Analysis of Regional Tax Potential of Pamekasan Regency

Damas Dwi Anggoro
Indriani Indriani
Wilopo Wilopo

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INTRODUCTION

Indonesia is the largest archipelagic country in the world which consists of many islands with different regional characteristics. Despite its vast and diverse area, Indonesia was once a country with apparent centralized government systems under the New Order regime (Setyaningsih, 2017). The centralistic government system emphasizes the role of the central government in determining the direction and all aspects of Indonesian development (Hill, 1996). According to economist Amatya Sen, the year 1998 was the beginning of fostering democracy and regional empowerment. Their demand became very strong due to various irregularities in the government system and development gaps between regions.

Responding to this phenomenon, President Habibie issued Law Number 22 of 1999 concerning Regional Government and Law Number 25 of 1999 concerning Financial Balance between Central and Regional Governments. These two regulations were the beginning of the fiscal decentralization. According to the Secretary of Finance of the Directorate General of Central and Regional Fiscal Balance, the implementation of regional autonomy in Indonesia effectively began on January 1, 2001. As a consequence, there were several fundamental changes in the governance of regional government, namely (1) the concept of decentralization was more prominent compared to deconcentration (2) accountability was more horizontal than vertical (3) clearer arrangements regarding the allocation of funds from the centre to the locals and (4) financial management authority was given in full to the regional government (wikiapbn, 2015).

According to Yushkov (2015), fiscal decentralization defines as the transfer of revenue and expenditure responsibilities from the central government to the regional and local level. Thus, the local government has the authority to collect and impose taxes and independently determine areas of focus. Similarly, Sun’an & Senuk (2017) define fiscal decentralization as one of the mechanisms for diverting funds from the state revenue and expenditure budget to achieve sustainable fiscal resilience and stimulate community economic activity. Lee and Gilbert (1999) show that 63 out of 75 developing countries have implemented fiscal decentralization, one of which is Mexico. The Mexican government transfers almost all their tax responsibilities to the state. Mexico became the first country to introduce decentralization in terms of taxation through the application of a Representative Tax System (RTS) to evaluate tax efforts and analyze the country’s potential tax. As a result, the implementation of RTS provides input for the Mexican government for decision making in designing fiscal decentralization strategies such as which types of taxation should...
be decentralized and to what extent these taxes are decentralized (Sobarzo, 2004).

Besides Mexico, fiscal decentralization is a relevant and significant system to be implemented in Indonesia because it plays an important role in accelerating the creation of community welfare independently in accordance with the potential of each region (Christia & Ispiyarso, 2019). Moreover, fiscal decentralization has many advantages. One of which is that it can positively influence economic growth. It has been proved by many parties who argue that fiscal decentralization policies have the potential to improve economic performance insignificantly at the macroeconomic and regional levels (Rasbin, 2016). Researchers in many countries have analyzed the relationship between fiscal decentralization and economic growth through various studies. Many experts argue that macroeconomic stability is the responsibility of the central government, not of the regional governments. In practice, coordination between regions and the central government is needed in using their fiscal authority to control and maintain macroeconomic stability of each region. (Rasbin, 2016)

To encourage economic growth in Indonesia, the government allocated Rp 832.3 trillion in the 2019 draft national state budget (Rancangan Anggaran Pendapatan Belanja Negara, RAPBN) for transfers to the region to strengthen fiscal decentralization policy in Indonesia (Ministry of Finance, 2019). That amount of the fund means the government has placed high trust in the regional government to exercise the authority delegated to them autonomously. Under the principle of “money follow function”, financial relationship between regional and central government in this case concerns the management of revenue and expenditure, both for the benefit of routine expenditures and regional development in order to provide public services based on the law (Jaya et al, 2020).

Then based on Law Number 28/2009 concerning Tax and Regional Retribution, it is stated that strengthening regional taxation through the system of collecting regional taxes and regional retributions is useful to encourage an increase in local own-source revenue (Pendapatan Asli Daerah hereinafter called ‘PAD’). PAD reflects the level of regional independence that the higher the PAD, the more optimal the ability of the regions to implement fiscal decentralization, thereby reducing reliance on central government subsidies (Wibowo and Utami, 2014). PAD is revenue derived from sources within a region that should be levied based on applicable law. PAD comprises the results of taxes, regional retributions, revenues from agencies, SOEs, and other legal PAD that sums up in the form of rupiah each year (Muta’ali, 2015).

