



**Graduate School of Development Studies**

**THE ANALYSIS OF  
OPTIMALIZING LAND AND BUILDING TAX  
IN FULFILLING TARGETS  
AS THE IMPORTANT PART OF LOCAL REVENUE  
(The case of Sumedang District, West Java, Indonesia)**

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## **ABSTRACT**

Local autonomy with its fiscal decentralization has given messages to the local governments in Indonesia that they should be able to manage their needs based on their own financial capacity. Actually, this is not an easy job for regions which are not so rich with limited funding sources. Sumedang is as one of many districts in Indonesia also struggling to find ways in increasing its local revenue. Land and building tax is a dependable source for fulfilling local expenditure because its amount has a significant affect to the local revenue, meaning that it has a big contribution in running development process. This empirical study tries to solve problems which have been faced by the local government in doing efforts to optimalize land and building tax in Sumedang district.

As a predictable and stable tax, the land and building tax could really be optimized by Sumedang local government. Although optimization does not mean maximalization but based on the real local potency, there are still many possibilities to increase local revenue from the land and building tax without creating any distortion to economic conditions. The elaboration of this case will be driven by following the analytical framework with its indicators and sub-indicators. By this way, hopefully it could be found what really the problems are.

After knowing obstacles in managing land and building tax in Sumedang district then in the end of this paper, it will be presented the conclusion and policy implication based on problems. Hopefully, it could give some contribution to Sumedang local government to accelerate achievements to reach the objective and goal in reaching land and building tax targets and increasing local revenue as a whole.

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# CHAPTER 1

## INTRODUCTION

### 1.1. Background of the Research

After its independence in 1945, Indonesia has experienced in three orders including the old order (1955-1965), the new order (1966-1998) and the reformation order (1999-now). In the range of the old order period, there are so many political conflicts happened, these cases related to the foundation of the state system, the biggest conflict was the uprising of communist party in 1965. Then the next period was the new order, the appearances of conflicts were decreasing, Indonesia was looked quite silent but it did not mean there was no problem. The power of army was too strong in this Suharto era which made society afraid to shout against the centralized and autocratic government. Inequality between the poor and the rich became so far, the poor were getting poorer and the rich were getting richer.

May 1998 was the starting point of the reformation order; most societies were impatient and wanted the president to step down. Murshed (2008) noted that “Decentralization in Indonesia took place within the broader context of the country’s democratic transition after the fall of President Suharto in 1998, chiefly as a move to mollify the few, but high profile, separatist tendencies in the country, such as in resource-rich Aceh (Sumatera)”. Furthermore Tadjoeeddin and Murshed (2008) also said that “Social conflict and violence have entered the development discourse in Indonesia. The country’s deep economic crisis and the subsequent democratic transition in the late 1990s were marked by a significant eruption of violent conflict of various types”. From those statements, it seems that conflicts could contribute some positive effects to have a change for better governmental system. In this latest order, societies are being critical to what governments do and conflicts still happen, especially for rich provinces. However, their reactions against government are not to secede from Indonesia but just forms of aspirations to have fairness in sharing, they already have many resources to fund their needs but in fact they are still poor with so many shortages. Others want fiscal balances between central and local government.

All those political process have influenced the system of government in running development, finance and the rules of economy of the state. Now in Indonesia, every local government is given a local autonomy, meaning that a local government has full authority to manage governmental programs and needs. The rule of Republic of Indonesia number 22, year of 1999 stated that to brave a developing condition, national and international and a challenge of global competition, it is needed to implement local autonomy by giving a wide authority which is real, responsible and proportional and also by keeping regulation, taking useness of national resources and balancing central and local finance, as principles of democracy, people's participation, fairness in sharing, local potency and region differences. By this rule, hopefully all provinces including municipalities and regencies (districts) can play more important roles in running governmental activities for the benefit of the whole societies in their regions.

Tiebout (1956) said "...individuals can seek out jurisdictions that provide outputs well suited to their tastes, thereby increasing the potential gains from the decentralized provision of public services." Oates (2006) wrote that decentralization can encourage innovation and new approaches to public policy by providing a valuable laboratory to make fiscal experiments. Then Murshed (2008) stated that "Under the decentralized system of government, sub-national entities (districts in particular) assumed greater responsibilities, with more public fund to be managed". From the three statements above it can be concluded that although decentralization gives challenges to make fiscal experiments but it also gives a lot of tasks to fund by its local own capability. Teresa Ter-Minassian (1997) said there are some possibilities to suggest certain requirements for the necessary harmonization of budget plans from a macroeconomic perspective that local governments need to work on common assumptions for the budget year about the key macroeconomic variables. The central government is best placed to formulate these, within the context of its own macroeconomic forecasting function.

Brancati (2006) emphasizes that by decentralization can eliminate ethnic conflict by bringing the government closer to the people and inviting them to be involved in political, social and economic affairs, so there should be opportunities for them to show their own interest. With local autonomy system, central government



should keep more attention to aspirations in the local levels; local government is the one who acts very closely with local society. Central government should give more spaces in management power including decision making to local governments because they know much about the needs of the society in their regions.

After having local autonomy system, fiscal decentralization is the most popular issue that local governments want. Protests and conflicts have happened to have more authorities in managing their own needs and resources. Riker (1964) said that “Political decentralization is a system of government in which there is a vertical division of power among multiple levels of government that have independent decision-making power over at least one issue area”. In Indonesia, willingness to have fiscal decentralization has been increasing in this reformation era. It could be shown by additional numbers of provinces and districts (municipalities/regencies). Tranchant (2008) noted that fiscal decentralization should create better governance and transparency through greater accountability of local leaders. Good governance is something could not be separated from decentralization process. The most valuable benefit of decentralization is that every local government and its society can apply their own way as their aspirations. But in other cases fiscal decentralization has given much benefit for rich regions which have so many local resources as local funds. Although they are happy because they have more power in decision-making, regions which are not so rich must struggle hard for funding their expenditure.

Local finance is the most important factor in funding local government activities including routine activities and development activities, so it is a must for local government to explore local revenue sources to run those activities. One kind of the most important local revenue sources is taxes. Local revenue is the only financial source which can be managed intensively by local government. Cornes and Sandler (1996) said that knowing exactly what people need is very important. Regarding to tax revenue, fiscal decentralization should be apply in the context of tax revenue collection and gain, not only in local government expenditure because to average citizen services such as health or education does not matter whether it comes from the centre or province or municipality as long as it is adequate and in good quality but some public

goods and club goods are better provided at the local level, such as street lighting, garbage, police and etc.

Land and building tax is a revenue sharing tax which its collecting authority is given from central government to local government. Bahl (1992) said that in developing countries, the property tax is the single most important local tax. Indonesia as one of developing countries have experienced the same with other countries which still struggling to find ways in increasing their revenue to fund their development process. Although land and building tax in Indonesia is a revenue sharing tax but if we see in the case of Sumedang local revenue, it has given a big contribution in funding government activities. Arsyad Siagian (1987:1) said that in fact land and building tax is the prime revenue for district level and considered as suitable revenue to fund services provided by local government. There are some reasons to convince that statement:

1. This tax has a clear provision for districts (as a revenue sharing tax).
2. Tax objects can be easily identified and can not be hidden by taxpayers.
3. The price of land and building is the base in determining the amount of tax which has closed relations to public services, for examples: roads, bridges, parks, etc.
4. This amount of this tax is big enough to fund local public services.

From the statement above, it is very essential to explore land and building tax to increase local revenue in fulfilling local expenditure. There is a strong message that local governments have full authority to manage their needs by their own financial regulation. It makes a local government to think some problems about increasing revenue to fulfill expenditure. Looking more specific on land and building tax in the case of Sumedang district, based on real local potency there are indications that in the recent eleven years the targets have not been met. These facts make me interested to write a research paper with the title **“The Analysis of Optimizing Land and Building Tax in Fulfilling Targets as the Important Part of Local Revenue (The case of Sumedang District, West Java, Indonesia)”**. I will make explanations in two variables of the title; it consists of local revenue and land and building tax as a part of it.

Indonesia is divided into provinces, districts (regencies/municipalities), sub districts and villages. The total number of administrative regions immediately increased as the social politics changed. It was only 10 provinces in 1955, however, in the end of the Old Order era the total number of province became 25. During the New Order, it had increased to 27 provinces, but in reformation era, one province was separated, people in Timor Timur Province voted to ask for an independent country. In 2005, there were 33 provinces after a lot of regions asked for their autonomy to govern their regions. Up to 2006, Indonesian population is accounted for 222 million. Agriculture employs more people than other sectors (Indonesia in Figures, 2006).

Now we move on to West Java, as the province where Sumedang is located. Geographically, it is bounded: on the north by Java Sea and Special Region of Jakarta, on the east by Province of Central Java, on the south by Indian Ocean and on the west by Province of Banten. The strategic geographic position of West Java Province has many advantages for the regional, especially from transportation and communication point of view. The north part of West Java is plat land area, while hilly area with a view shores in south and mountainous area in the central part. Apart from that, West Java has fertile area which comes from volcanic deposit and that possesses many rivers across so that the most of land are suitable for agriculture. This condition is also supported by tropical climate with high rainfall that is average 190.2 mm. Number of West Java population in 2005 reached 39,960,869 people living in the area of 34,736 km<sup>2</sup>. West Java Province covers 25 districts including 16 regencies and 9 municipalities with 592 sub districts (West Java in Figures, 2006).

Sumedang district is one of West Java regencies with the population 1.008.474 of people living in 1,522.20 km<sup>2</sup> with agriculture as the main activities. Comparing to other provinces in Indonesia, West Java is in the average level, meaning that it is not the poor one. Agriculture sector is the third largest dominant sector to support West Java Economy after industrial sector and trade. Therefore, economic development especially in agriculture sector is very important and mainly designed in order to increase the farmer welfare and to succeed the village development. Land and building tax is the most dependable tax which has given big contribution in fulfilling expenditure. It is not a poor region but also not so rich, because not so much resources

has given income for running governmental activities. Optimizing land and building tax is a clear solution to increase local revenue both in short term or long term while thinking whether there are still other resources that could give additional revenue. It is needed funds in running development process and it can not wait too long to be fulfilled (Sumedang in Figures, 2006).

Below is presented the map of Indonesia to know exactly where West Java is located:

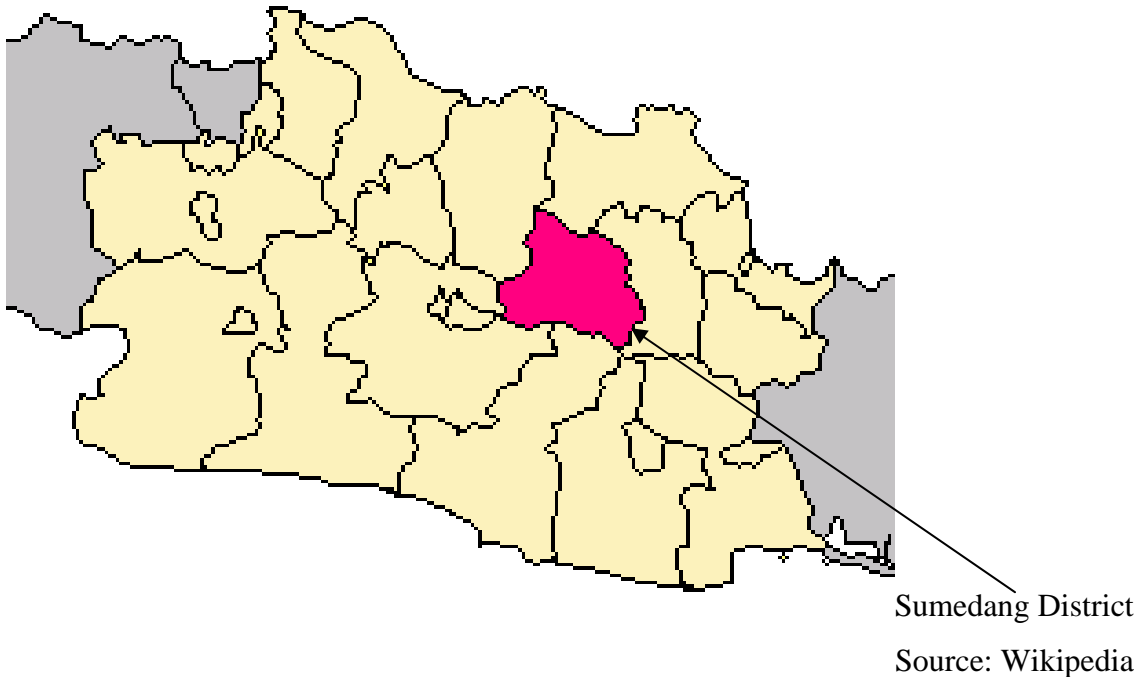
**Figure 1.1.1**  
**Map of Indonesia**



Source: Wikipedia

**Figure 1.1.2**

**Map of Sumedang District (West Java)**



Sumedang District

Source: Wikipedia

To accompany our thinking in looking a picture about land and building tax in Sumedang District, let's see first its history beginning with period when English Governor, Thomas Stanford Raffles (1811-1814), land tax was called land-rent then in the Dutch period, it was called landrente. After Indonesia declared its independence, this tax was called Pajak Bumi (Land Tax) supporting by the law number 11/1951. Next there was the law number 11/1959 about tax of agricultural products with its government regulation called Peraturan Pemerintah, it only regulated the land of pure Indonesian people. For the lands which have been owned by western people were still based on ordinance 1923 and ordinance 1928. Later there was the law number 5/1960 which regulated all lands without distinguishing those ownerships; this was emphasized by cabinet presidium decision on 10 February 1967 Number 87/Kep/U/4/1967. Direktorat Jenderal Pajak Hasil Bumi (General Directorate of Agricultural Product Tax) was the one who very responsible with this case, then based on Keputusan Menteri Iuran Negara (Fee State Minister Decision) number B.M.P.P.U.1-1-3, the name of that directorate was changed into Direktorat Iuran Pembangunan Daerah (Local Development Fee Directorate) because in this term the tax was called Iuran

Pembangunan Daerah/IPEDA (Local Development Fee). IPEDA gave overlapping collection, that one object could be picked up by several kinds of fees; it gave so much burden to the society. Then the law number 12/1985 appeared as a response and the name was given as land and building tax. This law was legitimated on 31 December 1985 as new innovation to increase tax revenue in fulfilling sustainable development process. After 10 years of the law number 12/1985, it was considered as a need to make some revision related with the untaxed amount of tax objects for every taxpayer, appealing process and some modification in term or words for violation. The law number 12/1994 is the latest rule for land and building tax.

