

UDC 331

TAX EFFORT OF LOCAL TAX COLLECTION: A CASE STUDY OF RESTAURANTS TAX IN PROBOLINGGO CITY, INDONESIA

Anggoro Damas Dwi*, Agusti Rosalita Rachma, Asmoro Prianditha Sukowidyanti

Faculty of Administrative Science, University of Brawijaya, Indonesia

*E-mail: damasdwia@gmail.com

ABSTRACT

The provision of accommodation and food and beverages is one of the potential areas to be taxed by local governments. In its development, restaurant taxes play a role to increase regional taxes. Probolinggo, one of the cities of trade and service, is inseparable from the policies of the local government, always trying to develop its potential. Government policies in improving the trade and service sectors in Probolinggo have an impact on the growth of new culinary places. The purpose of this study is to analyze the tax efforts of restaurant tax in the City of Probolinggo. The approach used in this research was qualitative. The results of this study found that catering tax gain the highest tax effort, then restaurant, café and food stall were in the second, third and fourth place.

KEY WORDS

Local tax, tax effort, restaurant tax.

The implementation of regional autonomy has taken place since the enactment of Law Number 22 of 1999 concerning Regional Government and Law Number 25 of 1999 concerning Central and Regional Financial Balance. Both of them were then amended with Law No. 23 of 2014 concerning Regional Government and Law No. 33 of 2004 concerning Central and Regional Financial Balances. According to Muluk (2009), regional autonomy is the authority to regulate the local government affairs according to its own initiative based on the aspirations of the local community. Regional autonomy is carried out throughout Indonesia, including cities and regencies. According to Hamzah (2008), the objectives of regional autonomy are: (i) Empowering regions to be able to utilize all the regional potentials effectively and efficiently; (ii) Giving greater power to local governments; (iii) Reducing the central government's financial burden; (iv) Realizing people's welfare more quickly without having to wait for approval from the central government. Center for Decentralization and Regional Autonomy Studies (2015: 80-81) considers that the centralization power of a system must be abandoned immediately because it causes the failure of economic equality and creates national disintegration. Therefore, regional decentralization must be carried out immediately because the implementation of regional autonomy becomes the answer to the problem of centralized systems. Siddik (2002) states that decentralization is an instrument to achieve one of the objectives of the state, which is providing better public services and creating more democratic public decision-making processes. Theoretically, Mardiasmo (2002: 6) said that decentralization is expected to provide benefits: firstly, to encourage increased participation, initiatives and creativity of the community in the development and to encourage equitable development in all regions by utilizing the potential and resources they have. Secondly, to improve resource allocation by shifting roles to the lowest level of government that has the most complete information.

Probolinggo city is one of the autonomous regions located in East Java Province that has a large potential of Local Own-Source Revenue. This can be seen from the economic growth of Probolinggo City in 2017, which reached 5.9% or was above the average economic growth in East Java of 5.57%. The biggest contributor to economic growth in the City of Probolinggo is the accommodation and food and beverage sectors. Also, the growth generated by those two sectors is far above the overall economic growth, in 2017, it reached 8.78% while economic growth was only 5.88%.

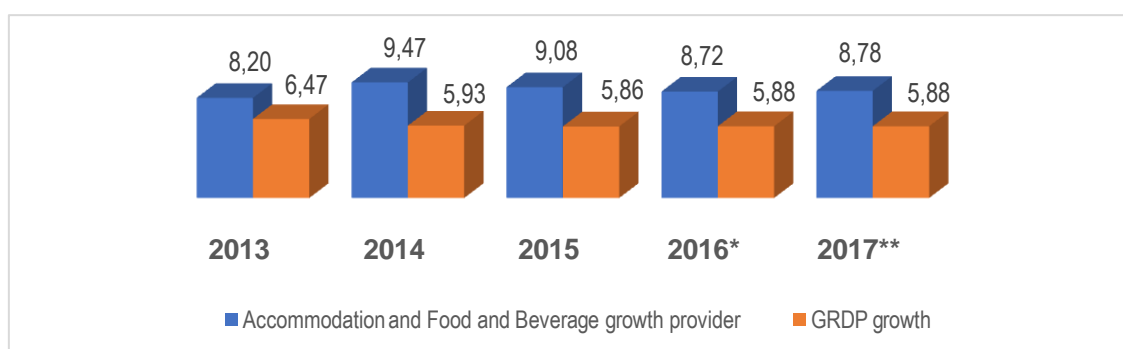


Figure 1 – Growth of the 2010 Gross Regional Domestic Product (GRDP) Constant Price Value of Accommodation and Food and Beverage in Probolinggo City in 2013 - 2017 (In %).