Conceptually, fiscal decentralization gives each region its rights and obligations and regulates its government to improve efficiency and governance for the community. To regulate such government, the region may impose levies for people who are given the authority to collect 16 (sixteen) types of taxes, namely 5 (five) types of provincial taxes and 11 (eleven) types of district/city taxes. In addition, regencies/cities are not allowed to stipulate other types of taxes but are allowed for types of levies with the requirements set out in the laws and regulations. These rules and regulations should also set a maximum tax rate for this tax (Ministry of Finance, 2019). Pamekasan is a kabupaten or regency in Madura, East Java. Its government’s mission is to increase the local revenue through the contribution of regional tax and retributions. Economically, Pamekasan regency has the potential in the tourism, agriculture, trade, hotel and restaurant sectors (RPJMD Pamekasan, 2019).

Based on the data in table 1, it can be seen that the PAD ratio in Pamekasan Regency has decreased in the last 3 years with respectively percentage of 11.22% in 2014, 10.12% in 2015 and 9.76% in 2016. 2017 is inversely proportional to previous years, a significant increase of 12.76% compared with 9.76% in 2016. This increase did not last long due to a decrease in the PAD ratio in 2018 by 9.48%. Thus the lowest ratio is in 2018 and the highest ratio is in 2017 of Pamekasan Regency PAD revenue in the last 5 years.

The minimum limits to obtaining PAD for carrying out regional autonomy is 20%, if the PAD is less than 20%, the region will lose its credibility as an independent state unit. (Glynn, 1983; Anggoro, 2017). In fact, the overall percentage of PAD to total revenue from 2014 to 2018 has an average acquisition below 20%. It means that the role of Pamekasan’s local own-source revenue is not enough to support the overall regional budget (APBD). Among its various sources, the regional taxation sector is one of the most, if not the most, influential element in improving the local revenue. Even so, it is still necessary to explore Pamekasan for its taxation potential. A potential increase in the tax sector can directly improve the economic projection in Pamekasan regency.

Despite the increase in realization of taxes and regional revenues in Pamekasan regency from year to year, there are still some problems related to regional taxes, so that inaccuracies in collecting regional tax revenues cannot be avoided. Therefore, this study was conducted to investigate the potential loss of local taxes in Pamekasan regency. Thus, a comprehensive strategy can be proposed to address the challenges and needs of local government administration in Pamekasan regency.

### Fiscal Decentralization

The concept of decentralization is closely related to the administration of government systems and the

| Tax Year | PAD | Total Revenue | PAD ratio |
|---------|-----|--------------|-----------|
| 2014    | 171,518,204.167 | 1,527,493,494.941 | 11.22% |
| 2015    | 170,255,936.684 | 1,481,794,669.633 | 10.12% |
| 2016    | 178,478,890.964 | 1,827,846,755.475 | 9.76% |
| 2017    | 243,296,609.520 | 1,906,188,651.044 | 12.76% |
| 2018    | 163,640,118.924 | 1,724,975,522.500 | 9.48% |
implementation of the development process. The implementation of decentralization in the form of regional autonomy is an unavoidable condition and is implemented by almost all countries in the world with different conditions and characteristics. This adjusts to the conditions of different political and social structures between countries. This condition strengthens the argument of Bahl and Linh (1992) that fiscal decentralization includes decentralization of government, expenditure allocation and mobilization of regional revenues, the implementation of fiscal decentralization varies greatly depending on the government system.

Fiscal Decentralization is the transfer of fiscal authority from the central government to regional governments. Decentralization is the delegation of authority in making decisions and policies to managers or people who are at the bottom level in an organizational structure. Its success, according to Saputra and Mahmudi (2012); Nurman (2013); Sumardi (2014); Rosdyana et al (2015); Sasana (2015) depend on the decentralization models, implementation process, political support of decision making in both each level of government and the community as a whole, the readiness of government administration, institutional and human resource development, coordination mechanisms to improve the performance of the bureaucratic apparatus, changes in the value system and bureaucratic behavior in meeting the desires of the community, especially in public sector services. Basically, it is the government's obligation to provide services to the community, both in the form of goods or services.