Those histories above emphasize the importance of land and building tax, the changing of its rules shows the efforts of government to keep more attention in this tax because its big contribution in running development process. This tax is shared into three parts, 20 percent for central government, 16 percent for provincial/regional government and 64 percent for district/local government. Although only 64 percent that Sumedang has taken from land and building tax but it still gives more contribution than other local tax. Thus, optimalizing this tax will help so much in funding local government expenditure. Actually, in the next analysis I try to evaluate whether the land and building tax could purely be a local tax which can be taken 100 percent from its results for local governments.

Regarding to Indonesian taxation here is presented several tables as divisions of taxes in central, provincial and municipality/regency (district). The table below shows the percentage parts among central, provinces and municipality/regency government:

**Table 1.1.1  
Vertical Fiscal Balance**

	<b>Revenues (%)</b>	<b>Expenditures (%)</b>	<b>+/(-) (%)</b>
Central Government	30	20	10
Provinces	30	30	0
Municipalities/ Regencies	40	50	(-10)

Source: Raksaka Mahi, Fiscal Decentralization, Lecture Notes (2006)

From the table above it can be seen that there is still 10% lack to be fulfilled by regional government (municipalities/regencies). To have more illustrations about taxes in Indonesia, here below will be presented the separation among central, provincial and regional taxes (municipality/regencies):

**Table 1.1.2**  
**Central Government Major Revenues**

<b>Types of Revenue</b>	<b>Central Share</b>	<b>Revenue Base</b>	<b>Future Prospect</b>
Oil	85 % net of tax	Nationwide, large	Good, oil prices increase
Natural Gas	70 % net of tax	Nationwide, large	Good
Income Tax	100 % for Company 80 % for individual Income tax	Nationwide, large Potential but weak administration, number of taxpayers are only 5 % of total population	Good During the crisis of 1998 contributed a significant revenue to government
Value Added Tax	100 %	Nationwide, large	Good. Consumption Of manufacturing goods is still increasing
Export Tax	100 %	Nationwide, small	To increase the competitiveness of exports, the role of this tax has been Reduced
Import Duties	100 %	Nationwide, medium	Good. Many Indonesian products still use imported materials.
Other Non-Tax revenue, such as royalty from forestry, fishery and mining	On the average is about 20 % of total royalty payments	Nationwide, large	Good

Source: Raksaka Mahi, Strategies for Decentralization: Fiscal Authorities of Local, Provincial and National Government, 2001.

Then we will see what is covered in the provincial taxes:

**Table 1.1.3**

**Provincial Major Revenues**

<b>Types of Revenue</b>	<b>Provincial Share</b>	<b>Revenue Base</b>	<b>Future Prospect</b>
Tax on Vehicles	100 %	Large, especially for urban area	Good. An increase number of car sold.
Vehicle Ownership Transfer	100 %	Large, urban area	Good
Fuel Taxes	10 %	Urban Area	Good
Property Taxes	16 %	Medium, urban area	Good
Land Transfer Tax	16 %	Medium, urban area	Medium
Natural Resource Revenue Sharing	16 % for Forestry, Fishery and Mining 3 % for Oil 6 % for Gas	Large, benefiting only resource rich provinces	Good
Specific (DAK)	Unclear	Unclear	very small
General Purpose Grant (DAU)	-	formula	Large for poor region

Source: Raksaka Mahi, Strategies for Decentralization: Fiscal Authorities of Local, Provincial and National Government, 2001.

And these are the compositions of regional taxes:

**Table 1.1.4**

**Regional Revenues (Municipality/Regency)**

<b>Types of Revenue</b>	<b>Local Share</b>	<b>Revenue Base</b>	<b>Future Prospect</b>
Tax on hotel and restaurant	100 %	Large, especially for urban area	Good, especially for business area and resorts
Tax on entertainment	100 %	Large, urban area	Good
Tax on advertising	100 %	Large, urban area	Good
Tax on street lightening	100 %	Large, urban area	Good



Tax on parking	100 %	Large, urban area	Good
User Charges	100 %	Varies, depend on types of user charges, usually it is not a potential revenue	Medium and Poor Generating economic distortion in some regions
Poverty tax	64 %	Medium, urban area	Good
Land transfer tax	64 %	Medium, urban area	Medium
Natural resource revenue Sharing	64 % for Forestry, Fishery and Mining 12 % for Oil 24 % for Gas	Large, benefiting only resource rich regions	Good
Specific grant (DAK)	unclear	unclear	Very small
General Purpose Grant (DAU)	-	formula	Large for poor regions, populated area and large area.

Source: Raksaka Mahi, Managing Local Tax, 1999.

The explanation about divisions of taxes in Indonesia above has given us some features about Indonesian revenue as a whole. Then we come to the case how to run optimalization, Gentry said that “The optimal choice of parameters depends on: (1) How much revenue the government needs to raise (2) Society’s preferences for redistribution, as summarized by social welfare function”. Then skarburskis (2001) noted that “For the instruments to distort behavior, they need to create a burden, and they do so when the taxes or fees do not reflect the value of the services they support. Otherwise, they are a price paid for services rendered”. In this case, although the government wants to increase revenue as much as it can be, but the importance of society should be put upper everything. The principle in running development process should be from society, by society and for society, meaning that the government just acts as facilitator who serves society needs. It also will be elaborated about the probability impacts of optimalization efforts in relation with taxpayer behavior.

Regarding to equity, Mirless (1976) said “It will subsidize and tax different goods so as to alter individual real incomes. The optimal redistribution by this method occurs when there is a balance between the equity improvements and the efficiency losses from further taxation”. This means the rich should pay more tax than the poor because their marginal utility of money is lower, so it should be hardly any impact bearing to all of classes in the society including the poor, the middle class and the rich. In this context there should be an evaluation in the assessment system as a part of tax administration. Reforming land and building tax administration, its rules and increasing capability of people who are included in that process are really the basic foundation in achieving the government objective and goal in reaching targets and increasing revenue as a whole.

## **1.2. Research Problem**

Local autonomy, according to the rule of Republic of Indonesia number 22 year of 1999 is: “local authority to manage people’s needs in their region as their aspiration and rules”. Region is formed as considerations about autonomy ability, regional potency, culture, sociopolitical, people’s quantity, region’s width and others that local autonomy can be implemented. Local authority involves in whole of governmental field, except political abroad, security defense, trial, monetary, fiscal, religion and other authority field which relates to national macroeconomic policy, public administration system, public economic institution, high strategic technology, conservation and national standardization. This rule has given more spirit to local governments to exercise several efforts in developing their regions by their own capacity. For rich region, it is not so hard to run this development process but for others which are not so rich or poor, thinking about funding sources that come from taxes is still very important. But it is realized that increasing taxes should not make harmful distortion to the economy as a whole by considering so many related factors.

Regarding to the Land and Building Tax in Sumedang district, there are indications that the targets have not been met in recently eleven years. It is important to see precisely on the land and building tax itself and also to see how targets are decided.

It seems more possibilities to increase revenue from this tax because in facts there are still many problems to be solved in this case including several factors below:

1. The tariff is not up-to-date; it is not based on the recent price of land or/and building.
2. Long procedures and administration process.
3. Traditional collecting manner.
4. Less responsibilities of taxpayers.
5. No strict sanction. The tax rule has not been applied as it should be.

By keeping more attention and making more innovation to deal with those points above, hopefully it could make the land and building tax reach the optimal amount. The reason for optimizing this tax is in order to have more capability to fund expenditure assignment that contains all of local government needs and programs, especially for social sector investments which could give more benefit to societies.

### **1.3. Research Objectives**

By using the case of Sumedang district, the main objectives of this research are:

- (1) to prove the important role of the land and building tax in financing local expenditure.
- (2) to see precisely local government efforts in reaching the land and building targets.

### **1.4. Research Questions**

#### **Main Research Question:**

Is the land and building tax efficiently collected?

#### **Sub Questions:**

1. Have the targets been met?
2. Are there any possibilities to increase the revenue from the land and building tax without creating any harmful distortions?
3. Is it possible to have the land and building tax to be a purely local tax when its results could be taken 100 percent for local government?

### **1. 5. Research Hypothesis**

By assuming optimalization is not maximalization, my hypothesis is: *the government can increase the revenue from the land and building tax by keeping the tax assessment based on the current value in relation with its tax rate, tax base and coverage.* In Sumedang district there are still many tax objects uncovered and the tariffs should be revised following the recently changing in price or other determinants.

### **1.6. Methodology and Analytical Framework**

The analytical framework will begin with the explanation of tax optimalization theory and how target is decided. Besides presenting by numbers, the explanation will also be elaborated by those indicators of optimalization and target based on theories. I try to analyze deeply on the efforts of the local government which have been done to increase revenue from the land and building tax. So, the methodology will be done by quantitative and qualitative approach.

### **1.7. Data Requirements and Sources**

The data will be covered from several related agencies of Sumedang Local government, concerning on local revenue, especially on Land and Building Tax including annually district and sub-district data.

### **1.8. Organization of the Paper**

The second chapter will present all related literature review which emphasizes theoretical framework. In the third chapter will be explained about methodology and analytical framework then chapter four is the analysis of optimalizing land and building tax in fulfilling targets then the last chapter is the conclusion and policy implication.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. Definition of Land and Building Tax**

Before explaining further about anything in relation with land and building tax, it may be useful to present a little bit about its definition. Land and building tax according to the law number 12/1994 of Republic Indonesia is:

- 1) Land is its surface and its underground body.
- 2) Building is the technical construction that put permanently in the ground and/or waters.

In other words, land and building tax is the fee which is picked related to land and building. Especially for building, there are several types of buildings mentioned in the law number 12/1994:

- a) The road/way or other things surrounding buildings, for example hotel, factory, emplacement.
- b) Toll road (a road without obstacles).
- c) Swimming pool
- d) Luxurious fence
- e) Sport Centre (a place to have exercises)
- f) Docks
- g) Luxurious parks
- h) Refineries of oil (including its pipes), water and gas.
- i) Other facilities which gives benefit.

By looking at the definition of land and building tax above, it could be seen that the object of the tax is land or/and building and its amount based on its selling price. There are several considerations in determining the amount of it, including location, allocation, allotment of the land use and environment condition, but for buildings are also classified according to their constructions and materials.

According to the law number 12/1994 there are several kinds of objects which are not taxed, if they are:

- 1) used for public necessity, related with religion, health, education, culture and any other social activities whose objectives are not for profits.
- 2) used for graveyard and archaeological inheritance.
- 3) Protected/preserved forest, wildfire preserved forest, national park, and some part of land owned by village authority.
- 4) used for diplomatic representative/consulate.
- 5) used by international organizations (decided by Finance Minister).

From the above explanation, there are two kinds of technical terms here, tax objects including land and building and tax subjects (taxpayers) including people or institutions/organizations owning lands and buildings which give benefit to them.

## **2.2. Land and Building Tax Optimalization and Targets**

After experiencing a very hard economic condition since 1997, Indonesia struggles to stabilize its economy starting from the foundation level. Increasing revenue is a must to fund expenditure. Tax is a clear income which can be explored. In the case of Indonesia, tax administration reform is very essential to be applied. Hopefully it could make strengthening revenue collections and promoting fiscal adjustment. Government can make several improvements on tax administration to increase the revenue collection but the way to accelerate tax revenue should not create any harmful distortions to the economy as a whole including local, regional and national level.

Tax optimalization should consider all related factors. The sharp increasing in tax revenue is not always good if it creates burdens to the society. Here, government should also think about the equity. Varian (2002) noted that equity could be defined as a condition where no agent prefers any other agent's bundle of goods to his or her own, meaning that an allocation is equitable and fair for all people condition. Then Mirlees (1976) said that subsidizing and taxing different goods to alter individual real income is very important, this could be done by keeping more attention to the equity issues and efficiency in taxation system. Increasing revenue with creating any bad impacts in other sides will make some useless gains. In this case, it is clear that optimalization does not mean maximalization.