Source: The Central Bureau of Statistics of Probolinggo, 2018.

Table 1 – GRDP Value of Accommodation and Food and Beverage Business in Probolinggo City in 2013 - 2017 (In billions of Rupiah)

Description	2013	2014	2015	2016*	2017**
GRDP Constant Value	213.2	252.0	295.5	338.9	376.7
2010 GRDP Constant Price	180.5	197.6	215.6	234.3	254.9

Source: The Central Bureau of Statistics of Probolinggo, 2018.

According to the data above, the business engaged in accommodation and food and beverage sector in the City of Probolinggo showed that there had been significant growth. In 2013, the value of GRDP constant prices was recorded at 213.2 billion, while in 2017, it increased almost doubled or 376.7 billion. The impact of economic growth in the City of Probolinggo, among others, is the increase in tax revenue, as shown in the following table:

Table 2 – Probolinggo Local Tax Revenue in 2016 – 2017

No	Type of Tax	2016		2017		Increase Realization
		Target	Realization	Target	Realization	
1	Hotel Tax	695,500,000.00	853,429,712.00	966,000,000.00	1,423,672,556.00	40.05%
2	Restaurant Tax	2,225,000,000.00	2,801,549,371.00	2,231,000,000.00	2,901,111,440.00	3.43%
3	Amusement Tax	585,400,000.0	692,789,081.00	564,400,000.00	734,136,950.00	5.63%
4	Tax Billboards	930,000,000.00	1,005,318,320.00	1,010,000,000.00	1,257,891,385.00	20.08%
5	Street Lighting Levy	12,085,000,000.00	13,204,978,416.00	12,085,000,000.00	15,619,407,454.00	15.46%
6	Parking Tax	85,000,000.00	100,275,600.00	86,000,000.0	126,488,100.00	20.72%
7	Ground water tax	310,000,000.00	386,567,730.00	320,500,000.00	433,261,907.00	10.78%

Source: Probolinggo City Regional Financial and Asset Management Agency, 2018.

Table above shows that all types of regional taxes in the City of Probolinggo have experienced growth and successfully exceeded the target achievement each year. However, among the growth experienced by each type of tax, the Restaurant Tax was recorded to have the smallest growth by 3.43%. This condition is very much different from the growth in terms of production listed in the Gross Regional Domestic Product (GRDP), where the growth in 2017 reached up to 8.78%. These conditions indicate that the Restaurant Tax in the City of Probolinggo still has considerable potential and studied. The fact that the potential tax has not yet been realized causes each target for regional tax revenue not to be done optimally. It includes Restaurant Tax, which always reaches the revenue target each year. As a city locates in a transitional position and is a city of trade and services, the existence of restaurants contributes largely to Probolinggo City Regional Tax revenue. This is due to the fact that restaurants provide the second-largest contribution to local tax revenue after the

street lighting levy (excluding the L&B tax and Land and Building Title Transfer Fee or LBBTF). Therefore, it is necessary to measure the potential of Restaurant Tax revenue in the City of Probolinggo so that the potential of this type of tax can be found.

LITERATURE REVIEW

Local Own-Source Revenue

Local Own-Source Revenue is revenue obtained from the region that is collected based on Regional Regulation and in accordance with laws and regulations. Local Own-Source Revenue aims to give authority to the Regional Government to fund the implementation of regional autonomy in accordance with the regional potential as the realization of decentralization. The granting of autonomy to the Regions is directed to accelerate the realization of people's welfare through the increase in services, empowerment, and community participation. The acceleration of improving people's welfare is an increase in the human development index marked by an increase in health, education, and community income. Also, through the broad autonomy and in the strategic environment of globalization, the Region is expected to increase its competitiveness by paying attention to the principles of democracy, equity, justice, privileges and specificities as well as the potential and diversity of the Region in the system of the Unitary State of the Republic of Indonesia.

Based on Law Number 33 of 2004 concerning Financial Balance between Central and Regional Governments, Sources of Original Regional Revenues include:

1. Regional Tax
2. Regional Retribution
3. Separate Regional Wealth Management Results
4. Other legal Regional income

Regional Tax

The theory of development from below argues that people will be more willing to pay taxes to local governments than to the central government because they can easily see the direct benefits in development in their area, Davey (in Anggoro, 2017). This opinion shows the importance of local taxes for regional development. In addition, the benefits of local taxes can be directly seen by the local community.