The goods and services provided by the government are such as clean water, electricity, waste management, street lighting, park facilities, and land. The goods and services provided by the government are such as clean water, electricity, waste management, street lighting, park facilities, and land. In arranging those goods and services, the government requires public finances from the beneficiaries, which may come from subjecting services such as the clean water sector, electricity, or waste management to retribution in the form of bills or the like. For beneficiaries in sectors that are difficult to identify, such as roads, parks, security patrols, security systems, and the like, however, it is necessary to have a tax that has the characteristic of not providing direct compensation to the community (Anggoro and Agusti, 2019).

Local Own-source Revenue

According to Anggoro (2017), Local Own-source Revenue is revenue obtained by the regional government for implementing government activities and services to the community, as well as from the management of resources owned by it. Regions that are considered advanced are regions that have high PAD. Meanwhile, Sulistiyowati (2016) explained that regional original income is all about the financial receipts of a region, where the financial revenue comes from the potential taxes that exist in those area such as regional taxes, regional levies and others, then that financial receipts is regulated by local regulations. According to Law Number 33 of 2004, resources developed by the regions in increasing PAD are:

a) Regional tax, i.e. tax that collection is determined in the Municipal Ordinance in which taxpayers do not receive compensation directly from the regional government. b) Regional retribution i.e. levies imposed on people who directly enjoy certain facilities provided by the regional government. The collection must be stated in the Municipal Ordinance. c) Proceeds from the management of regional assets set aside for the purpose, i.e. income derived from the management of regionally owned business entities and other institutions owned by regional government. d) Other legal PAD, that is, income obtained by regional government from the sale of the sales of regional assets not set aside for the purpose, current account services, interest income, profits from difference in the exchange rate of the rupiah against foreign currencies, and commissions, deductions or other forms as a result of sales and/or procurement of goods and/or services by the regional government.

There are at least five things that causes low PAD that results in high dependence on subsidies from the central government, are: (1) the lack of role of regional-owned enterprises or regional companies as sources of regional income. (2) the domination of centralization in the field of taxation, to all type of taxes, both the most productive taxes, direct and indirect taxes, are collected by the central government. (3) regional taxes are quite diverse but only a few taxes that can be relied on as a source of regional revenue. (4) the existence of a political factor, this indicates a fear of disintegration and separatism if the local government has a high financial resource. (5) the provision of subsidies of block grants, the amount of that is relatively smaller than the specific subsidies whose has been determined by the government, even though in fact the block grant subsidies provide more flexibility for local governments in their management (Sumardi, 2014).

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). At least from previous studies (Hendaris, 2018; Iqbal and Sunardika, 2018; Sudita and Budiartah, 2017; Mauri et al, 2017; Sulistyoanati, 2016) it was found that local taxes have a significant and positive effect on local revenue so that the influence formed between the two is unidirectional influence. This opinion shows the importance of local taxes for regional development and the higher local taxes, the greater increasing in PAD. 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 regulation; 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. Meanwhile, further explained by Budiarto (2016) that the types of Regency/City taxes include hotel tax, restaurant tax, entertainment tax, advertisement tax, street lighting tax, non-metallic mineral and rock tax, parking tax, groundwater tax, nest. swallow, land, rural and urban buildings taxes, land and building rights acquisition tax.

**Tax potential**

Potential is something that already exists. According to Mahmudi (2009), the analysis of potential income is extensive because many factors must be identified related to income. This statement shows that tax potential refers to the maximum level of tax revenue that a country can achieve, by considering a range of economic, social, demographic and institutional factors (Maweje and Rachel, 2019). The formula for potential tax or retribution revenues according to Mahmudi (2009) is:

\[
P_{\text{potential}} = \text{Potential Tax Revenues} = \text{Tax Base} \times \text{Tax Rates}
\]

The potential for taxes really determines the amount of regional tax that can be collected, thus, the size of the potential tax is depends on the government’s knowledge of the factors that affect the potential for local taxes, which are useful for designing revenue from local sources, as well as assisting the government in determining the formula for transfer funds to the regions (Ering et al, 2016).