Regarding to the land and building tax, Bell (1999) stated that land and building tax is the single most important optimal tax in developing countries and internationally which is relatively productive and stable over time, neutral with regard to its impact on private economic decision, simple, predictable and equitable. Comparing to other potential sources of tax revenues, land and building tax is better on those criteria. A majority of community services provided by local governments come from its revenue and it is generally a visible tax, difficult to hide by taxpayers. The relationship between land and building tax payments and benefits received improves accountability at the local level by encouraging feedback to local officials on the desirability of the bundle of goods and services provided. This is another way that government can do to eliminate the feeling of societies about tax as a burden, if government can show many results in doing development, societies can understand where tax revenue goes for. It means that they will realize that indirectly what they pay for the tax is back for their needs and welfare.

In thinking of optimal taxation, Bell (1999) contributed some argument related to major policy issues that must be addressed in designing and implementing an optimal land and building tax system, including administrative framework beginning from defining tax base as a way to determinate value to be taxed and in determining tax rate. Local control rate is vital, in this regard, if the national government decides to specify the tax base. Land and Building Tax is not truly a local tax unless local governments have control over the tax levy. Bell also said that convincing those theoretical frameworks above including the important of administering process and its monitoring, the valuation cycle, technical proficiency of tax administration which covers administrative structure, staffing, valuation tools and information, enforceability and a simple appeal process.

There are also many scientist stated statements which convinced those theoretical points. It is important to have strong basic theoretical point of view in this case because it will become the bases of the analytical framework. Mirlees (1976) emphasized “Theory can contribute to discussions about the levels of tax rates in a number of ways. It makes possible for the calculation of optimal tax rates, to gain knowledge of how tax rates vary with objectives and possibilities”. It seems that every

local government can create its own efforts in doing optimalization with considerations to many related factor conditions in its area and also other externality factors, it is emphasized by Cornes and Sandler (1996) who stated that “A careful analysis of externalities can therefore augment our understanding of regulation, environmental economics and public finance”. Government should think about all externality factors, it could be done by setting the suitable regulation which is not giving disturbance to environmental economics but it can support public finance. In this case local governments are the ones who know much about societies in their region. Shah (1994) said that efficiency should be a concern and having the best information on the tax base is very essential. In making the appropriate regulation for certain societies, knowing much about tax base is very important, it has several relations to the equity issue and the information will also be useful in determining the real tax target as potential revenue that could be explored.

Mahi (2002) also said that in the case of Indonesia, however, there are some principles which should be taken as considerations including collection cost and local taxing power. The weak tax administration system is also included in the collection cost, it is important for the government to be able in calculating the real tax potency; in this case the potential revenue should be much higher than collection cost. In other words, efficiency in tax collection should be put in first consideration. Then in fiscal decentralization a local taxing power is a need, meaning that not only for freedom in local expenditure side but also in local revenue side. It will be very fair if local governments are given chances in determining its own potential taxes and tax rates because local governments know much about local potency in their regions and also their society condition related to equity.

Looking at several considerations above, there is a possibility for land and building tax to be taken as a pure local tax from its current status as a revenue sharing tax. The reasons are based on Law Number 34/2000 of Republic Indonesia, local government is allowed to collect other taxes, as long as those are not violating the criteria of tax collection below:



- a. It is a tax in nature and not a user charge.
- b. The tax object should be residing in the area of the region, with low mobility and residential based population.
- c. The base and object of the tax should confirm the social justification.
- d. Local tax object should not overlap with those owned by Central and Provincial Governments.
- e. Tax potential is significant.
- f. The tax should not distort the economy.
- g. Equity and the ability to pay tax should be the concerns of the tax policy.
- h. Environmental consideration should be in the priority.

Based on those criteria above, land and building tax could be taken as a pure local tax. This is very important to be applied in local autonomy system with its fiscal decentralization. Increasing local taxing power will give more benefit to societies because local governments have closed relationship with societies. Musgrave (1984) said that only taxes on mobile factors of production should be centralized but for residence-based taxes, such as excise, should be levied by local authorities. This emphasized that land and building tax could be really taken as a local tax. Spahn (1999) noted there are several considerations to assign a local tax including:

- a. Local accountability

Local tax policy should be decided by local governments in coordination with local parliaments as a representative of local societies, it should not give any burdens to societies.

- b. The benefit tax link

It should be clear to the societies where the tax revenue goes for, for example by showing many improvements in public goods and services as their needs.

- c. Non distortion principle

Local tax policy must not create any disturbance to the whole economic conditions.

- d. Regional/local equity

The equity is not only based on different income of societies but also among jurisdictions.

e. Administrative simplicity

Administering taxes should be as simple as possible to higher efficiency in tax collection.

In managing local revenue, there are five major categories of local taxes policies that could be implemented by local government (Mahi, 2002), those categories include:

a. Enlarging local revenue base:

- Identifying new or potential taxpayers and ratepayers
- Improving object databases
- Improving valuation (reassessment of tax objects)
- Calculating the revenue capacity for each type of levy

b. Increasing control to reduce leakage:

- Surprise audit to complement self assessment procedure
- Improving the control process
- Efforts to enforce a strict and heavy penalty for non-compliance
- Administrative discipline to financial staffs that may have contributed to leakage in local revenues.
- Efforts to link tax payment with services provided by local government.

c. Tax collection requirements:

- Optimum rate structure
- Appropriate rules and regulations
- Human Resource Capacity

d. Improving Administrative Efficiency to Reduce Collection Costs

- Improving the existing tax administration procedures through administrative simplification.
- Efforts to calculate collection efficiency for each type of revenue.
- Efforts to reduce cost of collection.
- Efforts to eliminate the identified factors in the field that has contributed to sub-optimal revenue.

e. Revenue capacity improvement through better planning.

In this case all related agency must make a good coordination. By those indicators above, I try to elaborate every single factor related to the process of optimizing Local Taxes in reaching its target as the component of Local Own Revenue.

Then, those theories and categories above will be put as analytical framework in analyzing efforts of optimization which have been done by the local government. Brondolo (2008) said that tax gains can be increased by reforming administration system with realistic estimation collection as measurement of targets to be achieved. Target is determined by calculating the real local potency in relation with tax rate, tax base and tax coverage. By having the best information about those related factors, local governments can accelerate their local revenue by improving their efforts to achieve their targets.

Other factors that should be considered by the local government are tax behavior and evasion. Understanding them will be useful to create policies in optimizing land and building tax. Livatop (2008) noted that the very essential aspect of tax evasion is a behavior which usually tries to get lower tax debt than what is written in the rule. Tax evasion is an avoidance of taxpayers to pay their tax debt or they want less amount of tax as it should be. To know why some people do tax evasion, Hammar (2005) said that people do evasion not because they hate taxation but they just want to have more saving of their income, meaning that people try to have less tax or avoid tax to save their income for their own interest. Cobham (2005) said that different forms of tax-reducing behavior will require different social and political implications. In this context, land and building tax is a kind of tax which can not be hidden by taxpayers, so it can eliminate bad behaviors of taxpayers. But in facts some evasion are still done by irresponsible taxpayers, this evasion could be in the form of delaying payment or avoiding seeing local government officials who come to their addresses. Local government should try any kinds of efforts to solve these problems by increasing their understanding about how important the land and building tax for running governmental activities to fulfill their needs and welfare. Increasing responsible taxpayers will increase the amount of land and building tax, so good tax behavior from taxpayers will give positive impacts to local revenue.

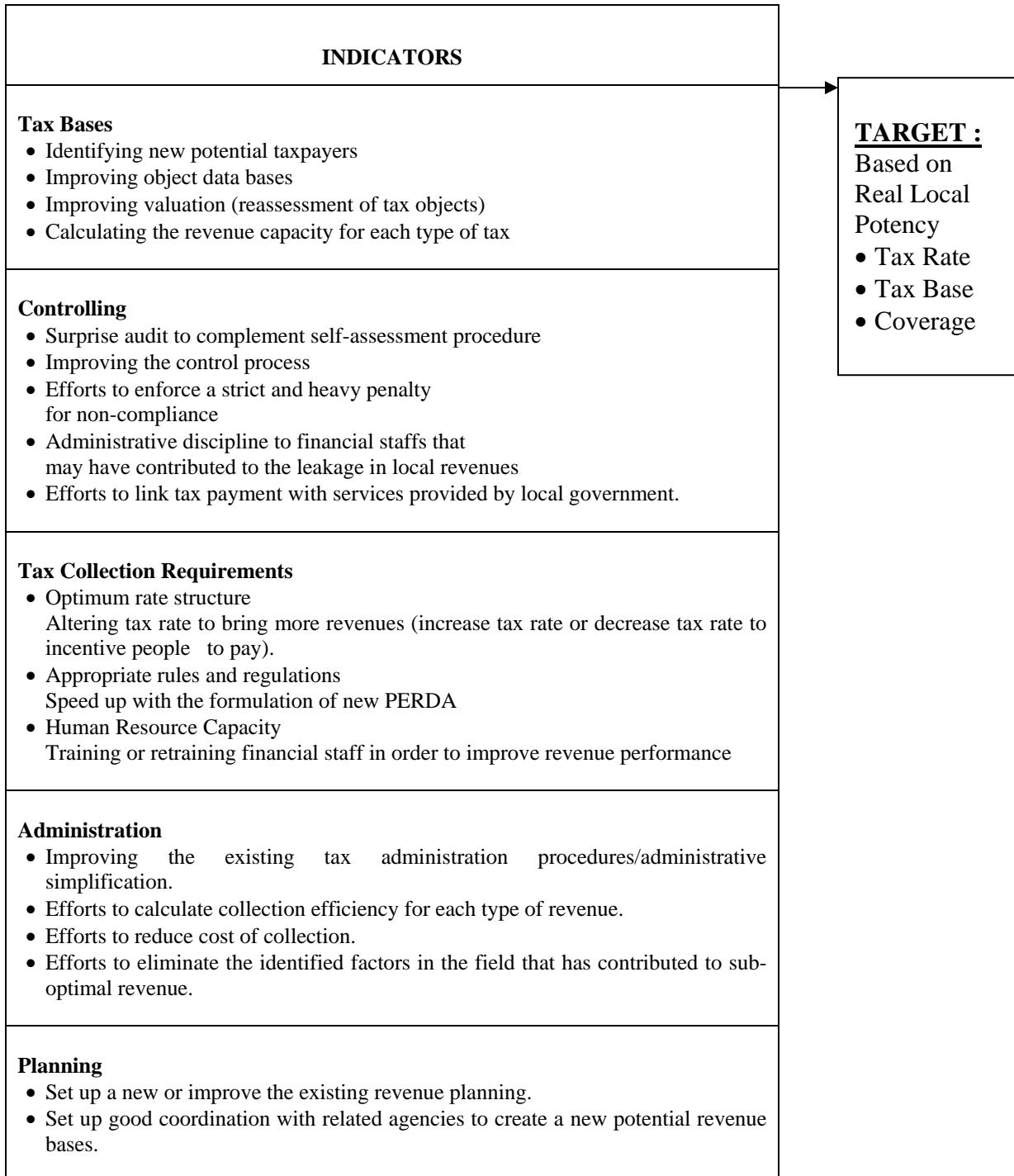
It is also needed to think about incentive in the form of decreasing land and building tax because of certain reasons, these has been declared in law number 12/1994 with further explanation in Finance Minister Decision Letter of Republic Indonesia Number 362/KMK.04/1999. The reasons could be including disasters, fires, drought, plant deseas and other reasons related with the owner incomes which make them not be able to pay their tax debt. In this case local government should be selective in giving incentive because there are possibilities that people can manipulate their real income from businesses to have a lower land and building tax.

## **Chapter 3**

### **Methodology and Analytical Framework**

Methodology which is used to measure an optimal parameter is by making a qualitative and quantitative analysis showing by data in number's achievement in several latest years. The analytical framework based on the explanation of tax optimization theory and how target is decided. The elaboration by those indicators of optimization and target is driven by using the analytical framework which has been explained before. For the measurement of the target, it will be based on three components which build the land and building tax target itself including tax rate, tax base (size and value) and coverage (real local potency). I try to analysis the efforts which have been done by Sumedang local government in optimalizing land and building tax. The indicators are presented in the table below:

**Figure 3.1**  
**Tax Optimalization Framework**



Source: Raksaka Mahi, Managing Local Revenue in Indonesia, 2002.

The analysis of optimalizing land and building tax in reaching its targets will follow the framework above. The explanation will show what really happen as problems to be solved. Local government efforts in managing this tax should be run in the efficiency way by thinking about cost and benefit. Targets also should be made by calculating the real local potency of the land and building tax that Sumedang district has. Finally in the end of this paper it will be presented the conclusion and its policy implication based on its sub indicators. Hopefully there will be some effective solutions in increasing Sumedang local revenue from the land and building tax.

