Abstract—Lacking in administrative capacity caused local tax agency lack in taxing capacity. Lack of taxing capacity brought a low contribution of a local tax to local government revenue in Indonesia, especially regency and city. The purpose of this research is to analyze local taxing agency capacity from the perspective of politics of taxation and to offer a recommendation for strengthening local taxing capacity. This qualitative research used in-depth interview of informants who are involved in local tax collection from several local governments. The result shows that lack of taxing capacity is influenced by two factors. First, it is insufficient authority of local tax agency to reflect local autonomy policy both from central and local government, and the second is too much political intervention that influences local tax agency. There are two alternatives to strengthen local tax agency taxing capacity. The first alternative is by strengthening local tax agency as local bureaucracy by empowering and enlarging the authority to execute local tax targets. The second alternative is by integrating local and central tax agency as an autonomous tax collection institution. In the latter alternative, local government receive local tax revenue from this institution based on each tax basis.

Keywords—politics of taxation; local tax agency; administrative capacity

I. INTRODUCTION

Entering the 21st century, there are two major forces that influence the world development policies, they are globalization and localization [1]. Globalization and localization have an important role in influencing the design and implementing development policies in various countries over the world. Slowly but surely, globalization and localization have become the definition of development itself. In this context, localization referred to decentralized [2]. Nowadays, decentralization has become a policy accommodated by many countries with its variety since it is seen as having various advantages including improvement in accountability, transparency and political participation as well as efficiency to provide public services that correspond with people's preferences [3].

Along with trends in various countries, Indonesia also accommodates decentralization policies that hand it some functions of the central government to the regions. The types of functions that must be provided by local governments in Indonesia, both provinces and districts/cities are relatively large around 26 obligatory functions plus several optional functions in accordance with the conditions of each region (according to the regulations that apply when the research is carried out, Article 13 and 14 of Act No. 32 of 2004 concerning Regional Government and Government Regulation No. 38 of 2007 concerning Distribution of Government, Provincial Government and Regency / City Government Affairs). This transfer of functions has consequences for the obligations of local governments to provide public services to the public. The policy to hand over matters to the regional government was also followed by a policy of financial balance between the central and regional government that stipulated in Law No. 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments. This law regulates the sources of funding for the implementation of regional government affairs.

Public services need good financial management capacity support. The regional financial management capacity consists of 2 main capacities, they are the capacity to generate revenue and manage expenditure/spending. The local government's capacity to obtain regional revenues consists of the capacity to obtain transferred income, grants, loans, and localized revenue. The capacity to obtain locally raised revenue is divided into the capacity to generate local taxes and retributions as well as revenues from local companies.

Nationally, the capacity to obtain locally raised revenue in Indonesia is still relatively low. Within the last six years, the ratio between localized revenue with total revenue tends to increase, whereas the ratio between Regional Transfer funds with total revenue tends to decrease. In 2008, the ratio between locally raised revenue with total revenues was 17.7 percent, it is up to 20.6 percent in 2013. In contrast, in the same period, the ratio between Regional Transfer funds with total revenues decreased from 79.7 percent in 2008 and it is decreased to 73.8 percent in 2013, although in 2011 it has increased to 79.0 percent (Financial Note and RAPBN 2014). Despite the increasing regional financial capability tendency toward finance government expanse, in general, the reliance of local governments on central government is still relatively large. This condition illustrates that there is a gap between the cost of public services to be provided and the ability of the region to finance it.
In order to strengthen regional capacity to obtain local taxes and local charges, the central government has given the authority to collect some taxes and levies to the regions as regulated in Law No. 28 of 2009. However, regional tax collection has not yet been running well. In 2013, the tax ratio of the region was estimated at 1.2 percent, or increased by 1.1 percent compared to 2012, while tax per capita reached Rp.410,475 / capita, or increase by 23.1 percent compared to 2012. Although the numbers are likely to rise, however, the tax ratio and tax per capita are still relatively low compared to GRDP and the population. This indicates that the area still has considerable potential to explore regional taxes as a source of regional revenue (Financial Note and RAPBN 2014).

A Research that conducted in Indonesia shows that several factors that affecting tax revenue are institutions (36%), economic capacity (29%), structure and economic activity (19%) and social demographics (16%) [4]. In other words, the institution is a crucial aspect to determine tax revenue. Referring to the results of the research, the institution is leverage to encourage tax revenues in Indonesia, including local taxes. Therefore, it is necessary to design a policy that will increase the capacity of local government's financial management to increase local tax revenues by increasing the institutional capacity of the local tax agency.

II. RESEARCH METHOD

The approach in this research is qualitative. Primary data in this research was obtained through an in-depth interview with key informants, who are stakeholders in research sites Depok, Bogor City, West Lombok Regency, Mataram and Pangkalpinang City in May - June 2014. The data then analyzed by using Miles's qualitative data analysis technique [5]. Beside interview, study literature and study documents that relevant to the study is done to provide a more comprehensive picture of the research problem.