Calculation of potential revenue can basically be done two approaches, namely the macro basis and micro basis. Macro basis calculations can be done through estimation techniques with econometric regression models that use macroeconomic variables as proxies. Whereas micro base calculations are done by conducting surveys and observations of tax objects and subjects and then calculating their income potential. The calculation of tax potential used in this study uses the following formula: (Wenur et al., 2016)

\[
PU = JU \times Rt \times Rp \times Jh
\]

\[
NPP = PU \times \text{Tax Rates}
\]

1) Description:

- a. PU: Operating Income (Rupiah)
- b. NPP: Value of tax potential (Rupiah)
- c. JU: Number of Units
- d. Rt: Average guests coming (People per day / year)
- e. Rp: Average payment per guest (Rupiah / per person)
- f. Jh: Number of days

2) Tax Rates

Pamekasan regency local tax rates are regulated in the Regulation (Perda) Number 3 of 2018 concerning Amendments to Perda Number 2 of 2011 concerning Regional tax, amounting to:

- a. Entertainment Tax = 15%
- b. Restaurant Tax = 10%
- c. Hotel Tax = 10%
- d. Parking Tax = 20%
- e. Advertisement Tax = 20%
- f. Street Lighting Tax = 1.5-10%
- g. Royalty of non-metallic minerals and/or non-metallic mineral products (PMBLB) = 25%
- h. Groundwater Tax = 20%
- i. Land and building transfer duty (Bea Perolehan Hak Atas tanah dan Bangunan / BPHTB) = 3.5%

**RESEARCH METHODS**

The approach used in this research is qualitative. Qualitative research will collect as much data as possible and from these data to look for patterns, laws, principles, and in the end, the writer will conclude the analysis (Prasetya, 2006). In addition, the research method used is a survey method with primary data in the form of individual or group subject opinions related to the data or information needed, such as the results of interviews or filling out questionnaires. And secondary data is a source of data obtained indirectly through intermediary media (obtained and recorded by other parties, secondary data in the form of realization of local revenue Pamekasan regency).

The population in this study were restaurant taxpayers, hotels, entertainment, billboards, street lighting, PMBLB, parking, and groundwater in Pamekasan regency which recorded 242 taxpayers. Based on a predetermined population, a calculation is then performed to obtain the number of samples used as respondents, specifically to dig up information related to the condition of the restaurant which is used as material for doing tax base calculations and other analysis needs. Calculations to determine the number of samples based on the number of known populations can be used Slovin formula. The determination of sample taking precision is set at 1% with a confidence level of 99%, then the sample size can be calculated as follows:

1) Slovin Formula

\[
n = \frac{N}{1 + Ne^2}
\]
2) Calculation

\[ n = \frac{240}{1 + (240 \times 0.01)^2} \]

\[ n = 35.502 \]

\[ n = 36 \]

Based on the calculation result, the number of samples taken is 36 business entities. The sampling technique used in this study is stratified random sampling, and the method used is sampling population members by taking into account the proportion in the population (proportionate random sampling). The sample proportions for each tax type are as follows:

| Type of Tax          | Number of Taxpayer | In % | Number of samples |
|----------------------|--------------------|------|-------------------|
| Hotel                | 47                 | 20   | 8                 |
| Rentiment            | 79                 | 33.33| 12                |
| Entertainment         | 16                 | 6.67 | 2                 |
| Advertisement        | 9                  | 3.75 | 0                 |
| Street Lighting      | 1                  | 0.42 | 1                 |
| PAMHB                | 50                 | 20.63| 7                 |
| Groundwater          | 36                 | 15   | 6                 |
| Total                | 240                | 100  | 36                |

The use of approaches and the method in this study aims to find an understanding of the potential of regional tax studies in Pamekasan with the local revenue office and related local officials as research objects.

Besides analyzing the potential, this study also performs an overlay analysis, to see the description of the potential local tax collection based on growth and contribution criteria. This identification is done by metrics between the composition of revenue and growth revenue. The matrix table for the composition of revenue and growth of regional tax revenues can be seen as follows:

Based on the overlay analysis and classification, they are broadly grouped into 4 conditions:

Table 3. Composition of revenue and growth of regional tax revenues

| Growth | Contribution |
|--------|--------------|
| \( w_{XI} \geq 1 \) (high) | Prime |
| \( w_{XI} < 1 \) (low) | Potential |

| Development | \( w_{XI} \geq 1 \) (high) | Developing |
|-------------|-----------------------------|------------|
|             | \( w_{XI} < 1 \) (low)     | Underdeveloped |

Source: Mahsun, 2013

1) Prime if the regional tax is contributed and the growth is equal to or more than 1 percent; 2) Potential if the regional tax contribution is equal to or more than 1 percent while the growth is less than 1 percent; 3) Developing if the regional tax is contributed less than 1 percent while the growth is equal to or more than 1 percent; 4) Underdeveloped if the regional tax is contributed and the growth is less than 1 percent.