## Chapter 4

### Analysis of Optimizing Land and Building Tax in Fulfilling Targets

The analysis will be run as research questions and the analytical framework which have been set up in the introduction part. But to accompany our understanding about the land and building tax in Sumedang district, it might be better to see its performance first as the explanation below:

#### 4.1. Land and Building Tax Performance

After several years targets of land and building tax in Sumedang district have not been achieved. It makes this case interesting to be elaborated. To see more precisely here is presented land and building tax performance based on data collection from every sub-district:

**Table 4.1.1**  
**Land and Building Tax Performance**  
**(In Million Rupiahs)**

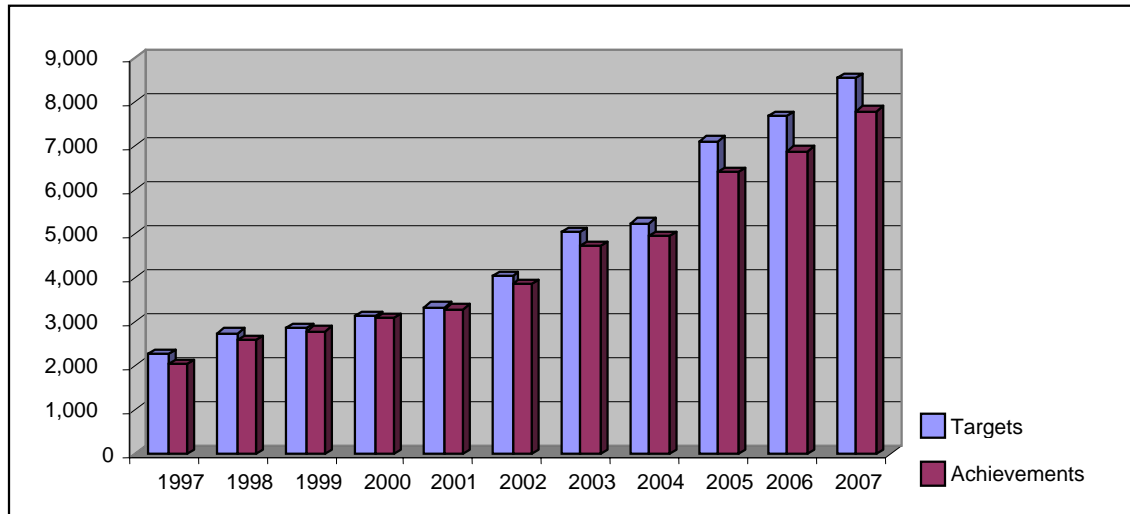
<b>Year</b>	<b>Target (in million rupiahs)</b>	<b>Achievement (in million rupiahs)</b>	<b>Percentage (%)</b>
1997	2,260	2,023	89.51
1998	2,744	2,595	94.57
1999	2,851	2,795	98.04
2000	3,147	3,073	97.65
2001	3,341	3,291	98.50
2002	4,054	3,872	95.51
2003	5,048	4,712	93.34
2004	5,256	4,961	94.39
2005	7,125	6,408	89.94
2006	7,701	6,897	89.56
2007	8,553	7,809	91.30

Source: Sumedang Revenue Agency



In eleven years, the development of this tax can be seen as below:

**Figure 4.1.1**  
**Trend of Land and Building Tax in Sumedang District**



From the chart we can see that after eleven years the target in every year has not been achieved. These phenomena are interesting to be explored. There should be some reasons behind then they will be elaborated further in the next explanation. Now let's see for a while how about other Sumedang local taxes in order to have a comparison with land and building tax gains:

**Table 4.1.2**  
**The Performance of Other Sumedang Local Taxes**  
**(In Million Rupiahs)**

Year	Target	Achievement	Percentage
2000	5,331	6,922	129.84
2001	11,080	11,129	100.44
2002	12,131	12,295	101.35
2003	14,677	14,643	99.77
2004	15,363	16,515	107.50
2005	17,138	18,183	106.10
2006	18,921	18,196	96.17

Source: Sumedang Revenue Agency

The amount of the land and building tax gain as a single tax is big enough compared to other Sumedang local taxes which covers seven kinds of local taxes including hotel tax, restaurant tax, entertainment tax, advertising tax, street lightening

tax, type C excavation tax (sands or stones) and renting house tax. To see how big the percentages of the land and building tax achievement as a single tax in comparison with other local taxes, it could be seen in the table below:

**Table 4.1.3**  
**Land and Building Tax in Comparison with Other Local Taxes**  
**(In Million Rupiahs)**

<b>Year</b>	<b>Other Local Taxes (in million rupiahs)</b>	<b>Land and Building Tax (in million rupiahs)</b>	<b>Percentage of Land and Building Tax</b>
2000	6,922	3,073	44.39
2001	11,129	3,291	29.57
2002	12,295	3,872	31.49
2003	14,643	4,712	32.18
2004	16,515	4,961	30.04
2005	18,183	6,408	35.24
2006	18,196	6,897	37.90
		Average:	34.40

Source: Sumedang Revenue Agency

Comparing to the amounts of other local taxes, the land and building tax has given big contributions to Sumedang local revenue. Then if we see the target of other local taxes, it seems no problem because they almost have been reached in every year. In the case of Sumedang land and building tax, there are several reasons which make this tax interesting to be elaborated. First, its targets have not been reached since recently eleven years and its big contribution to local revenue. Second, it seems more possibilities to increase its revenue without creating any distortions. The targets which have been made by Sumedang local government are still not really based on recent prices of lands and/or buildings. As mentioned in the theoretical part, local government as the one who acts very closely to the society should know much about all factors which relate to the case how target is decided including tax rate, tax base and coverage. All three factors show the real potency of land and building tax that should be taken as the actual targets. Database about lands and buildings should be classified and renewed based on the recent changing in prices.

After having features about Sumedang local taxes in comparison with the land and building tax, the table below will give other features about Sumedang local own revenue as a whole without the land and building tax. This will accompany our thinking

about the important of optimalizing land and building tax to increase Sumedang revenue:

**Table 4.1.4**  
**Sumedang Local Own Revenue**  
**(In Million Rupiahs)**

Year	Local Own Revenue				Total
	Other Local Taxes	User Charges	Profit of BUMD (Government Businesses)	Other Legalized Local Revenue	
2000	6,922	10,231	365	318	17,837
2001	11,129	14,316	520	2,275	28,241
2002	12,295	17,448	510	6,576	36,829
2003	14,643	22,510	511	4,089	41,752
2004	16,515	25,424	1,835	6,345	50,119
2005	18,183	35,200	2,362	2,953	58,699
2006	18,196	36,156	2,547	6,557	63,455

Source: Sumedang Revenue Agency

Local own revenue consists of seven kinds of local taxes (without land and building tax), 33 types of user charges, three kinds of Government Businesses (two Local Banks and one Local Water Company) and other legalized local revenue which is formed by seven kinds of revenue including local selling assets, clearing account services, third donators (companies), incomes from religion department, incomes from deposit interests, compensation from local welfare and others. Local own revenue and land and building tax as a revenue sharing tax are what Sumedang local government has as sources to run development process in the form of local expenditure.

To have better features about the real Sumedang local revenue capacity, we could see in the table below:

**Table 4.1.5**  
**Sumedang Local Revenue Capacity**  
**(In Million Rupiahs)**

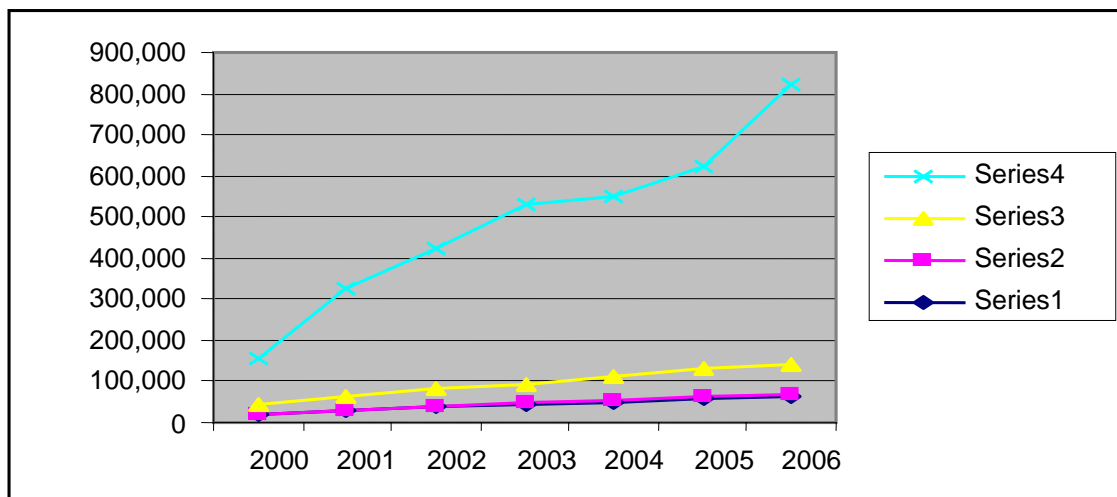
<b>Year</b>	<b>Local Own Revenue (1)</b>	<b>Land and Building Tax (2)</b>	<b>Sumedang Local Revenue (3)</b>	<b>Expenditure (4)</b>	<b>Shortage/Deficit Based on Local Revenue</b>
2000	17,837	3,073	20,910	111,771	(90,861 )
2001	28,241	3,291	31,532	265,287	(233,755)
2002	36,829	3,872	40,701	340,443	(299,743)
2003	41,752	4,712	46,464	436,762	(390,297)
2004	50,119	4,961	55,080	440,905	(385,824)
2005	58,699	6,408	65,107	494,886	(429,779)
2006	63,455	6,897	70,352	680,253	(609,901)

Source: Sumedang Local Finance Board

It can be seen that Sumedang local revenue capacity has not been able to fulfill its whole expenditure, the table below shows how high the gap among all things above, but the land and building tax is looked not so far from the Sumedang local own revenue line meaning that it gives a big contribution to Sumedang local revenue:

**Figure 4.1.2**  
**The Gap among All Sources of Local Revenue Capacity**  
**In Comparison to Local Expenditure**

In Million Rupiahs



Now it can be seen how big Sumedang Local Expenditure is still depended on transfers from central and provincial government:

**Table 4.1.6**  
**Sumedang Equalization Fund**  
**(In Million Rupiahs)**

<b>Equalization Fund</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Revenue Sharing on Taxes and Non-Taxes (minus Land and Building Tax)	25,216	31,966	32,475	39,626
General Purpose Grant	291,220	301,089	316,698	500,020
Specific Grant	8,600	7,210	13,240	31,910
Province Assistances	22,141	45,087	47,020	41,756
Total	347,177	385,352	409,433	613,312

Source: Sumedang Local Finance Board

Although land and building tax is not the only answer to solve the problem but regarding to Sumedang local taxes it is more suitable to be optimized because there are still possibilities to increase its revenue. Comparing to other local taxes, besides land and building tax has big contributions to Sumedang local revenue, the amount of this tax that should be paid by societies does not give a burden feeling because it has been considered about equity. Higher taxes are only for higher welfare meaning that only people who own more lands and/or buildings will pay much. Increasing this tax will not give any distortions to economic condition as a whole. This tax has no direct relationship to businesses. It is different with other local taxes which are taken directly from their business income, for example hotel tax, restaurant tax, entertainment tax, advertising tax, type C excavation tax (sands or stones) and renting house tax. In the case of hotel and restaurant tax, although the taxes are given to the customers of hotel or restaurant but it affects offering prices of hotels or restaurants. This condition will distort hotel or restaurant businesses to compete in prices. From those examples, it shows that land and building tax is quite stable, equitable and predictable. Predictable means that local government really could predict its revenue by creating the real target based on its real local potency.

## **4.2. Analysis of Optimizing Land and Building Tax Collection**

Now we come to the main research question, “Is the land and building tax efficiently collected?” To answer that question here is presented the analysis based on the analytical framework as it has been planned before. The elaboration will follow all indicators and sub indicators of the framework:

### **1) Tax Base**

#### **a. Identifying New Potential Taxpayers**

It is about efforts in finding uncover taxpayers. Ideally it should be no problem with this process because land and building tax can be identified by its objects then the next step is looking for information about its subjects or taxpayers. In Sumedang, there are still problems related to irresponsible taxpayers who live outside district. Efforts to collect those taxes get higher cost with no guarantee they will pay in the case they are not available in their addresses which are given to the local government (Sumedang Revenue Agency) or doing some evasion. The more taxpayers can be identified meaning that the revenue will increase but local government should be more active especially in getting the land and building tax from irresponsible taxpayers.

#### **b. Improving object data bases**

It relates to Sumedang real local potency of land and building tax, in this case local government should try to explore how many new potential taxpayers by seeking the real condition in the field. In the case of land and building tax, one taxpayer could have more than one land or building. Keeping more attention to land and building tax objects should be put in the first step because the land and building tax is only taken from its object in the certain local jurisdiction. The information about its subjects could help local government to charge this tax. The objects of land and building tax are not so difficult to identify because it can not be hidden by taxpayers. Thus, the land and building tax is stable and predictable, its objects are not moving but stay permanently although its taxpayers can be changing. The amount of the land and building tax really can

be predicted according its assessment. Although the targets are still below the real local potency, but in fact they have not been reached since recently eleven years.

Improving data bases also means data verification. It is done by comparing data given by taxpayers with real conditions which are shown in the monitoring process. This activity is the latest step to put all new data got from that process above which are considered as actual data. Identification objects of land and building tax is done by all related institutions or with a partner outside government institutions which is really capable to do it, especially in map revising process. The problem is that Sumedang local government does not have data bases which cover all information needed in the reassessment process. Its data bases are only about objects and subjects of the land and building tax. The information of recent prices of lands and buildings has not been included yet.

**c. Improving Valuation (reassessment of tax objects)**

The important point of the land and building tax in Sumedang case that the valuation or reassessment are still not based on recent prices of lands and buildings. This makes the targets are lower than they should be. Sumedang local government should be more sensitive to this price issues and able to classify them as soon as possible before reassessment time in every year. So, the amount of the land and building tax could be levied will be higher, meaning that the local revenue can be increased. Before elaborating about how the valuation or reassessment of land and building tax objects is, it will be better to see its reassessment process first. In the process of land and building tax assessment, there are several steps to charge some tax as below:

1) Tax Debt Information Letter (Surat Pemberitahuan Pajak Terutang/SPPT).

