Implications

The dominant contribution of the tourism sector on the economy of Badung Regency makes hotels and restaurants turning into the main revenue source of local taxes. Both types of taxes devote more than 70 percent of local tax revenue of Badung Regency. In general, the enforcement of Law Number (No). 28 of 2009 on Local Taxes and Retributions is able to increase the fiscal capacity for Badung Regency. Nevertheless, there area still some problems in applying this regulation at this regency such as:

- Problems in extending the taxes basis, such as the understanding and interpretation on the Law Number (No). 28 of 2009 on Local Taxes and Retributions are still insufficient and diverse, and technically difficult to implement the tax basis expansion.
- problems in defining tax tariffs, such as less qualification of competent apparatus and human resources in field of Local Finance that resulted in the low understanding on deciding the local tax tariffs, including determining maximum or minimum limits as ruled in the mentioned regulation above. Other problem in defining tariffs is a high of Acquisition Value of Non-Taxable Object as much as Rp 60 million for each taxpayer in collecting the Acquisition Duty of Right on Land and Building, that is potential to decrease the local tax revenue. Furthermore, this problem of tariffs also does not involve yet the related stakeholders in processing the tax tariffs determination.
- Problems in collecting new types of taxes, such as a lack of readiness in managing the Acquisition

Duty of Right on Land and Building, and Rural-Urban Land and Building Tax, the low of Sales Value of Taxable Object than market prices, the low competencies of human resources in conducting data collection, assessment, administration and services, and insufficient receivables data of the Land and Building Tax.

Regarding with some mentioned problems above, this research recommends the following aspects.

- In defining an adequate Sales Value of Taxable Object, the Local Government of Badung Regency can set a study with involving the local tax stakeholders to adjust its value. For this reason, The Local Government of Badung Regency is able to establish adjustment mechanism comprising of appraisal and receiving inputs from related stakeholders in order to diminish flaming as resulted in the change of Sales Value of Taxable Object.
- Another hand, in order to lift up the human resource competency, it is needed to establish a collaboration between the Local Government of Badung Regency and the Ministry of Finance in forms of mentoring from Tax Office and training and/or education in the Polytechnic of State Finance.

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