RESULT AND DISCUSSION

The implementation of the fiscal decentralization policy is expected to improve the quality of public services in the regions and reduce the gap in public services between regions and increase the efficiency of the use of national resources. With fiscal decentralization, financial governance becomes transparent and accountable in the implementation of transfer allocation activities to regions that are on target, timely, efficient, and fair. Pamekasan Regency as one of the regencies in East Java Province which has the potential to increase Local Own-source Revenue through the regional tax component. This region has a mission to realize an increase in regional original income through the contribution of regional taxes and regional levies.

Table 4. Regional Tax Realization Data for 2014 to 2018 Pamekasan Regency Government

| Year | Type of tax                  | 2014     | 2015     | 2016     | 2017     | 2018     |
|------|------------------------------|----------|----------|----------|----------|----------|
|      | Local Tax Revenue            |          |          |          |          |          |
| Hotel|                              | 15.3512  | 16.4582  | 17.6217  | 18.3457  | 19.3607  |
| Rentiment |                          | 3.02457  | 3.52341  | 3.71321  | 3.90132  | 4.07532  |
| Entertain |                          | 1.45821  | 1.50236  | 1.53502  | 1.55236  | 1.56458  |
| Advertisement |                        | 0.61234  | 0.64732  | 0.66123  | 0.67458  | 0.68745  |
| Street Lighting |                     | 0.61234  | 0.64732  | 0.66123  | 0.67458  | 0.68745  |
| PAMHB |                              | 0.61234  | 0.64732  | 0.66123  | 0.67458  | 0.68745  |
| Groundwater |                            | 0.61234  | 0.64732  | 0.66123  | 0.67458  | 0.68745  |
| Total |                              | 7.51785  | 7.75582  | 7.93121  | 8.11234  | 8.29532  |

Source: Central Bureau of Statistics (2020)

As shown in the table 4 it can be seen that the realization of regional taxes had increased from 2014 to 2018 globally, from the 10 types of local taxes, the revenue from street lighting tax has predominated the most in the last 5 years. This increase occurred in almost all types of taxes and the highest street lighting tax in 2018 is 18,049,339,870. On the other hand, groundwater tax revenue has been low for 4 consecutive years compared to the other types of tax realisations. Thus, in general the income in Pamekasan Regency from year to year has increased well. However, as table 1 shows, the PAD ratio is still far from the figure standardized by the world bank. With the potential in the tax sector, it can directly make an increasing economic projections in Pamekasan Regency.

Before conducting a potential analysis of this paper, an overlay analysis will be carried out. Overlay analysis is intended to see a description of the types of activities of potential local taxes based on growth criteria and contribution criteria. To find out the types of local taxes, it is necessary to identify or classify conditions based on the amount and development of each type of Regional Original Income (PAD). This identification is done by metrics between revenue composition and revenue growth. The matrix table
Table 5. Regency Regional Tax Growth Rate and Contribution in 2018

