Effectiveness and Efficiency Analysis of Municipal Tax Revenue and Its Contribution toward Locally Generated Revenue in Sidereng Rappang District

Sartina¹*, Sanusi Fattah², Abdullah Sanusi³.

¹ West Makassar Primary Tax Office; tina.sanurl@gmail.com
² Faculty of Economics and Business, Hasanuddin University; fattahsanusi@gmail.com
³ Faculty of Economics and Business, Hasanuddin University; abdullah.sanusi@gmail.com

* Correspondence author: tina.sanurl@gmail.com

Abstract

The purpose of this research is to analyze the effectiveness and efficiency of the municipal tax revenues and their contribution towards original local government revenue in Sidenreng Rappang district. The study applied the descriptive quantitative method. The data obtained from the municipal tax revenues district and the budget realization report of Sidenreng Rappang district from the period between 2014 and 2019. This research uses the method of effectiveness and efficiency ratio to calculate local tax, local tax realization, local tax fees, local tax target, and local tax contribution. The result in this research indicates that local tax revenues in Sidenreng Rappang district during the period of 2014 are already effective. The annual local tax revenues are very effective. Interestingly, the contribution of local taxes towards original local government revenue in Sidenreng Rappang district is found still very low.

Keywords: municipal tax; municipal tax realization; municipal tax fees; municipal tax contribution

INTRODUCTION

Indonesia adopts a municipal autonomy system in its government implementation. The municipal autonomy system enables regions to govern its own territory. According to Law 32 Year 2004, “Municipal autonomy is a right, authority, and obligation of a municipal to govern and take care of its own households in accordance with the ongoing laws and regulation.”

The implementation of fiscal decentralization since January 1st 2001, during more than 20 years of its implementation, improvement still needs to be done so that it corresponds to the former goal. One of the efforts that could be done is by managing receipts, in this case taxes and retribution. Revenues from taxes is one of the important aspects in order to increase the revenue. Simanjuntak and Mukhlis (2012:83) states that revenues from taxes is a source of revenue that is crucial for development today.

As we can see, some municipalities develop faster than other municipalities due to its facilities and infrastructures, excellent human resources, and other facilities. Those indicate that a municipality knows better about the potential and sources that can be developed in their own municipalities. Because of that, the central government made a governmental management system in regional level called Municipal Autonomy to manage and develop the potentials a region has.

Since Municipal Autonomy was implemented on January 1st 2001 (Frisdiantara & Mukhlis, 2016:111), municipalities are obliged to find a revenue source that could fund the expenses of municipal government in order to run the government. Public welfare will depend on municipal government so the municipal government has to dig as much as possible about its locally generated revenue (PAD) sources, because PAD is a measuring instrument for the level of success of municipal
autonomy. The higher the PAD is, the higher the municipal government can fund its own needs. This proves that the municipal government succeeded in running its municipal autonomy. Vice versa, the lower the PAD is, the implementation of municipal autonomy is still not maximal (Puspitasari, 2014:3).

The amount of a local tax revenue depends on object and local tax fees. This cannot be separated from the local economic conditions. If the economic condition of a municipal is developing, then there will be more kinds and objects of taxes that could be taxed locally. Therefore, the economic situation is a main basis of the appearance of objects that could be taxed. Therefore, municipal government is expected to create good and developing economic situations so that potential sources of local income increase, which the implementation of all of those must be done effectively and efficiently (Anggoro, 2017:50).

Locally generated revenue (PAD) is a municipal income that comes from the local taxes, local retribution, separated regional wealth management, and other legit locally generated revenue, aims to provide flexibility to municipal head in digging funds in the implementation of municipal autonomy as an embodiment of the principle of decentralization.

These types of municipal taxes are divided into 2 (two) groups, Province Taxes and City/District Taxes. There are changes and/or addition of objects that are regulated in Law 34 Year 2000 and Law 28 Year 2009. In the previous regulations, municipal taxes at provincial level consisted of only 4 (four) objects, but have now changed to 5 (five) objects. So did municipal taxes in city/district level, where there were only 5 (five) objects before, now consisting of 11 (eleven) objects.