III. RESULTS

The capacity for excavating local tax revenue is related to two things. First, regional authority in the area of local tax affairs that government received through the decentralization principle of the central government and local policy regarding the types, rates, and local tax management. Second, local government abilities to implement local tax policies that determined by the administrative capacity of the local tax agency. Nowadays, there are two variations of local tax agency in Indonesia either in provincial or district/city, they are Regional Revenue Service (Dipenda) and Regional Financial and Asset Revenue Management Office (DPPKAD). Dipenda or DPPKAD manages all types of local taxes as stipulated in Law No. 28 Year 2009 on Regional Tax and Regional Retribution. The amount of taxes that can be managed by the provincial government is five types of taxes, whereas for regencies / cities the amount of tax collected is eleven taxes, including the Rural and Urban Sector Building Tax evolved from the central government to the district / city governments from 2010. Additional amount from property taxes (PBB P2) require higher local tax agency administration capacity because this type of tax has a relatively large amount of tax object with a relatively large collection cost, especially for preparing tax object appraisers, taxing objects and developing IT systems [6]. That is why this research is conducted in the district/city government.

In terms of regional government, the success in exercising authority to manage local taxes can be seen from performance indicators as a result of government capacity organizations to carry out their functions, such as effectiveness, efficiency and sustainability [7]. The effectiveness of performance can be seen from the low gap between the potential of local taxes and the realization of regional taxes. Efficiency means the success of narrowing the gap between the potential of local taxes and their realization is achieved by a relatively low collection cost. In other words, Cost Efficiency Ratio, which is the ratio between the collection cost and tax revenue, must be less than 100% [8]. Effectiveness and efficiency should not only be achieved in one or a few times but take place in a sustainable manner, even though the external situation changes, such as the change in board members or regional heads. This issue of sustainability is important because the change of local government often has an impact on changes in performance. The success in achieving performance indicators (effectiveness, efficiency, and sustainability) is largely determined by the administrative capacity of the local tax agency.

Grindle proposed that to build an administrative capacity should cover three main dimensions, they are human resource development, organizational strengthening, and institutional reform [9]. The focus of human resource development is to provide employees with good technical competence and professionals to achieve organizational goals effectively and efficiently, such as through the development of education and training systems, payroll, improvement of work conditions and recruitment that ensures the fulfillment of competent employees. Organizational strengthening focuses on developing a management system to improve the performance of specific business operations. The management system includes an incentive system, employee utilization, leadership, organizational culture, communication, and organizational structure. In a broader scope, institutional reform is needed then focuses on broader institutions and systems including the supra environment of regional government structures. This institutional reform includes the development of regulations and policies on regional finance, locally raised revenue, both within the local government and the central government.

In line with Grindle's opinion on administrative capacity, the OECD states the ideal authority that the autonomous tax agency requires in order to carry out its functions properly [10]. This authority includes the management of budget, organization and planning expenditures, performance standards, recommendations, development and remuneration of employees, interpretation of rules and regulations regarding taxation, information technology, and sanctions, motivation and reinforcement.

IV. DISCUSSION

Based on data analysis in this research, the researcher obtained an overview of the limitations of local tax agency institutions. This limitation caused by weak tax capacity
which causes less effective regional income that derived from local taxes. Here are seven limitations of the institution.

The first authority is Budget Expenditure Management. The local tax agency has the authority to prepare the required budget, however in the process to determine the budget that involves the DPRD, the proposed budget is not necessarily approved. However, due to the limited budget of the regional government or since the proposed program is considered to have low urgency by the DPRD. For example, the budget for tax object census that carried out to update tax object data in the city of Mataram was not entirely approved by the DPRD so that the program was eventually adjusted to data collection for a very limited area (In-depth interview with the Regional Revenue Service of Mataram City, 2014).

The second authority relates to Organization and Planning. The planning and development of the local tax agency organization was carried out by referring to the institutional standards owned by the regional government as well as the central government regulations such as things that included in Government Regulation No. 41 of 2007 concerning Regional Device Organizations. Referring to this government regulation, local tax agencies are included in the department / operational agency category. This government regulation does not accommodate the uniqueness of the role of the local tax agency that is different from other services, namely producing tax revenue for the regional government. This causes that all organizational planning and governance processes cannot be adjusted to the main objectives of the local tax agency.

The third authority is related to Performance Standards. Based on the analysis of the discretion related to performance standards it is known that the local tax authorities in this research site only have discretion to determine the standard of service to taxpayers only (in-depth interviews with DPPKAD Depok City and Bogor City Dispenda). While discretion is related to the establishment of employee performance standards at the Regional Personnel Agency (BKD). Thus the limitation of discretion reflects that the local tax authority in this research site does not have the authority to determine employee performance standards related to the local tax agency's main function to produce tax revenue.

