

Changing Tax Culture to Increase Tax Revenue

Study on Property Tax in Bandung

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Abstract— Tax culture has been studied to find out its influence on taxpayers' obedience. The focus of this paper is tax culture related to property tax which has the largest number of taxpayers and receivables in Bandung City. The objective of this research is to find out the relationship pattern of the tax collector and the taxpayers after tax reform so that it can be known the advantages and obstructions in the collection of property tax. This research used the qualitative method, data were collected interviews, observations, and literature reviews. Tax reform conducted by the Bandung City Government has brought a change in the behavior of taxpayers. The number of on-time payers of property tax is increasing each year along with the increase in taxpayers' awareness for paying the tax. This condition will increase tax revenue.

Keywords: tax culture; property tax; tax reform; bandung.

I. INTRODUCTION

Local taxes are one of the potential powers in almost all regencies/cities in Indonesia, including in Bandung City, as one of metropolises in Indonesia. Over a period of last three years (2013-2015) the contribution of the sector of local taxes has been increasing with an average of 27.18% to local own-revenues (Reports on Performance of Government Agency [LKIP] of the Tax Service Office of Bandung City, 2015).

To increase various revenues of the tax sector, some strategies for managing local taxes have been developed through the delegation of fiscal authority to local governments, the efficiency of the revenue administration [1][2], the broadening of the tax base, the enhancement of taxpayers education, the improvement of tax collection [2] tax awareness and obedience [3][4][5]. Determination of the strategy for managing local taxes needs to consider the intrinsic aspect like tax culture in order to find out individuals' basic motivation in paying taxes and to understand taxpayers' behavior pattern. Hence, it can be determined the strategy for managing local taxes which is able to enhance tax awareness.

Studies on tax culture conducted through previous researches focused on working relationship between taxpayer

and the tax collector in the tax system. Tax culture has been studied particularly to find out its influence on tax payer's obedience [3][6] [7][8] revealed that tax culture is a crucial

factor in a tax organization. Tax culture affects the behavior pattern in the tax system and hence, without considering tax culture, the level of tax compliance will not be achieved.

In reference to that matter Chau and Leung [4] added tax culture, apart from four other groups, i.e. demographic, noncompliance opportunity, attitudes, and perceptions as the factors of behavior model of tax obedience according to Fischer. Likewise, a research conducted by Alm and Torgler [9] has found that there is a difference between tax compliance in the United States and Europe. The United States has the highest tax compliance compared to European countries due to the democracy system based on an active participation role in the political process in the United States that is able to enhance the public's loyalty to their country.

Considering the important role of tax culture, particularly in tax compliance, then the focus of this paper is tax culture related to one of local taxes managed by regencies/cities, that is, Property Tax (*Pajak Bumi Bangunan Pedesaan dan Perkotaan* [Rural and Urban Land and Building Tax]/PBB-P2) which has the largest number of taxpayers compared to other local taxes, reaching 544,936 taxpayers (2016) with the contribution to revenues of 25,71% of the total of local taxes and the highest level of receivables, that is, 914 billion (up to 2017), compared to other types of local taxes. This paper would analyze the relationship pattern between the tax collector and taxpayer, therefore the obstacle in the collection of property tax can be found. The research result can be used as the material in the formulation of policies as the strategy for managing Property Tax of Bandung City.

There are two approaches in learning tax culture, which have been conducted by some experts since 1940s. The first is the research which is based on taxpayers as the analysis unit. The second is the research which is based on the tax collectors as the unit analysis. This study focused on tax culture in the collection of property tax with the analysis unit of the tax collector, that is, the property tax division at the Office for Management of Local Revenues (*Badan Pengelolaan Pendapatan Daerah/BPPD*) of Bandung City. The study of tax culture by using the tax collector as the analysis unit focuses on the relationship pattern of the tax collector and the taxpayer. In this paper, a new relationship pattern affected by tax reform (policy and system reform) in increasing tax compliance would be examined.