The target and realization of Municipal Taxes in Sidenreng Rappang District year 2014-2019 in table 1.1 is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Local Tax Revenue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target (IDR)</td>
<td>Realization (IDR)</td>
</tr>
<tr>
<td>2014</td>
<td>16,843,469.000</td>
<td>16,679,705.196</td>
</tr>
<tr>
<td>2015</td>
<td>28,843,469.000</td>
<td>21,125,803.135</td>
</tr>
<tr>
<td>2016</td>
<td>29,754,256.878</td>
<td>21,806,810.527</td>
</tr>
<tr>
<td>2017</td>
<td>29,754,256.878</td>
<td>24,915,001.643</td>
</tr>
<tr>
<td>2018</td>
<td>30,517,357.000</td>
<td>28,766,537.297</td>
</tr>
<tr>
<td>2019</td>
<td>31,999,433.000</td>
<td>33,619,377.007</td>
</tr>
</tbody>
</table>

Source: Board of Municipal Income of Sidenreng Rappang District

Based on Table 1.1, the realization of Local Taxes in the year 2019 surpasses the predetermined target. As for the realization of Local Taxes in the 5 (five) previous years of 2014-2018 did not reach the target. This indicates that leaks of Local Taxes in Sidenreng Rappang are still happening. Tax leak interprets the existence of untouched sectors. The cause is, could be due to not maximizing the use of information technology in data collecting, supervising, collecting, and socializing. Therefore, affecting the effectiveness and efficiency of local taxes.

Sidenreng Rappang District has the potential of variable municipal incomes. It should be optimizing local taxes revenue as a source of locally generated revenue (PAD). The capability of digging the potential sources of local income must be followed by target setting ability that corresponds with the actual potential as well as reducing costs in collecting. The ability will take effect in collection and create very high effectiveness and efficiency. Apart from those mentioned, the development of information technology that is used by the Board of Municipal Income of Sidenreng Rappang in tax collection also takes effect.
LITERATURE REVIEW

The Purpose of Municipal Autonomy

The main purpose of the implementation of Municipal Autonomy is to advance the municipal economy and improve public services. According to Mardiasmo (2018b:46) there are three main missions in the implementation of Municipal Autonomy and fiscal decentralization, those are: (1) improve the quality and quantity of public services and public welfare, (2) rate efficiency and effectiveness of municipal resources management, and (3) empower and create space for the public to participate in the development process.

Local Generated Revenue (PAD)

According to Law 32 Year 2004 about municipal government, states that municipal income is all municipal rights that is recognized as a value adder to net worth in a certain budget period. Whereas Law 33 Year 2004 about financial balance between center and regional article 1 no 18 states that “Locally generated revenue or PAD is revenue that is gained by municipality that was collected based on municipal regulation in accordance to the law”. Law 28 Year 2009 also states about the definition of locally generated revenue, that was dug from a related municipal territory that consists of local tax results, local retribution results, separated regional wealth management and other legit locally generated revenue. According to Alhusain (2017:87), locally Generated Revenue (PAD) consists of: Local Taxes, Local Retribution, Separated Regional Wealth, and other revenues.

Municipal Taxes

The definition of Municipal Taxes according to Mardiasmo (2013:12) states that “Municipal Taxes is an obligational contribution to a municipal that a person or a board owes which is enforcing based on the law, and not by getting the reward directly, and used for a municipal needs and for the social welfare”. While, Zain (2008:13) defines the following:

“Municipal taxes, hereinafter referred to taxes, is a mandatory due that is done by a person or a board without a balanced direct reward, that can be enforced based on the current law and regulations, that is used to fund the implementation of municipal government and municipal development”.

Therefore, we could conclude that Municipal Taxes is a tax that is collected and managed by a municipal, and the implementation is managed by a municipal regulation, and the tax results will be used to fund routine expenses and municipal development.

Efficiency and Effectiveness

The term “efficient” comes from the Latin word *Eficere* which in English means *to effect*. When translated to Indonesian, it is *menghasilkan* (to result), *mengadakan* (to organize), and could be *menjadikan* (to create) (Gaol, 2015). According to KBBI (Great Dictionary of the Indonesian Language), efficiency is preciseness of method (of work) in doing something (by not wasting time, energy, and funds).

In tax collecting system, one thing that must be considered is the principle of efficiency. This principle emphasizes the importance of efficiency in tax collecting, meaning the costs in tax collecting should not be bigger than the tax collected. This principle gives the definition that in tax collecting it is also important to pay attention to the mechanism that could bring big income and less outcome (Judisseno, 2005:11).

With respect to effectiveness, it basically relates to the achievement of objectives or policy target (the result) Mardiasmo (2018a:32). Effectiveness is a relation between output and the objective that is targeted. Effectiveness is a condition where in choosing an objective to be achieved and facilities used accompanied by targets are achieved with satisfaction results.

From the few definitions that were presented before, we could conclude that effectiveness is
how far and how well we could achieve a predetermined target.