Bahl and Smoke (2003), argue that:

"local government taxes must be politically acceptable. One rule of thumb is that less visible taxes tend to be more acceptable."

It means that the structure, rate, taxpayer, sanctions against violators are a political agreement between the executive and the legislature as a representation of the community. According to Davey (1988), local taxes can be interpreted as:

1. Taxes levied by the Regional Government with the regional regulatio;
2. Taxes levied based on national regulations, but the rate is determined by local governments;
3. Taxes which are determined and or levied by the Regional Government;

Taxes are levied and administered by the Central Government but the results are given to, billed with, or burdened with additional levies by the Regional Government.

Tax Base and Tax Effort

Tax Base is an essential concept, so it must be able to measure tax capacity rationally. Based on the exact size, the tax potential can be known. Based on the regulation of effective tax rates, the potential tax can be identified by multiplying the tax base with the effective tax rate. The calculation process provides information about tax potential. A comparison between tax revenue realization and tax potential shows that Tax Effort is measured using Tax Potential Index Use (TPIU). The TPIU sequence shows ranking on the ability to collect taxes.

METHODS OF RESEARCH

The approach used in this research was qualitative. Qualitative research is called in-depth understanding because it questions the meaning of an object deeply and thoroughly to analyze the tax effort and restaurant tax potential in the City of Probolinggo. Data were collected using primary (questionnaires) and secondary data sourced from books, research reports, and other references such as data from websites/internet that can be accounted for.

Data collection techniques are ways that can be used by implementers to collect data. There are several data collection techniques. This study used three techniques for collecting data, i.e., questionnaires, interviews, and document studies. The population in this study is the Restaurant Taxpayer in Probolinggo City based on data from the Probolinggo City Revenue, Financial and Asset Management Agency as of December 31, 2017, which recorded 590 objects. Slovin formula can be used to calculate the determination of the number of samples following the number of population. The determination of sample was done by taking precision at 1% with a confidence level of 99%, then the sample size can be calculated as follows:

$$n = \frac{N}{1+Ne^2}$$

The calculation of potential revenue can be done using two approaches, namely a macro basis and a micro basis. Macro basis calculations can be done through estimation techniques with econometric regression models that use macroeconomic variables as proxies, while micro base calculations are done by conducting surveys and observations of tax objects and subjects and then calculating their income potential. The calculation of the potential tax of this study is a micro basis:

$$\text{Potential Tax Revenues} = \text{Tax Base} \times \text{Tax Rates}$$

Tax base as the basis of Tax Imposition can be in the form of:

1. Total Business Income x Tax Object, or
2. (Total Business Expenditures + Profit Margin) x Object of Tax, or
3. Average Number of Consumer Payments x Number of Consumers x Number of Days x Tax Object

Table 3 – Tax rate (following the regional regulation No.2 of 2011)

Tax Object	Tax Rate
Restaurant	10%
Cafe	7%
Food Stall	5%
Catering	5%

Tax effort is estimated using TPIU. TPIU shows an estimated tax capacity calculated by dividing tax revenue realization with the potential for tax revenue (Sobarzo, 2004). The following is the TPIU calculations according to Sobarzo (2004):

$$\text{TPIU} = \text{TC/TP}$$

Where: TPIU: Tax Potential Index Use; TC: Actual tax collection; TP: Tax potential collected.

RESULTS AND DISCUSSION

The results found gross circulation data for each type of restaurant. The average daily gross circulation of 40 samples of catering businesses is Rp1,002,000.00 with a minimum gross circulation of Rp 0 and the maximum circulation is Rp 10,000,000.00. In general, a

daily income of catering business is Rp 500,000.00 and the total gross circulation is Rp 40,800,000.00. Meanwhile, the average daily gross circulation of 3 samples of cafe business is Rp 416,666.67 with a minimum gross circulation of Rp 100,000.00, and the maximum circulation is Rp 1,000,000.00. In general, a daily income of cafe business is Rp100,000.00 and the total gross circulation is Rp1,250,000.00. The average daily gross circulation of 4 samples of restaurants is Rp 307,500.00 with a minimum gross circulation of Rp 30,000 and the maximum circulation is Rp 800,000.00. In general, a daily income of restaurant business is Rp 30,000 and the total gross circulation is Rp 1,230,000.00. Furthermore, the average daily gross circulation of 19 samples of food stall is Rp 581,947.37 with a minimum circulation of Rp 170,000.00 and the maximum of Rp 4,000,000.00. In general, a daily income of food stall business is Rp 300,000.00 and the total gross circulation is Rp 11,057,000.00.