| Types of Tax          | Growth rate (%) | Contribution to Total Tax (%) | Overlay Analysis |
|-----------------------|-----------------|-------------------------------|-----------------|
| 1. Hotel Tax          |                 |                               |                 |
| a. Hotel              | 20.75           | 1.85                          | Prime           |
| b. Inn                | -66.66          | 1.85                          | Potential       |
| c. Boarding House/Homestay | 8.9             | 1.85                          | Prime           |
| 2. Restaurant Tax     |                 |                               |                 |
| a. Restaurant/depot   | -4.69           | 5.1                           | Potential       |
| b. Cafeteria          | 53.3            | 5.1                           | Prime           |
| c. Bakery             | 2.84            | 5.1                           | Prime           |
| d. Food stalls        | -31.5           | 5.1                           | Potential       |
| 3. Entertainment Tax  |                 |                               |                 |
| a. Sports Match       | -62.2           | 6.68                          | Underdeveloped  |
| b. Motor Vehicle Racing | -50            | 6.68                          | Underdeveloped  |
| c. Megazone           | 8.62            | 6.68                          | Developing      |
| d. Expo               | 0               | 6.68                          | n.a             |
| e. Kerapas Sapi       | 0               | 6.68                          | n.a             |
| f. Pools of water     | 2.11            | 6.68                          | Developing      |
| g. Karaoke            | -93             | 6.68                          | Underdeveloped  |
| 4. Advertisement      | -10.54          | 2.00                          | Potential       |
| a. Boards, Billboard  | -1.34           | 2.00                          | Potential       |
| b. Banner             | -9.69           | 2.00                          | Potential       |
| c. Sticker            | -38.29          | 2.00                          | Potential       |
| 5. Parking Tax        | -28.18          | 6.38                          | Underdeveloped  |
| a. Hotel              | 0.49            | 0.38                          | Underdeveloped  |
| b. Supermarket/shop   | 0.16            | 0.38                          | Underdeveloped  |
| c. Bank               | -6.83           | 0.38                          | Underdeveloped  |
| d. Hospital           | -55.5           | 0.38                          | Underdeveloped  |
| 6. Groundwater        | 0.7             | 0.19                          | Underdeveloped  |
| a. Hotel              | -3.19           | 0.19                          | Underdeveloped  |
| b. Company            | 1.69            | 0.19                          | Developing      |
| c. Regional drinking water company | 0          | 0.19                          | n.a             |
| 7. Street lighting    | 22.9            | 49.4                          | Prime           |

for the composition of revenue and revenue growth for types of local taxes can be seen as follows.

Based on the table 5 shown in the overlay analysis, it is known that the Pamekasan Local Tax which is generated is as follows:

1) Hotel tax is categorized as prime. From the data in the table above, it shows that the growth rate is 20.75% while the contribution is 1.85%. It means that the hotel tax contributes and grows equal to or more than 1%. If for each type of hotel, it can be seen that five-star hotels and boarding houses/homestays have prime status, the growth rate and contribution to the hotel tax have been above 1%, so that they can be maintained and further improved in terms of income. The collection is to support the increase in hotel taxes. Meanwhile, budget hotels/innns can be categorized in potential status, with a contribution of above 1% and growth below 1%, so that it can be maximized for collection every year, considering that growth is still low.

2) Restaurant tax is categorized as potential. The potential categorized show that the growth is -6.05% while the contribution is 5.1%. So according to Mahsun (2013) it means that the restaurant tax contributes above 1% and growth below 1%. When looking at each type of tax, it can be seen that cafeterias and bakeries have prime status, where the growth rate and contribution to taxes are above 1%, thus they can be maintained and further increased in order to increase the increase. Restaurant tax. Meanwhile, restaurants, restaurants, depots and food stalls can be categorized as potential status, with a contribution of above 1% and growth below 1%, so that it can be maximized for collection every year, considering that growth is still low.

3) Entertainment Tax is categorized as underdeveloped because the number of growth rate is -58.8% while the contribution is 0.68%. This means that the Entertainment Tax both at contributes and grows less than 1%. When looking at each type of entertainment tax, it can be seen that for sports competitions, motor vehicle racing, bathing, and karaoke have a backward status, where the contribution and growth rate is less than 1 percent so that it can be maintained and be more optimized in its collection. To support an increase in the entertainment tax. Meanwhile, mega zones can be categorized as developing status where the contribution is less than 1% while growth is equal.
to or more than 1 percent.

4) Advertising tax is categorized as potential. This means that the billboard tax contributes is 2.0% or above 1% and growth is -10.54 or below 1%. If you look at each type of billboard tax, it can be seen that for boards, billboards and billboards, cloth/banners, and attached/walking billboards have potential status, where the contribution is above 1% and growth is below 1%, so that it can be maximized for collection every year, considering that growth is still low.

5) Parking tax is categorized as underdeveloped. This means that the parking tax contributes is -28.18% while growth rate is 0.38% so both of them mean less than 1%. Therefore, it must be optimized in the collection to support the increase in parking taxes considering its growth and contribution is still low.