**Realization, Cost, and Target of Municipal Taxes**

Realization is a noun which means to make something real (Sugono, 2019:471). Therefore, Realization of Municipal Taxes is realization or achievement of municipal taxes revenue. Cost, according to Fuad (2006:153), is a unit of value that is sacrificed in a production process to achieve a production result. Bastian (2007:112) also stated in his book that accounting defines cost as a resource that is sacrificed to reach a certain objective, this sacrifice is usually measured as a monetary value that has to be paid in order to receive goods and services. From both of the definitions stated above, we can conclude that local tax cost is the amount of money that was spent in collecting municipal taxes.

**Municipal Tax Contributions**

Fitra (2019:204) stated that contribution analysis is an analysis that looks at the amount of effort that was given in an activity. Contribution analysis could also be defined as an analysis of parts of an element toward its own element. For example, we know that municipal revenue consists of three components, that are locally generated revenue, balance transfer funds, and other legit revenues. The contribution analysis of revenues looks at how much is the value of contribution from locally generated revenue, balance transfer funds, and other legit revenues. Another example is that we know that municipal locally generated revenue consists of municipal taxes, municipal retribution, and separated regional wealth management, and other legit revenues. The contribution analysis looks at how much is the value of contribution that was given by municipal taxes, municipal retribution, and separated regional wealth management, and other legit revenues towards municipal locally generated revenue.

**Conceptual Model**

![Figure 1: The Model Flow](image)

**RESEARCH METHOD**

**Location and Research Design**

In this research, the method that was used by the researcher is descriptive quantitative research. This research tries to explain the problems by using numbers to show results of the research.

Researcher will gather data related to municipal taxes and budget realization reports in Sidenreng Rappang District, then measure effectiveness, efficiency, and contribution of municipal taxes towards municipal locally generated revenue.

This research was done in the office of the Board of Municipal Income (BAPENDA) of
Sidenreng Rappang District. The duration of this research was 3 months, that is November 2020-January 2021.

Population and Samples

Population or also called universe is a group of individuals or objects that has the same characteristics, like groups of individuals in society that has the same age, sex, jobs, social status, or other objects that has the same characteristics. Meanwhile sample is a small part of population or objects that has the same characteristics (Chandra, 1995).

In this research, the data that was used is secondary data, that is the tax revenue and budget realization report of the year 2014-2019.

Data Collection Method

The method that was used in collecting data or sample is as follows:

1. Interview
   The author did an interview directly to the object of the research. The author did a direct interview to an employee of the Board of Municipal Income in Sidenreng Rappang District.

2. Sampling Technique
   Sampling Technique that was used is Non-Probability Sampling with systematic sampling method. Systematic sampling is sampling based on order of the population that has been given a serial number or sample members was taken by population based on time and space interval, with the same order.

Data Analysis Method

This research uses a descriptive analysis method. Descriptive analysis is research that was done to give an image about a symptom or phenomenon. Other than that, descriptive research is also an analysis method that aims to describe a thing just the way it is. This method will use ratio analysis, that is the ratio analysis of effectiveness, efficiency, and income contribution.

Revenue Effectiveness Ratio Analysis

Fitra (2019:196) explained that revenue effectiveness ratio is a ratio between revenue realization and revenue target. This ratio shows the municipal government’s ability to reach the target that has been set in the state budget. The formula of this ratio is as follows:

\[
\text{Effectiveness Formula} = \frac{\text{Revenue Realization}}{\text{Revenue Target}}
\]

If stated in percentage, the formula is:

\[
\text{Effectiveness Formula} = \frac{\text{Revenue Realization}}{\text{Revenue Target}} \times 100\%
\]

The effectiveness ratio that is expected is the same or bigger than 1 or 100%. If the value of the ratio is the same or bigger than 1 or 100%, it means the municipal government is able to realize the revenue based on set (budget) targets.

Revenue Effectiveness Ratio Analysis

Fitra (2019:200) explained that revenue efficiency is a ratio between expenditure that is used to get revenue and earned revenue. The formula that is used is:

\[
\text{Revenue efficiency ratio}_i = \frac{\text{Expenditure to gain revenue}_i}{\text{Revenue realization}_i}
\]

If stated in percentage, the formula is:

\[
\text{Revenue efficiency ratio}_i = \frac{\text{Expenditure to gain revenue}_i}{\text{Revenue realization}_i} \times 100\%
\]
The smaller the revenue efficiency ratio is, the better the performance that was done. It means, the smaller the expenditure that is used to realize revenues, the more efficient the ratio is. In this ratio, efficiency is the best result from the ratio of expenditure to gain revenue and result that was done. Therefore, the smaller the ratio result is, the higher the efficiency.