It is made based on the information letter of tax object or registration form (Surat Pemberitahuan Objek Pajak/SPOP). There is some amount of tax must be paid by the taxpayer not more than 6 months after receiving this letter.

2) Tax Assessment Letter (Surat Ketetapan Pajak/SKP)

This letter will be sent with considerations if these cases happen:

- a) Registration form (SPOP) is not returned more than 30 days from its receiving date then if after the reminding letter (Surat Tegoran), the taxpayer is still ignoring.
- b) If there is a mismatch between the actual tax debts must be paid by taxpayers with data written on the information letter of tax object or registration form (SPOP).

Tax debt which is written on tax assessment letter (SKP) must be paid not more than one month after its receiving date. There is 25% additional amount as fines must be paid besides the actual tax debt.

3) Tax Claim Letter (Surat Tagihan Pajak/STP)

There are reasons in sending this letter to the taxpayer if several cases bellow happen:

- a) Taxpayers are late to pay their tax debt, meaning that it is more than 6 months after receiving the Tax Debt Information Letter (SPPT).
- b) Taxpayers are late to pay their tax debt, meaning that it is more than 1 month after receiving the Tax Assessment Letter (Surat Ketetapan Pajak/SKP).
- c) Taxpayers pay their tax debt after the deadline without paying its fines. In this case, the amount of fines must be paid is 2% per month but not longer than 24 months.

This Tax Claim Letter (STP) should be responded by taxpayers not more than one month after its receiving date.

Looking to the process of reassessment administration above, besides implementation of improving valuation still needs to be kept more attention because the value of lands and/or buildings are very rare updated, Sumedang local government should also think how to make the administration process of reassessment more simple with shorter procedures.



#### **d. Calculating Revenue Capacity**

It is related to the real land and building tax potency in Sumedang District, its coverage relates to the calculation of land and building tax in relation with tax rate and the value of lands and/or buildings. After having actual data bases, actually it can be calculated how much the revenue capacity of Sumedang land and building tax is. In this context, finding how many real tax objects should be done first then we can calculate every object by land and building tax formulation. To have a clear explanation, here is presented one example to calculate land and building tax. The calculation is including several things below:

- 1) Tax tariff is 0.5%.
- 2) The selling price of the tax object (Nilai Jual Objek Pajak/NJOP) in the form of land and building, this could be determined by doing:
  - a) Price comparison approach with the same kind of objects which locations are closed one to another.
  - b) Acquisition approach, this is done by calculating every material price invested in building tax object.
  - c) The substitution of selling price approach, the calculation is based on production result or the amount of tax object earnings.
- 3) The selling price of the object which is not taxed (Nilai Jual Tidak Kena Pajak/NJTKP); the amount of it is 8,000,000.00 rupiahs. In this case, if a taxpayer has several tax objects, only one object is subtracted by NJTKP.
- 4) The selling price of object which is taxed (Nilai Jual Kena Pajak/NJKP), the amount of it is  $20\% \times \text{NJOP}$ . If the amount of NJOP is more than 1,000,000,000.00, it will be picked 40%.
- 5) The formula is:  $0.5\% \times (20\% \times \text{NJOP})$ , it is the amount that must be paid by taxpayers.

In order to be clearer, here will be presented some examples of the land and building tax calculation:

A taxpayer (tax subject) has a tax object in the form of land, the width is 800 m<sup>2</sup> with its selling price 300,000.00 rupiahs/m<sup>2</sup> and the building width is 400m<sup>2</sup> with its selling price 350,000.00 rupiahs/m<sup>2</sup>. There are several steps for calculating this land and building tax as presented below:

a) The selling price of land = 300,000.00 rupiahs/m<sup>2</sup>.

If we see the table of land classification, it can be seen that price is in class 24<sup>th</sup> with NJOP/m<sup>2</sup> between 262,000.00 rupiahs and 308,000.00 rupiahs. Based on the classification rule, from that range we can get the average value 285,000.00 rupiahs.

$$\begin{aligned} \text{Thus, the selling price of land (NJOP)} &= 800 \text{ m}^2 \times 285,000.00 \text{ rupiahs} \\ &= 228,000,000.00 \text{ rupiahs} \end{aligned}$$

b) The selling price of building = 350,000.00 rupiahs/m<sup>2</sup>.

Then we see in the table of building classification, it can be seen that price is in class 8<sup>th</sup> with NJOP/m<sup>2</sup> between 348,000.00 rupiahs and 382,000.00 rupiahs. Based on the classification rule, from that range we can get the average value 365,000.00 rupiahs.

$$\begin{aligned} \text{Thus, the selling price of land (NJOP)} &= 400 \text{ m}^2 \times 365,000.00 \text{ rupiahs} \\ &= 146,000,000.00 \text{ rupiahs} \end{aligned}$$

The amount of land and building tax could be derived by following steps:

NJOP Land .....	Rp 228,000,000.00
NJOP Building .....	146,000,000.00 +
NJOP (the selling price of land and building)	<u>374,000,000.00</u>
NJOPTKP (the amount of selling price which is not taxed)	<u>8,000,000.00</u> -
NJKP (the selling price of land and building which is taxed)	366,000,000.00

$$\begin{aligned} \text{Land and Building Tax} &= 0.5\% (20\% \times \text{NJKP}) \\ &= 0.5\% (20\% \times 366,000,000.00) \\ &= 366,000,000.00 \text{ rupiahs} \end{aligned}$$

The explanation above can accompany our thinking to have a feature about the whole local potency of land and building tax in Sumedang District.

If every Tax Debt Information Letter is based on the recent value with the exact width of land and/or building, for the whole district the revenue from this tax will increase and its contribution to Sumedang local revenue will be bigger. This is also the way that target should be determined. Now, in fact targets are still far from the real local potency, but the realization of land and building tax gains have not reached its targets. In this case, the responsibilities of taxpayers are still low. Sumedang local government should pay more attention to this problem by giving socialization about the important of paying land and building tax and also explaining to what kind of public goods or services that this tax goes for. It will eliminate a burden feeling of society, because finally they see that what they paid are back in the form of welfare to fulfill their needs. Enforcing tax is not an easy struggle for the local government, but hopefully if it is reasonable the society will pay their tax debt with higher responsibility. Although there are always some evasion but its number can be decreased.

## **2) Tax Collection Requirements**

### **a. Optimum Rate Structure**

**Altering tax rate to bring more revenues (increase tax rate or decrease tax rate to incentive people to pay).**

In the case of Sumedang District, for a while it looks impossible to increase tax rate, nowadays with the same tax rate as previous years but the targets have not been reached. Decreasing tax rate, especially for land and building tax is also very hard because this tax is a dependable revenue source for Sumedang district. So, the rate of land and building tax in Sumedang is assumed already suitable, until now no claim from the society about the amount of its rate. Although changing in land and building tax rate is still determined by central government. The explanation about this case will be elaborated further in the next subtitle. It will be discussed how to propose land and building tax as a purely local tax when a local government can have a full authority in managing land and building tax.

**b. Appropriate rules and regulations.**

**Speed up with the formulation of new local government rules (PERDA).**

No rule is created by local government because the limited authority given by central government. Land and building tax regulation is more based on central government rules. Even speeding up with the formulation of new PERDA (local government regulation) also has not been done by Sumedang local government. The authority which is given by central government is only on tax collection.

**c. Human Resource Capacity**

**Training or Retraining Financial Staff in order to Improve Revenue Performance**

By having good staffs who work in revenue collection and financial data will also improve the performance of Sumedang local revenue. These two parts of works are essential. It should be a good coordination between them. Revenue collection must be reported as soon as possible by financial staffs. Having the actual and up-to-date information about local revenue is very important for local government in making decision in any case related to increasing revenue itself, expenditure and other development planning or programs. Thus, it is a need to improve their capacity in doing jobs by training or retraining according to their work field. In Sumedang case, training or retraining staffs which are related to land and building tax performance is still rarely done.

**3) Administration**

Before analyzing how well the implementation of land and building administration process in Sumedang district is, here is presented the administration process beginning from registration process that could be done at Land and Building Servicing Office (Kantor Pelayanan Pajak Bumi dan Bangunan) with a form determined by Tax General Directorate (Direktorat Jenderal Pajak). This form called information letter of tax object (Surat Pemberitahuan Object Pajak/SPOP).

Taxpayers should be careful in filling the registration form (SPOP) by paying attention to these things below:

- a) Clear, data writing must be clear in order not to give misunderstanding which could cause to lose for the state or the taxpayers themselves.
- b) Right, meaning that data about the width of land and/or building, year, acquisition price, location, allocation or allotment (usage) which are written on the registration form (SPOP) must be the same with real conditions.
- c) Complete, every single column on the registration form in relation with tax object and tax subject must be filled completely.
- d) On time, the registration form (SPOP) which has been filled must be returned to land and building servicing office by taxpayers directly or by posting, maximal in 30 days after its received date. Taxpayers who are late in returning this form or the returning is on time but the data given are not the same with real conditions, there will be some fines as an administration sanction.

For first data arrangement, the delivering and returning of registration forms (SPOP) is done by land and building tax servicing officers in coordination with local government (local revenue agency, sub-district government and village government/apparatus). All officers monitor these activities until they get back the returned forms which have been filled by taxpayers. These data will be put as a base for tax assessment process.

**Based on those explanations about administration process, then below it can be seen the analyses following to analytical framework:**

**a. Improving the existing tax administration procedures/administrative simplification.**

The tax administration procedures/administrative have not been simplified since a long time. Long procedures could make taxpayers delaying to pay their tax debt because of their busy time. So, in this case Sumedang local government should try to find the easier way in tax administration process. Decreasing number of forms that should be filled by taxpayers will make taxpayers not lazy

to pay land and building tax. It should be possible for the taxpayers who want to pay their tax debt by using internet access.

**b. Efforts to calculate collection efficiency for each type of revenue.**

It has not been done because of several reasons, especially because of low responsibilities of taxpayers and geographic condition for most people who live in rural area. Although it is hard because of those local condition, but thinking about collection efficiency should also be considered by Sumedang local government to have efficient efforts in managing land and building tax.

**c. Efforts to reduce cost of collection.**

Especially for rural areas, the implementation of data and revenue collection are still including a lot of staffs. They usually live there for several weeks and their living cost and extra fee must be paid by local government. The efforts to increase revenue in one side invite a lot of expenditure in another side. Next, consideration about cost and benefit should be thought wisely to avoid some useless efforts.

**d. Efforts to eliminate the identified factors in the field that has contributed to sub-optimal revenue.**

Identifying the obstacle factors which exist in the field is the important effort for further land and building tax optimalization to increase its revenue. Until now, the irresponsible taxpayers are always made as a reason of not reached targets. It could be true that there are still more irresponsible taxpayers but however local government should try to solve this problem, not only blaming.

**4) Controlling**

**a. Surprise Audit to Complement Self-Assessment Procedure**

Self-Assessment are the best way for paying tax that taxpayers could calculate their land and building tax debt by themselves. It could increase the trust of society as taxpayers to the local government. In Sumedang case,

giving information to taxpayers about how the land and building tax assessment can be done by socialization in every village or sub-village as government in the lowest level. But if local societies look lazy to get listening in socialization, local government can make attractive brochures about land and building tax then delivering them to all taxpayers. The heads of sub-villages can do this task easily because almost all citizens or villagers who own land, house or building are the subject of land and building tax. By direct socializations or indirect socializations (for example: brochures), hopefully they could increase the responsibility of taxpayers to pay their tax debt.

**b. Improving the Control Process**

This control process should be done from the beginning when information about land and building tax data are collected. Data written on the registration form must be the same with reality in the field. The capable and responsible staffs are also needed in doing this control process. In Sumedang rural areas, there are still more lands or houses which have not been certificated, meaning there are not any data written about the size/width of lands and/or buildings. In this case, the measurement of lands and buildings is needed to be done. Besides controlling data of objects, another important thing is controlling process in reporting revenue collection, meaning that the accurate and up-to-date data on reports is a must. However, financial reports are the final version of all government efforts. These will be made as bases of all local government policies. There is still some problem related to this in Sumedang that when the data is needed for taking decision, it can not be got as soon as possible (for example when there is a meeting between executive and legislative).

**c. Efforts to Enforce a Strict and Heavy Penalty for Non-Compliance**

This action begins when it is sent Tax Claim Letter (Surat Tagihan Pajak/STP). There are reasons in sending this letter to the taxpayer if several cases bellow happen:

- a) Taxpayers are late to pay their tax debt, meaning that it is more than 6 months after receiving the Tax Debt Information Letter (SPPT).
- b) Taxpayers are late to pay their tax debt, meaning that it is more than 1 month after receiving the Tax Assessment Letter (Surat Ketetapan Pajak/SKP).
- c) Taxpayers pay their tax debt after the deadline without paying its fines. In this case, the amount of fines must be paid is 2% per month but not longer than 24 months.

This Tax Claim Letter (STP) should be responded by taxpayers not more than one month after its receiving date.

Efforts to enforce a strict and heavy penalty for non-compliance are hard to be applied in Sumedang district, even for the fines because of low responsibilities of taxpayers. So, until now giving strict penalties has not been done.

**d. Administrative Discipline to Financial Staffs that may have contributed to the Leakage in Local Revenues.**

In this case, besides it must be a great concentration on controlling beginning with the administration mentioned above, it is also needed the simultaneous controlling in the land and building tax payment process.