6) Groundwater tax is categorized as underdeveloped. When looking at each type of groundwater tax, the type of groundwater in hotels has a backward status and in companies such as CV and PT it has a developing status. This means that the parking tax contributes and grows less than 1% with the data of 0.7% and 0.19%. Therefore, it must be optimized in the collection to support the increase in parking taxes considering its growth and contribution is still low.

7) Street lighting tax is categorized as prime. It can be seen from the growth rate as 22.9% while the contribution rate is 49.4%. According to Mahsun (2013) it can be conclude that the street lighting tax contributes and grows equal to or more than 1%, so that it can be maintained and further optimized in its collection to support the increase in street lighting tax.

The general problem in extracting local tax sources is that they have not contributed significantly to overall regional revenue. That is because regional government has not optimally made efforts to intensify and extend regional tax which causes potential loss. This finding has strengthen the previous studies (Hendaris, 2018; Iqbal and Sunardi, 2018; Sudita and Budiartha, 2017; Mauri et al, 2017; Sulistiyowati, 2016) that the higher local taxes, the greater increasing PAD in Pamekasan Regency so that the influence formed between taxes and the local revenue is unidirectional influence. This happened without exception to Pamekasan which was analyzed for several types of taxes including hotel taxes, restaurant taxes, entertainment taxes, parking tax rates and groundwater taxes in this study. The analysis is carried out to determine the existing tax potential and the level of tax leakage (potential loss). The results of the study found a tax bias or tax gap on the difference between the potential tax and the realization of tax revenue received by regional government, presented in the following table:

As shown in the table 6, Pamekasan has the highest tax gap on Entertainment Tax, with a percentage of 86%. The second highest is the parking tax with a tax gap of 81%. Restaurant tax ranks third with a tax gap of 60.4%. Next is the hotel tax with a tax gap of 43%, followed by the groundwater tax of 32%. As for the advertisement tax, street lighting tax, and PMBLB, the data is not available because there is no taxpayer found in the tax sectors. Referring to the tax gap result, the potential loss figure is as follows:

Potential loss is several tax revenues that should be received by the Pamekasan regency government which is a reduction of the tax potential and tax realization in the current year. The table above shows that the highest potential loss or leakage in the Restaurant Tax is Rp. 1,125,804,258. The hotel tax follows second with a tax leak of Rp.291,644,494. This loss and leakage is in line with the magnitude of the figure for the formation of regional gross domestic product in the accommodation and food and drink sector of 118.89 million rupiah (BPS, 2020). Third is the Entertainment Tax with tax leakage of Rp.216,649,222. The fourth is Parking Tax with tax leakage of Rp.114,696,000. Last is the Groundwater Tax with a tax leak of Rp. 22,222,976. There is no data on tax leakage for royalty from non-metallic minerals and/or non-metallic mineral products because Pamekasan regency does not have the tax object. The amount of tax leakage for advertisement tax is unknown because the author cannot get a detailed sample to see the gap. Meanwhile it is assumed there are no tax leaks for street lighting tax, land and building tax for rural and urban areas (PBPP) and Land and building transfer duty (BPHTB) because they already have a clear calculation and local tax collection system. This makes the total of regional tax leak in Pamekasan regency Rp. 1,771,016,950.

According to Wenur et al (2016) studied Bitung City which has left unexplored by the government, in this case the local revenue office, despite having the potentials which are restaurant tax and hotel tax. Calculations made on the actual potential found that regional tax had great potential because the target set by the government was still below the actual potential existed in Bitung. Enceng (2018) also calculated

Table 7. Tax potential dan Potential Loss of Pamekasan regency’s Regional Tax

| Type of tax       | Tax Potential Generated in 2018 | Potential Loss | Tax Gap |
|-------------------|---------------------------------|----------------|--------|
| Hotel             | 678,243,010                     | 291,644,494    | 43.00% |
| Restaurant        | 2,080,101,607                   | 1,125,804,258  | 54.40% |
| Entertainment     | 251,917,700                     | 216,649,222    | 86.00% |
| Ads               | 732,224,907                     | -              | n/a    |
| Street lighting   | 18,040,399,870                  | -              | n/a    |
| PMBLB             | 9,867,000                       | -              | n/a    |
| Park              | 141,600,000                     | 114,696,000    | 81.00% |
| Groundwater       | 69,466,800                      | 22,222,976     | 32.00% |
| PBPP              | 7,479,709,405                   | -              | n/a    |
| BPHTB             | 7,234,381,805                   | -              | n/a    |
| **Total**         | 1,771,016,950                   |                |        |
potential entertainment tax for the management of recreational parks in Batu City which was 82.38 percent. This means that Batu City Regional Finance Agency (BKD) has not been optimal in exploring tax revenue in the sector. In addition, research was also conducted in the City of Probolinggo on the potential of restaurant tax for food stall businesses, cafeteria businesses, restaurants, and catering businesses. Overall, the potential loss for each type of business is quite high, which is above 50%, so the government is expected to manage to increase its tax effort in collecting the Restaurant Tax (Anggoro et al., 2019).