The fourth authority is Personnel Recruitment, Development, and Remuneration. Employee recruitment at the local tax agency is not only determined by the organization's need to administer local taxes, but also other policies from the local government and the central government. For example, the central government's policy to limit the ratio of employee salary expenditures to total spending on local authority has implications for employee recruitment policies. Another finding related to the development of human resources is that post-reform there was relatively large political intervention on employee transfers. As a result, the placement of employees is often not in accordance with the competencies they have. The civil service remuneration policy is generally the authority of the central government, namely the Ministry of Administrative Reform and Bureaucratic Reform (Ministry of PAN-RB), however, the regional government can provide additional incentives in accordance with the financial capacity of the region. The local tax agency remuneration is part of the tax collection cost so that the actual remuneration of local tax agency employees can be formulated with specific policies.

The fifth authority is the Tax Law Interpretation. The interpretation of the tax law is not clearly regulated in local government regulations so that there is doubt from the local tax agency about the authority to interpret tax regulations. This also occurs in the sixth authority related to enforcement, penalties and interest. This condition causes obstacles in tax collection such as collecting tax receivables through auction.

The seventh authority related to Information Technology. Local tax agencies tend to have considerable authority to determine the design and development of information technology systems and get support from local authorities and city/regency councils even though they are still influenced by the ability of local government budgets.

Based on the data that obtained from Dipenda or DPPKAD Depok, Bogor, West Lombok Regency, Mataram and Pangkalpinang City, it can be concluded that the local tax agency does not have sufficient authority related to the seven authorities. Based on the findings in the field, it is known that the limited authority possessed by the local tax agency is due to regulations that do not accommodate the special function of the local tax agency in its capacity to generate local tax revenues. In addition, the local tax agency also cannot avoid political intervention in its institutions. This shows the relative weakness of the position of politics of taxation owned by the Local Tax agency, which causes weak tax capacity owned by the local tax agency.

Nowadays, with the enactment of Law Number 23 of 2014 concerning Regional Government and also carried out by Government Regulation number 18 of 2016 concerning Regional Devices, in general, the local tax agency is in the supporting element implementing the financial sector. In article 72 and article 89 PP number 18 of 2016 it is stated that if the burden is large, then financial affairs can be carried out by two regional apparatus organizations. This of course depends on different conditions in each region. It is also possible to separate financial management and regional revenue. Even though there have been new laws and regulations, the issue of the barriers to the effectiveness of local tax agencies is possible. The seven basic authority barriers cannot yet be resolved by changes in existing laws and regulations because they are only adjustments to the new regional government policies. The analysis of PP number 18 of 2016 shows that regional taxes as part of regional revenues that were originally carried out by institutions in the form of offices (as the implementation of operating cores which are directly serving the community) are transformed into bodies that are regional technical institutions as supporting elements. serves other regional devices. Of course this is because financial management is an institution that supports the operation of implementing elements. With this position, the ability of the local tax agency to interact directly with the community is reduced. Further research is needed on its effectiveness and efficiency in supporting regional revenues.

Given the current situation and the results of this research, politics of taxation strengthening at the local tax agency can be done with two institutional alternatives. First, strengthening the
capacity of the local tax agency by strengthening and expanding the authority that is still limited, but still considering the context of regional autonomy and its relationship with the position of the central government. In this case, it is necessary to design a policy of the central government and regional governments that accommodate adequate authority for the local tax agency by referring to the OECD model. However, in the context of autonomy, the design of the local tax agency in each region can be varied depend on the local context and local choice of each region. This is both a strength and a weakness of autonomy. The ability to accommodate local context and local choice, on the one hand makes local tax agencies able to adapt to the conditions of each region better. This alternative keeps the level of autonomy high, but the local tax agency that is formed is often less effective and efficient. Ineffectiveness and inefficiency will basically reduce the ability of regions to finance public services and their development.

The second alternative is to form an autonomous state revenue department with the task of generating tax revenue for both the central government and regional governments. The task of the regional government to produce tax revenue will be transferred to this institution, but the results will be handed over to the regional government. The advantage of this alternative is that the institutions formed can work more effectively and efficiently because they have large and well-controlled autonomy and authority. In addition, this form makes the local tax agency avoid major political intervention because it has a better position of politics of taxation. However, this choice has a weakness because it is less able to accommodate local context and local choice. Of course, this reduces the level of autonomy and decentralization. The advantage is that regional tax revenues are larger, thus supporting local revenue. This also means strengthening the ability of regions to carry out public services and development.

V. CONCLUSION

The limited authority and relatively weak position of taxation from the local tax agency led to low administrative capacity to generate optimal local tax revenues. Strengthening politics of taxation is needed from the local tax agency by strengthening its authority. In the context of autonomy and decentralization, the choice to strengthen institutional capacity in the position of the local tax agency as a department / operational agent from the local authority seems to be an option that can be considered even though it seems that political intervention remains difficult to avoid. However, the choice of combining the local tax agency with the central government tax authority seems to be a rational choice if the priority is the efficiency and effectiveness of local tax collection. The first choice tends to prioritize the degree of autonomy that is greater than the effectiveness of the taxation, while the second option tends to prioritize the effectiveness of the taxation rather than the level of autonomy. The second-choice argument is that the more effective regional taxation will increase regional revenues. With the increase in regional revenues, it will increase the ability of regions to provide services to the community.

REFERENCES