To be able in doing controlling process, there are many institutions or staffs/officials which are included in this process. So, it will be better to present the payment process first. It could be done in several ways or choices below:

1) Non Place Payment System (Non Sistem Tempat Pembayaran)

a) Determined Bank

Taxpayers can pay their tax debt at a bank in local level where the tax object taking place, this bank is determined by the local government. There is a form must be filled by taxpayers called tax payment letter (Surat Setoran Pajak/SSP). After paying their tax debt, every taxpayer will get two copies of that letter, one of them should be sent to the land and building tax servicing and the other is kept as archive.



b) Post Office

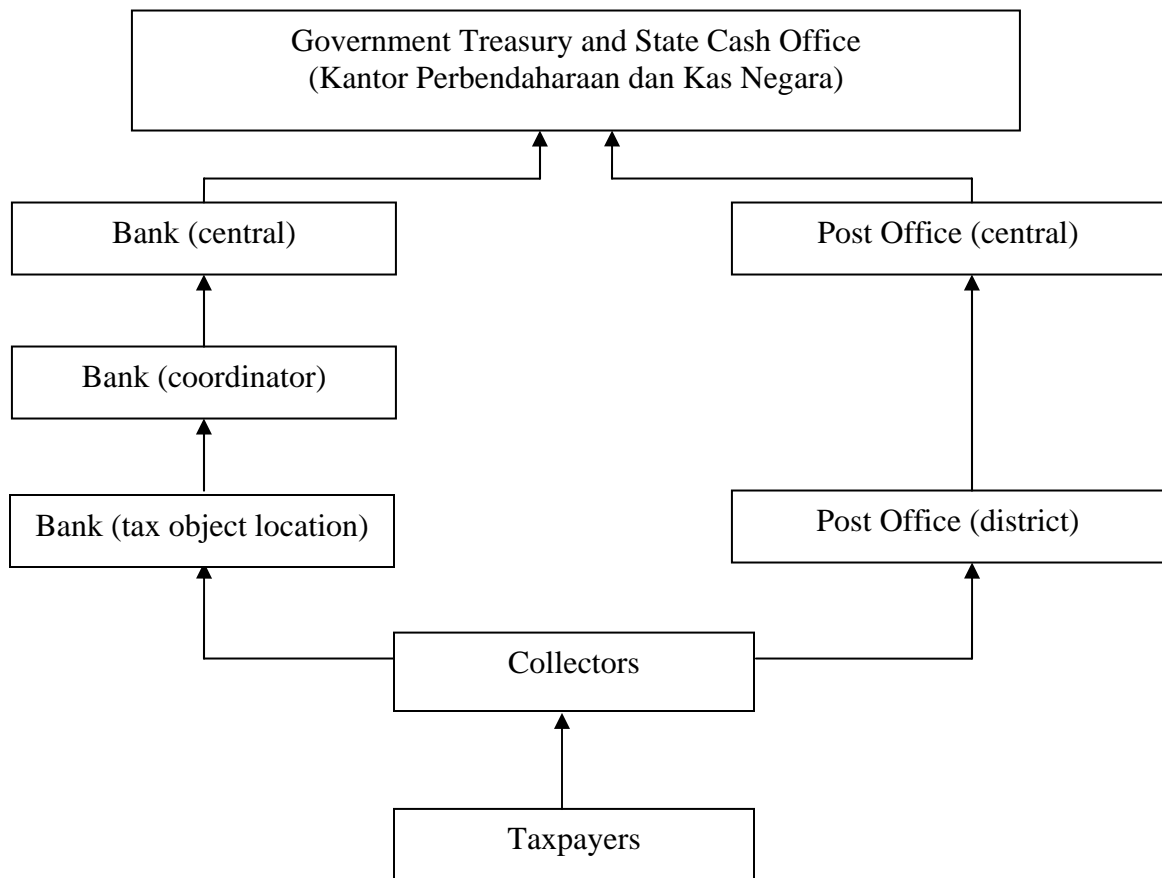
The process is quite similar as paying in a bank, the taxpayers will get two copies of the tax payment letter (SSP), one of them should be sent to the land and building tax servicing and the other is kept as archive.

c) Collectors

Taxpayers pay their tax debt to collectors based on collecting area where the object tax is located. After giving an amount of money, taxpayers will get a receipt as a payment proof. In 24 hours, collectors must deliver their tax collection to the bank or post office.

In order to have a clearer feature, below is presented a furrow of this payment process:

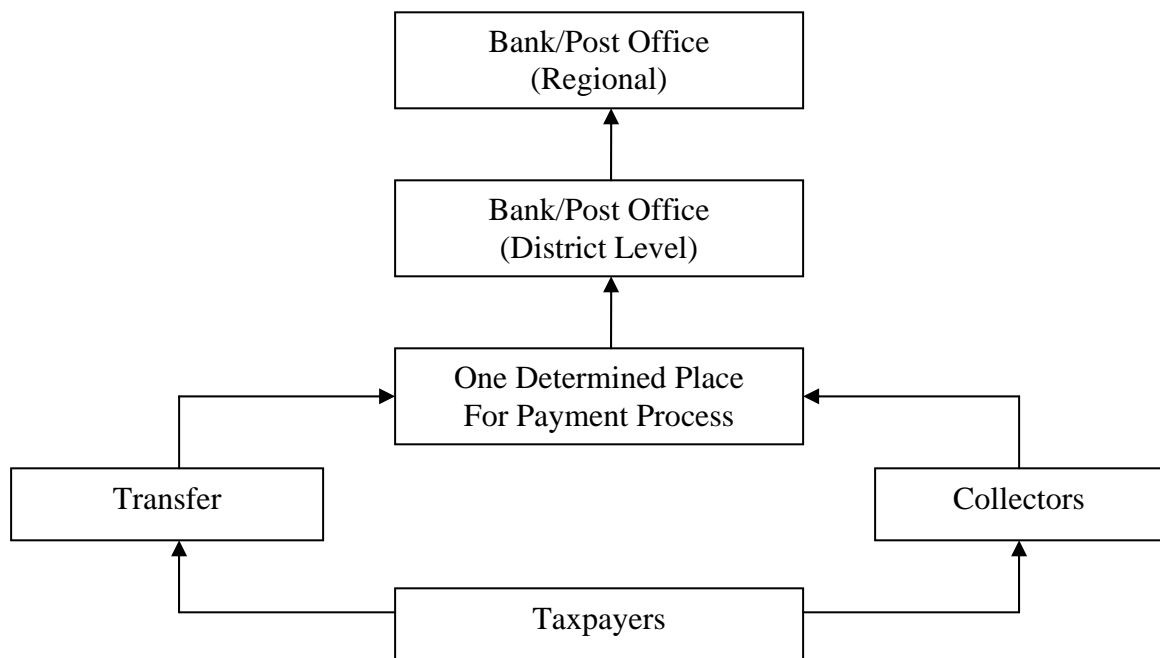
**Figure 4.2.1  
Non Place Payment System**



2) Place Payment System (Sistem Tempat Pembayaran)

In this system there is only one place for paying tax debt without any installment. The delivery of tax debt information letter (SPPT) is done in the same time, so the due to time is the same for all taxpayers. For new objects, the due to time is one month after the receiving date of tax debt information letter. The payment more than the due to time will be charged 2% fines every month. The furrow below is shown as a place system payment:

**Table 4.2.2**  
**Place Payment System**



The implementation of land and building tax payment in Sumedang regency is done by two ways:

- 1) Taxpayers directly pay their tax debt to the places which are determined in the tax debt information letter (SPPT).
- 2) Taxpayers pay their tax debt to collectors which are determined in the regent decision letter (Surat Keputusan Bupati/SK).

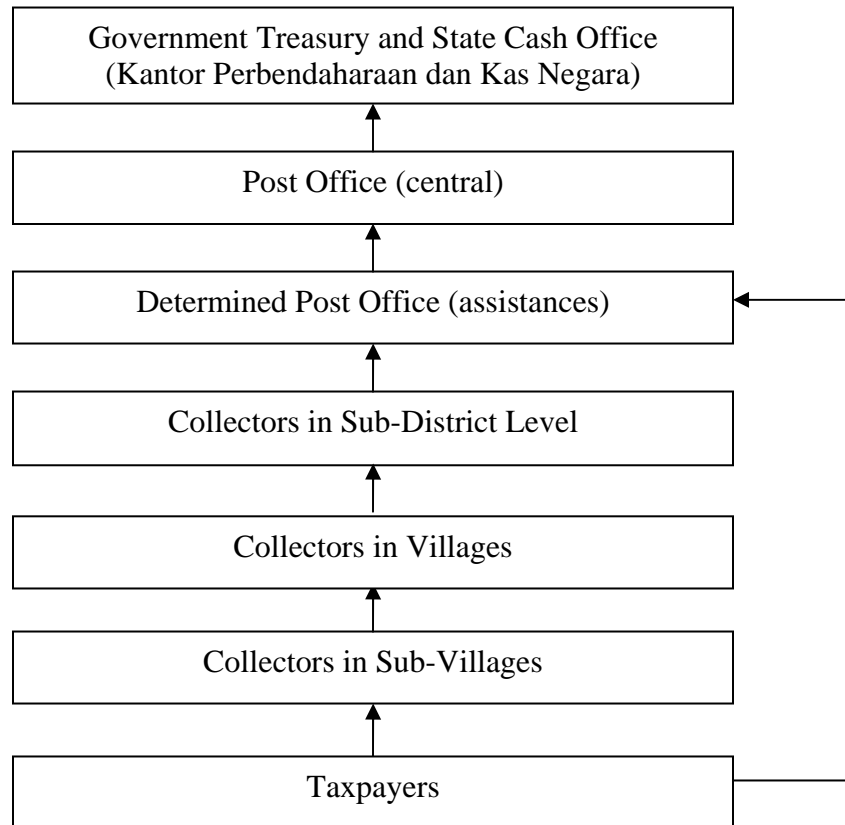
Land and building tax payment for rural and urban sectors are mostly done by collectors because of geographic factor and responsibilities for paying tax are still low.

Regarding to this case, in the Sumedang's Regent Decision Letter number 7 year 1992 about Land and Building Tax Collection Procedures, there are several things should be considered:

- a) Land and building tax payments are paid by taxpayers through determined post offices.
- b) For land and building tax payment in rural and urban sectors which are covered in the tax determination list book (Buku Daftar Himpunan Ketetapan Pajak), it could be paid through post office or collectors.
- c) Tax payment must be paid as a whole without any installment.
- d) All tax debt information letters (SPPT) are signed by the head of land and building tax servicing office (Kantor Pelayanan PBB Garut).
- e) In every village there are collectors which consist of village's government officials and people who are proposed by the head of government office (Desa/Kelurahan) after having recommendation from the head of sub-district (Camat).
- f) In every sub-district, there is an intermediary collector which is proposed by the head of sub-district (Camat).

Here is presented a furrow showing the implementation of land and building tax payment in Sumedang Regency:

**Table 4.2.3**  
**Land and Building Tax Payment Implementation Process in Sumedang Regency**



After looking at the explanation above that so many institutions and staffs in long procedures are included, it makes the controlling process more difficult to be done. Again, this shows that simplifying procedures and efficiency are very important to be considered.

**e. Efforts to Link Tax Payment with Services Provided by Local Government.**

It has not been done and societies do not know because there is not any information about where the service funds come from. Sumedang local government should make some socialization about this. It will increase the gains of local revenue by increasing number of responsible taxpayers.

## 5) Planning

### a. Set up a New or Improve the Existing Revenue Planning.

Looking at all explanation above, it is shown that the planning activities have not been looked as crucial thing. In fact actually this is a very important step before doing other actions. Thinking about why targets are not reached since eleven years, it emphasizes that the planning of the land and building tax has not been good. Sumedang local government should realize that the better the planning, the higher the revenue gains will be. Planning can be done in three parts based on time division including short, medium and long term. In this case, local government should make some priorities. Improving administration system can be put in short term planning. It must be done from the very early starting point, beginning from when data are collected until reported. For medium planning, increasing staff capacity by using new technology will support to improve administration system which has been set up in the short term planning. Proposing the land and building tax as a pure local tax can be put in the long term planning, it will help the local government to have more power and freedom in managing this tax based on its local potency then its results are used for fulfilling the needs of local society.

### b. Set up Good Coordination with Related Agencies to Create a New Potential Revenue Bases.

There are also some problems related to coordination in managing land and building tax in Sumedang district, long procedures and hierarchies of administration system make the coordination more complicated. It should be realized by all related institutions that they have the same objective and goal in reaching targets and increasing local revenue. So, it is no need to have some misunderstandings among them. Good planning which has been set up on the first step will be useless if it is done without good coordination. Looking more precisely to each job description will accelerate the achievement process. Making planning can be best done based on problems to be solved and expectation to be reached. Then because the land and building tax is still

a revenue sharing tax, besides improving coordination internally, it is also needed to have a good coordination with related institutions outside local government. This external coordination could be done with Land and Building Tax Servicing Office and higher government levels.