In agreement with previous researches, this study reported that restaurant tax and hotel tax dominated the highest potential tax leakages in Pamekasan regency. The tax is a regional tax called PBI (Pajak Pembangunan Satu) or PHR (Hotel and Restaurant Tax) of 10% which collected by local government. The rapid growth of restaurants and hotels is a promising source of local revenue, but many problems arise from both sectors. This finding is supported by research conducted in Bandar Lampung. A plausible explanation for the weakness of the Restaurant Tax sector is the result of a poor monitoring system (Putri et al., 2019). In addition, there might be a possibility that fraud has occurred in the industry related to tax and service: 1) Smaller restaurants and hotels will likely to keep the tax for themselves by neglecting the obligation in paying tax to local government; 2) They will give some parts of taxes for the local government, not a full tax; 3) Some smaller restaurants are not even charged for 10% tax, but they still include the 10% tax on the menu to be paid by customers, thus they will increase their revenue for themselves.

It has been known that tax leakage become an issue in many years, not only in Indonesia but also in other countries. Its practice may be related to the different processes of economic development in each region. Several factors causing tax leakage include a low standard of living, mishandling of tax funds, and the illiteracy rate of taxpayers (Amahalu, 2018). A Nigerian study also reported that the challenge associated to tax leakages is weak of good governance to encourage the residents in obeying their obligations to pay tax (Onyewuchi and Njemane, 2016). Therefore, local governments are suggested to enhance their strategy to mitigate any tax leakage so that they would not have suffered themselves.

**CONCLUSION**

This present study investigated the implementation of the fiscal decentralization and the occurrence of tax leakages in Pamekasan regency. This regency has the potential to increase Local Own-source Revenue through the regional tax component in which hotel tax is categorized as prime with the tax contribution and grows equal to or more than 1%. However, local tax sources did not contribute significantly to overall regional revenue. The evidences reported that there were potential tax leakages in several sectors in Pamekasan regency with the highest tax gap was generated from total entertainment tax realization (86%), followed by total parking tax realization (81%), restaurant tax realization (60.4%), total hotel revenue tax realization (43%), and total groundwater tax realization (32%). However, the highest potential loss was observed in Restaurant Tax.

This study suggests that local governments need to improve their strategy to prevent any tax leakage in the future by conducting the similar analysis. Several policies that can be submitted to maximize the potential regional tax revenue in Pamekasan regency in terms of intensification is that it is necessary to (1) Improve the quality and quantity of local tax dissemination, (2) Improve the quality of the regional tax administration system, which includes the WP registration system, calculation, payment and reporting, (3) Improve the quality of human resources to improve the quality of services to taxpayers, (4) Conduct a compliance assessment and reward giving to taxpayers, (5) Optimize the regional tax collection by basing on the census results of compulsory regional tax, (6) Implement and strengthen the function of local tax auditor through information technology such as tapping boxes, (7) Law enforcement is carried out on taxpayers who are late or don't even pay taxes, (8) Strengthen and expand the database of mandatory regional tax, (9) Evaluate the policy of determining regional tax rates and (10) Increase taxes through broadening the tax base.

However, this paper still has a limitations in data of the advertisement tax, street lighting tax, land and building tax for rural and urban areas (PBBPP) and building return fees (BPHTB). The author does not find taxpayer data in the tax sector so that the amount of data leakage on each of these indicators cannot be determined. Therefore, Future research is expected to explore effectiveness of all tax efforts in Pamekasan regency and to enhance the methodology by adopting macro-based calculations through estimation techniques with econometric regression models using macroeconomic variables as proxies.

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