Table 4 – Descriptive of Restaurant Tax

	Catering	Cafe	Restaurant	Food Stall
N	40	3	4	19
Mean	1,002,000	416,666.67	307,500	581,947.37
Mode	500,000	100,000	30,000	300,000
Minimum	0	100,000	30,000	170,000
Maximum	10,000,000	1,000,000	800,000	4,000,000
Sum	40,080,000	1,250,000	1,230,000	11,057,000

Source: Survey, 2018 (processed).

Based on Article 18 of Probolinggo City Regulation Number 2 of 2011 concerning Regional Taxes, the Restaurant Tax period is 1 month. Therefore, it is also necessary to know the description related to the monthly gross circulation of Restaurant Taxpayers. Table 4 shows that 40 catering businesses have an average monthly gross circulation of Rp30,060,000.00 with a minimum circulation of Rp0 and a maximum of Rp 300,000,000.00. In general, a monthly income of catering business is Rp 15,000,000.00 and the total gross circulation is Rp 1,202,400,000.00. Meanwhile, the average gross circulation of 3 samples of cafeteria businesses is Rp 12,500,000.00 with a minimum circulation of Rp 3,000,000.00 and a maximum of Rp30,000,000.00. In general, a monthly income of cafeteria business is Rp 3,000,000.00 and the total gross circulation is Rp 37,500,000.00. The average monthly gross circulation of 4 samples of restaurants is Rp 900,000.00 and a maximum of Rp 24,000,000.00. In general, a monthly income of restaurant business is Rp900,000.00 and the total gross circulation is Rp36,900,000.00. Furthermore, the average monthly gross circulation of 19 samples of food stalls is Rp17,458,421.05 with a minimum circulation of Rp510,000 and a maximum of Rp120,000,000.00. In general, a monthly income of food stall business is Rp 9,000,000.00 and the total gross circulation is Rp 331,710,000.00.

Table 5 – Monthly Restaurant Gross circulation

	Catering	Cafe	Restaurant	Food Stall
N	40	3	4	19
Mean	30,060,000	12,500,000	9,225,000	17,458,421.05
Mode	15,000,000	3,000,000	900,000	9,000,000
Minimum	0	3,000,000	900,000	510,000
Maximum	300,000,000	30,000,000	24,000,000	120,000,000
Sum	1,202,400,000	37,500,000	36,900,000	331,710,000

Source: The result of Survey, 2018 (processed).

Tax base following the restaurant tax is gross circulation. The analysis shows that the annual gross circulation for catering business is Rp 14,428,800,000.00, for cafe business is Rp 450,000,000.00, for restaurant business is Rp 442,800,000.00, and for food stalls is Rp 3,974,400,000.00.

Table 6 – Tax Projection

Type of Restaurant	N	Gross circulation (one year)	Tax Rate	Tax Projection
(1)	(2)	(3)	(4)	(5)=(3)x(4)
Catering	40	14,428,800,000	5%	721,440,000
Café	3	450,000,000	7%	31,500,000
Restaurant	4	442,800,000	10%	44,280,000
Food Stall	18	3,974,400,000	5%	198,720,000
TOTAL	65	19,296,000,000		995,940,000

We found the ability of the Probolinggo city government to collect restaurant taxes, so the tax effort was calculated for each type of business. Table 7 shows that the largest tax effort is catering businesses by 48.78%. However, based on the previous analysis, the catering business has the second-largest potential loss after restaurants. This shows that the Probolinggo city government needs to increase tax efforts for catering businesses to realize the full potential of restaurant tax on catering businesses. The second-largest tax effort is owned by the restaurant but based on the previous analysis, it is also known that restaurant has the greatest amount of potential loss compared to other types of businesses.

Table 7 – Tax Effort of Restaurant Tax

Type of Restaurant	Tax Projection	Tax Realization	Tax Effort	Tax Effort Ranking
(1)	(2)	(3)	(4)=(3):(2)	(5)
Catering	721,440,000	351,907,548	48.78%	1
Cafe	31,500,000	3,922,025	12.45%	3
Restaurant	44,280,000	19,395,598	43.80%	2
Food Stall	198,720,000	18,980,653	9.55%	4

Source: *The Result of Survey, 2018 (processed)*.

CONCLUSION

Tax Potential Index Use (TPIU) indicates that the highest tax effort for restaurant tax is from the catering and food stall business. While the third and fourth restaurant tax effort is from the restaurant and cafe business. It shows that catering was the most perform restaurant tax. Local government put the big effort on collect the catering regional tax.

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