Revenue Contribution Analysis

Fitra (2019:204) formulated in his book about revenue contribution, that is as follows:

\[
\text{Revenue contribution} = \frac{\text{IDR Revenue Realization \_i}}{\text{IDR Total Revenue Realization \_i,j,k}}
\]

If stated in percentage, the formula is:

\[
\text{Revenue contribution} = \frac{\text{IDR Revenue Realization \_i}}{\text{IDR Total Revenue Realization \_i,j,k}} \times 100\%
\]

RESULTS AND DISCUSSION

Effectiveness of Municipal Tax Revenue Year 2014-2019

Effectiveness level in the year 2014 reached 99% with total revenue of IDR 16.843.469.000 from the target of IDR 16.679.705.196. This achievement belongs to the effective category. In the year 2015, the realization of every tax revenue did not reach the targets. Hotel taxes and Non-Metallic and Stone mineral taxes achieves far from expected, that is only 36% and 35%. That affects the effectiveness of municipal tax revenue of the year, which only reached 73% (less effective). This condition is also occurred in city of Kotamobagu (Kobandaha & Wokas, 2016), and conversely it is different in Palangkaraya City (Toding, 2016). In 2016, the effectiveness level of municipal tax revenue reached 73%. This number is the same as the effectiveness level in 2015. One of the causes is out of all kinds of municipal taxes, none of the realizations reached the target. In 2017 the effectiveness level of municipal taxes income increased from previous years to 84%. The achievement of municipal taxes revenue in 2018 grows more compared to 2017. The effectiveness level had a slight increase from 84% to 85%. Total realization for year 2019 is IDR 33.619.377.007 with the target of 31.999.433 with a difference of IDR 1.619.944.007 (105% in percentage).

From the data above we can conclude that realization of tax revenues year to year is always rising. However, if we look at the effectiveness level, every year still gives various results, proven at year 2014 reached 99% (effective), 2015 and 2016 only reached 73% (less effective), 2017-2018 raised to 84% (adequately effective), and at last, in year 2019 it surpassed the predetermined target, that is 105% (very effective).

The criteria of effectiveness level which varies is affected by some factors such as Human Resources, Information Technology that was used, and Workflow or Standard Operating Procedure (SOP) Changes.

One of the factors that decides the amount of municipal tax revenue is number of tax objects. In order to improve municipal tax revenue, identification of new/potential tax payers and number of taxpayers that has existed before. Based on the data that was obtained from official site of Sidenreng Rappang District (bapenda.sidrapkab.go.id) December 30th 2020.

Municipal Tax Revenue Efficiency Level

According to the table above, we can see that the amount spent on expenditure to receive municipal tax revenues is far fewer than municipal tax revenues received. The efficiency ratio of municipal tax revenue in the span of 2014-2019 if averaged, it will result in 1,76%. The efficiency ratio every year none surpasses 6%, with the highest ratio in 2018. Based on the efficiency criteria table which explained that percentages <60% is categorized as very efficient. Therefore, the level of efficiency in Municipal Tax Revenues in the year 2014-2019 is very efficient.

Contribution of Municipal Taxes towards Municipal Locally Generated Revenue 2014-2019
Based on the processing results, the result that was achieved is the one with the biggest contribution in Municipal Taxes towards Locally Generated Revenue (PAD) is in the year 2015 amounting to 28%, then in the year 2019 amounting to 27%, 2014 amounting to 26%, 2018 amounting to 25%, 2016 amounting to 22%, and the last is 2017 amounting to 17%. This low value of contribution in Municipal Taxes needs the special attention of local government.

CONCLUSION

Based on the research and data collecting that was done, the conclusion is that Municipal Tax Revenue in Sidenreng Rappang District in the year 2014 is already effective with the ratio level of 99%. In the year 2015 and 2016 the effectiveness of Municipal Tax Revenue was less effective with the ratio level of only 73%. In the year 2017 and 2018 the effectiveness ratio raised to 84% and 89%, alas categorized as adequately effective. As for the year 2019, Municipal Tax effectiveness was very effective with a ratio of 105%. Municipal Tax Revenue in 2014-2019 overall had an efficiency level of 1,76%. 2014 had 2,09%, 2015 had 0,59%, 2016 had 2,19%, 2017 had 1,91%, 2018 had 2,23%, and 2019 had an efficiency ratio of 1,76%, therefore we can conclude that municipal tax revenues efficiency in each year was very efficient Municipal Tax Contribution towards Municipal Locally Generated Revenue in the year 2015 amounts to 28%, then in year 2019 amounts to 27%, 2014 amounts to 26%, 2018 amounts to 25%, 2016 amounts to 22%, and the last is 2017 which amounts to 17%.

REFERENCE