### 4.3. Land and Building Tax Target Determination

Although targets are still lower than the real local potency but as explained before (on table 4.1.1) that they have not been reached since the recent eleven years. There is a problem in determining target every year. The valuation of lands and/or buildings is not based on the recent prices. This cause the amount of targets which are made far from the real local potency meaning that it will create lower revenue than it can be. Determining the target covers three factors including coverage, tax rate and tax base, meaning that local government should know exactly how many objects that Sumedang has. Below is presented numbers of land and building tax objects in every sub-district in Sumedang until the year of 2007:

**Table 4.3.1**  
**Land and Building Tax Objects with Targets and Realizations**  
**For Every Sub-District in Sumedang**

Number	Name of Sub-District	Number of Objects			The Amount (In Million Rupiahs)		
		Targets	Realization	%	Targets	Realization	%
1	Jatigede	29,941	29,941	100.00	141	141	100.00
2	Cibugel	12,434	12,434	100.00	39	39	100.00
3	Cimalaka	35,536	35,536	100.00	434	434	100.00
4	Ganeas	17,865	17,865	100.00	152	152	100.00
5	Tanjungkerta	30,845	30,845	100.00	320	320	100.00
6	Cisarua	17,543	17,543	100.00	193	193	100.00
7	Jatinunggal	36,054	36,054	100.00	221	221	100.00
8	Wado	27,980	27,980	100.00	106	106	100.00
9	Darmaraja	20,705	20,705	100.00	99	99	100.00
10	Situraja	36,704	36,704	100.00	370	370	100.00
11	Tanjungmedar	26,490	26,490	100.00	205	205	100.00
12	Buahdua	43,297	43,297	100.00	338	338	100.00
13	Conggeang	42,684	42,684	100.00	339	339	100.00
14	Tomo	21,962	21,962	100.00	221	221	100.00
15	Paseh	29,640	29,640	100.00	357	357	100.00
16	Sumedang Selatan	38,102	38,102	100.00	632	632	100.00
17	Sukasari	22,801	22,801	100.00	161	161	100.00
18	Rancakalong	37,366	37,366	100.00	307	307	100.00
19	Surian	14,567	14,567	100.00	133	133	100.00
20	Pamulihan	34,800	34,800	100.00	313	313	100.00

21	Cisitu	30,547	30,547	100.00	272	272	100.00
22	Tanjungsari	30,433	30,433	100.00	428	428	100.00
23	Sumedang Utara	32,440	31,211	96.21	877	848	96.76
24	Ujungjaya	22,375	20,076	89.73	253	213	84.19
25	Jatinangor	27,361	16,212	59.25	1,059	624	58.92
26	Cimanggung	30,268	17,257	57.01	583	343	58.83
Total		750,740	723,052	96.31	8,553	7,809	91.30

Source: Sumedang Revenue Agency

We can see that most of sub-district has fulfilled its target but in fact there are problems behind it. First, as mentioned before the target is not based on recent prices of lands and/or buildings. Second, there are still uncovering objects whose owners have not been identified yet. Third, the head of villages often pay for their irresponsible villagers/taxpayers. They do that to show good performance to the local government, there is a reward for a village and sub-district which could reach the land and building target faster. Although for local government it does not matter from where the money comes but this case shows actually there are still many problems with irresponsible taxpayers. The latest four sub-districts mentioned in the table are located in urban areas. Something ironic, people who are expected to have more good behaviors in paying tax because they might have more knowledge about taxation but the reality shows there are also have higher number of taxpayers who do some evasion.

Regarding to the target determination, after making sure in covering data about land and building tax by finding number of objects exactly and measuring their sizes correctly based on realities in the field, then Sumedang local government should be able to make accurate data base of its land and building tax. Local government can start to create target from that data base following the assessment rule including tax rate and land and building price classification. The problem here is that its price classification has not been updated for a long time, this cause the gains of land and building tax are lower than it can be based on its real local potency. Making accurate targets is very important as the objective to be achieved for increasing local revenue to fulfill local expenditure in running development process. Making accurate targets and effective policies to have efficient efforts in managing the land and building tax should be thought seriously by local government to solve its problem.

#### **4.4. Possibilities to Increase Revenue from the Land and Building Tax**

All the explanation above emphasizes that there are still many possibilities to increase land and building tax as a dependable source of revenue. Besides many uncover objects have not been identified because of unclear owners, the assessment of land and building tax has not based on its recent prices. Decreasing number of irresponsible taxpayers by tax socialization will also accelerate the efforts to increase land and building tax gains in supporting local revenue. Increasing this tax will not create any distortion to the economy of Sumedang district. It has been considered about equity, so the higher the welfare then the higher the tax, meaning that only people who have more lands and/ or buildings will pay more and there also classifications among locations which differentiate the value of them. For such situations, like disasters or fail in businesses, it has been provided some rules to accommodate those conditions, so it is very flexible for the society no to have a burden feeling and in fact until now there are no objection to the way which land and building tax is assessed.

From local government side, the land and building tax is a predictable and stable tax. This should make the local government easier to predict the gains that can be got by optimizing all related factors including tax bases, controlling, tax collection requirements, administration and planning. In managing the land and building tax, Sumedang local government should consider those important factors to be optimized as efforts to increase its revenue. In this case, it seems that information about them is essential to make effective policies. Making a good planning for every year must be done by all related institutions in order to reach targets. All of those institutions should be in the same track to reach the same objective in reaching targets and the same goal in increasing Sumedang local revenue. What local government does should be for the importance of the society, there will not be a burden feeling from the society side, so the relationship between them should be like partners in running development process. By having the same understanding about what for the land and building tax is taken, it creates additional possibilities to increase local revenue by increasing numbers of responsible taxpayers.



#### **4.5. Possibilities to Make Land and Building Tax as a Pure Local Tax**

Proposing land and building tax as a pure local tax seems as an essential case, because when local government does its job to optimize this tax, there are many problems because of less authority. For example, almost all regulations come from central government. Local government also does not have rights in determining tax rate, the authority which is given by central government only for tax collection. Fiscal decentralization which is booming in local autonomy era should give more power to local government not only in managing local expenditure but also local revenue, meaning that local government is free to create regulations and determine its tax rate based on inspirations of its local society, so the equity among taxpayers will be more guaranteed.

According to all criteria which have been mentioned in the theory part (literature review), they show that land and building tax is really possible to be a pure local tax, so the result of its revenue can be taken 100% by local government for running development activities. Let's we recall again then it can be analyzed one by one. First, land and building tax has fulfilled every point what Law number 34 of Republic Indonesia stated as criteria of local tax. This law is created by having agreement between executive board (government) and legislative board (national house representative), meaning that it should be no doubt for getting the land and building tax as a pure local tax, not only as a revenue sharing tax because that rule is a national consensus. It is said that the tax object should be residing in the area of the region, with low mobility and residential based population and tax potential should be significant, these statements are suitable with the facts related to land and building tax.

Considering what Spahn (1999) has emphasized that there are several considerations a local tax including local accountability, the benefit tax link, non distortion principle, regional/local equity and administrative simplicity. It is clear that if land and building tax can be taken as a pure local tax, those criteria mentioned will be better applied. Another reason, local government knows much about its local potency. Local accountability will be not in the long hierarchy as well as the way in simplifying administration related to coordination process; it can be just between local government and local parliament as representative of local society. Although it is still

needed to make some reports to the higher government levels. The benefit tax link will be easier to be done because local government as the one who acts very closely with the society can do direct socialization by explaining to what kinds of expenditure that the land and building tax goes for. It has been explained before that the land and building tax does not create any distortion because it has been considered about equity, in this case by having this tax as a pure local tax will make equity better because it is thought regionally. It can be said that if land and building tax can be taken as a pure local tax, Sumedang local government will have more authority in making any effort to optimalize this tax to reach targets then local revenue will crease automatically.

## Chapter 5

### Conclusion and Policy Implication

Fiscal decentralization should be applied to both sides including revenue and expenditure. By having more authority in revenue side, local government could manage the local potency for the welfare of society. Then the authority given is used to increase local revenue in fulfilling their expenditure targets. Increasing revenue should be followed by wise spending, meaning that local government expenditure can be more developmental, in the sense of alleviating poverty and fostering growth. Expenditures on human capital are growth enhancing. This can be done by both local and central government. But local expenditures may be better targeted towards the poor. In this case, local government as a part of society should act as a facilitator by considering all decisions based on the importance of society, the principle that everything should be taken from inspirations of society, by society and for society. It means that local government should make more social priorities for the welfare of society.

Looking at the situation and condition in Indonesia, it is hoped that fiscal decentralization may also reduce conflict and indirectly therefore also help growth and poverty reduction (Murshed and Tadjoedin, 2008). Fiscal decentralization is also part of the improved governance agenda for the donors, especially the World Bank in their programme lending to countries like Indonesia, following the crisis of 1997. In this local autonomy era, all regions struggle to explore their local potency for funding their local expenditure for the needs of society with a great concentration on the poor.

Sumedang is one of many districts in Indonesia which also tries to optimize its local potency. Land and building tax has a big contribution to its local revenue, optimizing it can give significant increasing to the local revenue as a whole. This is why the land and building tax is mentioned as a dependable source of Sumedang revenue. To make a clear conclusion about *optimizing the land and building tax in fulfilling targets*, the explanation in this part will be presented as well as answering the research questions. Regarding to the main research question, “*Is the land and building tax efficiently collected*”, the answer to this research question is “*not yet*”. Then coming to its sub questions, first “*Have the targets been met?*” as mentioned in the

analysis part that based on the real local potency the targets have not been met for the latest eleven years. Second, “*Are there any possibilities to increase the revenue from the land and building tax without creating any harmful distortions?*”, the answer to this question is “yes, because without forgetting the equity issue among societies, the real local potency of land and building tax is still big enough to be explored besides the valuation has not been done based on the recent prices”. And third, as the last research question “*Is it possible to have the land and building tax to be a purely local tax when its results could be taken 100 percent for local government?*”, the answer to this question is “yes, because land and building tax has all criteria a local tax which is residing in the area of the region, with low mobility and residential based population”

For further explanation in answering all those research questions, the table below will accompany our thinking to have precise conditions by differentiating between what really the problems are and what Sumedang local government has to do to deal with those problems in the form of policy implications:

**Figure 5.1**  
**Problems and Policy Implications**

<b>PROBLEMS</b> <b>(Based on Indicators and Sub Indicators)</b>	<b>POLICY IMPLICATIONS</b>
<p><b>Tax Bases</b></p> <ul style="list-style-type: none"> <li>• <b>Identifying new potential taxpayers</b> Running this process, ideally it should be no problem because new taxpayers can be identified by its objects. Land and building can not be hidden by taxpayers, but there are still problems related to irresponsible taxpayers, especially they who live outside of Sumedang district, in this case the cost of data and tax collection could be higher. There is also another problem because of unclear owners of lands and/or buildings.</li> <li>• <b>Improving object data bases</b> The problem is that Sumedang local government does not have data bases which cover all information needed in the reassessment process.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Seeking for new taxpayers.</b> Sumedang local government should pay more attention to this problem by giving socialization about the important of paying land and building tax and also explaining to what kind of public goods or services that this tax goes for. It will eliminate a burden feeling of society, because finally they see what they paid are got back in the form of welfare in fulfilling their needs.</li> <li>• <b>Data Verification</b> To have good data bases, it is needed to implement verification process meaning that local government should be always</li> </ul>

<p>Its data bases are only about objects and subjects of land and building tax. The recent price information of land and building has not been included yet. The price classification of lands and buildings has not been updated since a long time. This cause other problems related with inaccurate targets and lower gains of land and building tax.</p> <ul style="list-style-type: none"> <li>• <b>Improving valuation (reassessment of tax objects)</b> The valuation is not based on the recent prices of lands and buildings, this make lower gains of land and building tax because of lower targets which are determined below the real local potency of Sumedang district.</li> <li>• <b>Calculating the revenue capacity for each type of tax.</b> Now, although in fact targets are still far from the real local potency, but the realization of the land and building tax gains have not reached its targets. So, targets are still not shown as representatives of actual revenue capacities.</li> </ul>	<p>active in updating all related information about land and building tax. Besides it can help local government in assessing how much tax debt must be paid by each taxpayer correctly, this data information will be important to determine the real target should be achieved in every year. Data bases are vital, only by having accurate data Sumedang local government can optimize the revenue from the land and building tax. In this process, local government should make verification or cross check between the data which are given by taxpayers with realities in the field. If there is a strange condition, measuring the real size of land/or building is a must. The information about recent prices of lands and buildings should be put into account by always updating land and building classification in every year. Making accurate data bases needs serious willingness from local government and its staffs, because it is a hard job as a foundation in applying further steps of efforts in optimizing land and building tax.</p> <ul style="list-style-type: none"> <li>• <b>Valuation Update</b> Updating the price classification of lands and buildings should be done in every year based on the information which is available among societies in the field.</li> <li>• <b>Finding the Real Local Potency</b> Revenue capacity can be calculated by finding the real local potency of Sumedang district. Several steps should be done which are related to tax rate and tax base and coverage. First, making calculation of every object based on land and building tax formulation then second we can sum all amount of tax objects in Sumedang district as a revenue capacity.</li> </ul>
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<p><b>Controlling</b></p> <ul style="list-style-type: none"> <li> <p><b>• Surprise audit to complement self-assessment procedure</b>  Self assessment payment system has not been applied in Sumedang district because there are still many low responsibilities taxpayers.</p> </li> <li> <p><b>• Improving the control process</b>  It is related to the controlling of the land tax objects. There are still more lands or houses which have not been certificated or having no written data about the size/width of lands and/or buildings.</p> </li> <li> <p><b>• Efforts to enforce a strict and heavy penalty for non-compliance.</b>  Up to now giving strict penalties has not been done, even for the fines because of low responsibilities of taxpayers.</p> </li> <li> <p><b>• Administrative discipline to financial staffs that may have contributed to the leakage in local revenues.</b>  There are many institutions or staffs/officials with long procedures included in this process including Revenue Agency Staffs with other government officials till the lowest level government in villages, Determined Banks, Post Offices and Collectors. But the administrative discipline to financial staffs has not been looked as a crucial thing.</p> </li> </ul>	<ul style="list-style-type: none"> <li> <p><b>• Let taxpayers know how to calculate their land and building tax debts.</b>  If taxpayers are able to calculate and pay their tax debts by themselves, it will make Sumedang local government easier in doing efforts to optimize land and building tax. This can be done by giving information about land and building tax assessment process. By letting them to know its assessment process, it could increase the trust from taxpayers to Sumedang local government. Local government can make direct socialization or indirect socialization in kind of attractive brochures. The heads of sub-villages are the closest ones, so local government can use them in doing this effort.</p> </li> <li> <p><b>• Tax Object Monitoring</b>  Object monitoring process should be done every year by checking all written data on the registration form with the facts which are shown in the field. For some cases, it will be needed re-measurement.</p> </li> <li> <p><b>• Applying the rule as it should be.</b>  Trying to give some consequences gradually for irresponsible taxpayers based on the rule to enforce them in paying land and building tax.</p> </li> <li> <p><b>• Applying Reward and Punishment</b>  Besides simplifying procedures and efficiency are very important to be considered, there should be some reward or punishment to financial staffs in order to increase controlling process for preventing the leakage in local revenues.</p> </li> </ul>
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<ul style="list-style-type: none"> <li>• <b>Efforts to link tax payment with services provided by local government.</b> Giving information about to what kind of expenditure that the land and building tax goes for has not been done yet. So, the society do not know from where the services provided by local government.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Socialization</b> The socialization should give explanation about how important the land and building tax which is paid by the society as taxpayers for running development process in fulfilling their needs and welfare.</li> </ul>
<p><b>Tax Collection Requirements</b></p> <ul style="list-style-type: none"> <li>• <b>Optimum rate structure</b> <b>Altering tax rate to bring more revenues (increase tax rate or decrease tax rate to incentive people to pay).</b> Increasing tax rate is looked impossible, now with the same tax rate with the previous year, targets based on real local potency have not been reached. Then decreasing tax rate is also hard to be done because the land and building tax is a dependable source of revenue. Although up to now there is no objection about the amount of the tax rate, but if for some reasons/cases, it is needed to increase/decrease tax rate, the problem is the authority to change tax rate still determined by central government.</li> <li>• <b>Appropriate rules and regulations</b> <b>Speed up with the formulation of new PERDA.</b> In the case of Sumedang district, PERDA or local government regulation related to land and building tax has not been done. The authority which is given by central government is only on tax collection, so all of regulations are come from central government.</li> <li>• <b>Human Resource Capacity</b> <b>Training or retraining financial staff in order to improve revenue performance</b> In Sumedang case, training or retraining staffs which are related to land and building tax performance is still rarely done.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Proposing the land and building tax as a pure local tax.</b> To be able in determining tax rate, it is needed to propose land and building tax as a purely local tax when a local government can have a full authority in managing land and building tax.</li> <li>• To have the authority in making regulation, again it needs to make land and building tax as a pure local tax.</li> <li>• <b>Applying job Training/retraining intensively.</b> Improving performance of financial staffs are essential including they who work for collecting data or revenue and who make them in forms of financial reports. These</li> </ul>

	<p>jobs need special skills, so applying job training/retraining is very important.</p>
<p><b>Administration</b></p> <ul style="list-style-type: none"> <li>• <b>Improving the existing tax administration procedures/administrative simplification.</b> The tax administration procedures is not simple, especially in payment system the hierarchy is very long. It is also one of several reasons why targets are not reached on time. The revenue from land and building tax which comes late will be written on the next year revenue report.</li> <li>• <b>Efforts to calculate collection efficiency for each type of revenue.</b> It has not been done. The focus is only in increasing revenue from land and building tax as much as possible without thinking deeply about the collection efficiency.</li> <li>• <b>Efforts to reduce cost of collection.</b> Land and building tax collection is still not considering about cost. It can be shown by the facts that data collection or revenue collection always includes too many staffs. Especially for rural areas, because of its geographical condition, they usually live there for several weeks and their living cost and extra fee must be paid by local government, it means increasing revenue in one side while creating more expenditure in another side.</li> <li>• <b>Efforts to eliminate the identified factors in the field that has contributed to sub-optimal revenue.</b> Irresponsible taxpayers are always made as the only reason of not reached targets by ignoring any other factors which could be also hindrances in revenue collection.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Simplifying administration procedure.</b> Making sure that the administration procedure does not create hindrances to taxpayers in paying their tax debt. Trying to eliminate too many numbers of forms which should be filled by taxpayers and making shorter the long hierarchy procedure in payment process. Then thinking about possibilities that taxpayers could pay their tax by using internet access or they can pay their tax debt from any kind of account bank they have to only one account number which is determined by local government.</li> <li>• <b>Applying efficient revenue collection process.</b> Considering efficiency in every activity related to all kind of efforts in managing land and building tax collection should be put also into priorities.</li> <li>• <b>Applying Cost-Benefit Analysis</b> Making cost and benefit analysis will be very important to keep away from some useless efforts.</li> <li>• <b>Finding obstacles/hindrances</b> Sumedang local government should Identify all obstacle factors in details, so efforts to solve them will be effective.</li> </ul>



## Planning

- **Set up a new or improve the existing revenue planning.**

There are many problems in doing efforts to optimize gains from the land and building tax. Not all of those problems have been set up in the planning. Exploration about real local potency has not been put as first consideration in making actual targets. The price classification of lands and buildings has not been revised since a long time.

- **Set up good coordination with related agencies to create a new potential revenue bases.**

In managing land and building tax in Sumedang district, there are still problems because of miscommunication among agencies. This makes some obstacles to accelerate the achievement of targets.

- **Making Planning Based on Problems and Expectation**

The effective ways in making planning is by considering all problems happen in the field and what expectations that Sumedang local government really wants to reach as priorities. The planning could be divided into short, medium and long term. For *short term*, Sumedang local government can improve administration system beginning from data collection until presenting the gains of land and building tax collection in the best report performance. By having accurate data will help government in making any decision related to expenditure and also in planning the next revenue collection. Increasing staff capacity to make better revenue performances can be done in the *medium term planning* by applying newest technology to accelerate administration process. Then for *long term planning*, it could be proposed that the land and building tax to be a pure local tax in order to have full authority in managing it and making its suitable rules for local societies as taxpayers by considering equity and no distortion to local economic condition.

- Coordination is very essential in applying all government efforts to optimize land and building tax because this process includes several institutions. Without good coordination, the achievement will be far from expectation. So, besides administration process, coordination also should be kept more attention. It is a must for Sumedang local government to run coordination intensively among its divisions in every activity to reach the objective of optimizing revenue from land and building tax. Looking at administration process above,

	<p>coordination among internal institutions in Sumedang district is including revenue agency, government in sub-district, villages and sub villages and local finance board. Coordination is needed beginning from data collection and revenue collection doing by the first four institutions has been mentioned until final data reporting by local finance board. Understanding the same goal and objective to be reached by all related institutions is very important in order to have a good coordination to reach land and building tax targets. Then because land and building tax is still a revenue sharing tax, Sumedang local government must do external coordination with the land and building tax servicing office. This coordination is including getting all land and building tax forms which are only made by that institution and reporting its achievement. This internal and external coordination should be arranged effectively by considering cost and benefit in every step taken.</p>
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The efforts to optimalize land and building tax should be planned effectively and wisely by considering all related factors as mentioned above and also factors among societies including equity, tax behavior and evasion. The formulation of land and building tax has included the equity consideration by differentiating the rate based on the value of land and/or building. Then regarding to tax behavior and evasion, it can be small possibilities for taxpayers to avoid this tax because their lands and/or buildings can not be hidden but in facts there are still many irresponsible taxpayers. These conditions are challenges for government to be solved. Although optimalization is not meant as maximalization, but looking into the real local potency of Sumedang district, there are still possibilities to increase revenue from land and building tax without creating any distortion.

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**APPENDICES:**

**Appendix A**

**Land Selling Price Classification**

<b>Class</b>	<b>Classification of Selling Price of Land (Rp/M2)</b>	<b>Selling Price Determination (Rp/M2)</b>	<b>Taxed Selling Price (NJKP) (20%)</b>	<b>Tax Debt/Liability Per M2</b>
1	> 3,000,000 – .....	3,100,000	620,000	3,100
2	> 2,850,000 – 3,000,000	2,925,000	585,000	2,925
3	> 2,708,000 – 2,850,000	2,779,000	555,800	2,779
4	> 2,572,000 – 2,708,000	2,640,000	528,000	2,640
5	> 2,444,000 – 2,572,000	2,508,000	501,600	2,508
6	> 2,261,000 – 2,444,000	2,352,000	470,400	2,352
7	> 2,091,000 – 2,261,000	2,176,000	435,200	2,176
8	> 1,934,000 – 2,091,000	2,013,000	402,600	2,013
9	> 1,789,000 – 1,934,000	1,862,000	372,400	1,862
10	> 1,655,000 – 1,789,000	1,722,000	344,400	1,722
11	> 1,490,000 – 1,655,000	1,573,000	314,600	1,573
12	> 1,341,000 – 1,490,000	1,416,000	283,200	1,416
13	> 1,207,000 – 1,341,000	1,274,000	254,800	1,274
14	> 1,086,000 – 1,207,000	1,147,000	229,400	1,147
15	> 977,000 – 1,086,000	1,032,000	206,400	1,032
16	> 855,000 – 977,000	916,000	183,200	916
17	> 748,000 – 855,000	802,000	160,400	802
18	> 655,000 – 748,000	702,000	140,400	702
19	> 573,000 – 655,000	614,000	122,800	614
20	> 501,000 – 573,000	537,000	107,400	537
21	> 426,000 – 501,000	464,000	92,800	464
22	> 362,000 – 426,000	394,000	78,800	394
23	> 308,000 – 362,000	335,000	67,000	335
24	> 262,000 – 308,000	285,000	57,000	285
25	> 223,000 – 262,000	243,000	48,600	243
26	> 178,000 – 223,000	200,000	40,000	200
27	> 142,000 – 178,000	160,000	32,000	160
28	> 114,000 – 142,000	128,000	25,600	128
29	> 91,000 – 114,000	103,000	20,600	103
30	> 73,000 – 91,000	82,000	16,400	82
31	> 55,000 – 73,000	64,000	12,800	64
32	> 41,000 – 55,000	48,000	9,600	48
33	> 31,000 – 41,000	36,000	7,200	36
34	> 23,000 – 31,000	27,000	5,400	27
35	> 17,000 – 23,000	20,000	4,000	20
36	> 12,000 – 17,000	14,000	2,800	14
37	> 8,400 – 12,000	10,000	2,000	10
38	> 5,900 – 8,400	7,150	1,430	7
39	> 4,100 – 5,900	5,000	1,000	5
40	> 2,900 – 4,100	3,500	700	3.50
41	> 2,000 – 2,900	2,450	490	2.45
42	> 1,400 – 2,000	1,700	340	1.70
43	> 1,050 – 1,400	1,200	240	1.20
44	> 760 – 1,050	910	182	0.91
45	> 550 – 760	660	132	0.66
46	> 410 – 550	480	96	0.48
47	> 310 – 410	350	70	0.35
48	> 240 – 310	270	54	0.27
49	> 170 – 240	200	40	0.20
50	> 170 – .....	140	28	0.14

Source: Finance Minister Decision Letter (S.K. Menteri Keuangan RI No. 174/KMK.04/1993)

**Appendix B**

**Building Selling Price Classification**

<b>Class</b>	<b>Classification of Selling Price of Land (Rp/M2)</b>	<b>Selling Price Determination (Rp/M2)</b>	<b>Taxed Selling Price (NJKP) (20%)</b>	<b>Tax Debt/Liability Per M2</b>
1	> 1,034,000 – .....	1,200,000	240,000	1,200
2	> 902,000 – 1,034,000	968,000	193,600	968
3	> 744,000 – 902,000	823,000	164,600	823
4	> 656,000 – 744,000	700,000	140,000	700
5	> 534,000 – 656,000	595,000	119,000	595
6	> 476,000 – 534,000	505,000	101,000	505
7	> 382,000 – 476,000	429,000	85,800	429
8	> 348,000 – 382,000	365,000	73,000	365
9	> 272,000 – 348,000	310,000	62,000	310
10	> 256,000 – 272,000	264,000	52,800	264
11	> 194,000 – 256,000	225,000	45,000	225
12	> 188,000 – 194,000	191,000	38,200	191
13	> 136,000 – 188,000	162,000	32,400	162
14	> 128,000 – 136,000	132,000	26,400	132
15	> 104,000 – 128,000	116,000	23,200	116
16	> 92,000 – 104,000	98,000	19,600	98
17	> 74,000 – 92,000	83,000	16,600	83
18	> 68,000 – 74,000	71,000	14,200	71
19	> 52,000 – 68,000	60,000	12,000	60
20	> 52,000 – .....	50,000	10,000	50

Source: Finance Minister Decision Letter (S.K. Menteri Keuangan RI No. 174/KMK.04/1993)