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The research question of this research is how the relationship pattern of the tax collector and the taxpayers after tax reform. The objective of this research is to find out the relationship pattern of the tax collector and the taxpayers after tax reform so that it can be known the advantages and obstructions in the collection of property tax. The research result may be used as the material for formulating policies as part of the management strategy of Property Tax in Bandung City.

II. RESEARCH METHOD

This research used the qualitative method a case study approach was used for in the collection of property tax. The types of data used in this research combined primary data and secondary data. Primary data were obtained through interviews, while secondary data used the financial report of the City Government of Bandung since 2014 to 2017.

Informants of the research were key persons, who in this case were the division head of property tax and 4 staff comprising a field analyst, a back officer, a front liner, and IT technician, and representatives of the taxpayers. Data were collected from multiple sources, such as interviews, observations, and literature reviews. Therefore, the combination of data collection was expected to result in more accurate data.

The first stage in data analysis techniques was to reduce data; data collected during the research process were grouped by using the coding technique, discarding unnecessary data, and organizing data in order to facilitate conclusion drawing. The second stage was to present data, whether in the forms of texts, graphs, and tables. The third stage is to draw a conclusion by formulating a statement related to the research question. Meanwhile, the credibility of data was tested by using source triangulation.

III. RESULT AND DISCUSSION

Property tax is one of taxes which were initially managed by the Central Government, but since 2009 their management has been delegated to Local Governments (Regency/City). This delegation of authority is the largest mandate of taxes received by local governments because property tax has the largest number of taxpayers.

Based on this delegation, property tax will be fully obtained by the city/resident governments hence it is expected to be able to increase the amount of local own revenues. When property tax was managed by the central government, resident/city governments obtained only 64.8 % of it. After the delegation, all revenues obtained from the sector of property tax will be included in local governments' treasury.

However, the delegation effort faces a problem of previous receivables amounting to 600 billion (1995-2014). The large number of receivables is due to the weak effort to collect taxes at that time (the sending of the reminder letter to tax delinquents) and invalid databases which indicate the emergence of duplication of data on receivables. Taxation system of property tax which so far was managed by the central government has built its own tax culture. Taxpayers

frequently avoid paying property tax because there is the lack of penalty enforcement from the tax collector (KPP Pratama [Small Tax Office]). This finding was found in Russia, in which, when compliance levels are very low, they will cause large-scale tax arrears[10]. Therefore, after the transfer of property tax to local taxes, there are two main problems that must be solved by the City Government of Bandung, the large amount of tax receivables and the public behavior pattern that tends to avoid paying property tax.

Culture is dynamic and it shifts in response to external and internal changes between individuals, members of groups, and society [6]. The research result would see the change in tax culture after tax reform.

A. Tax Policy Reform

According to Hyun[8], the legal system is relatively more important factor to determine the level of tax culture than other branches of government, which eventually affects the level of tax compliance. For this reason, this paper would identify tax policy reform.

BPPD has organized the institutions, regulation, and facilities to respond this mandate. In order to address receivables of property tax, the policy imposed in 2017 is to update database by conducting the census of property tax to enhance the validity of data on the tax object. According to the informant of this research, besides disobedience, the large number of receivables is due to many doubled Letter of Notification of Owed Taxes (SPPT). Therefore, the data census is expected to be able to validate the value of receivables. The data validation of receivables is intended to confirm the correctness of the data. Correct information on data on receivables will increase the trust and awareness of taxpayers [11]. However, the level of trust and awareness of taxpayers related to valid data on receivables has not been able to be measured because the census has not been completed.

An update on data is also necessary to assure the correctness of data on the tax object. This is because based on the result of observation and interviews many people do not report the change in the area of building and land. Many people split their land due to inheritance and merge their land because of unreported change in the land expansion. Therefore, the census of becomes a milestone in tax reform in Bandung City.

Some local government policies to intervene the change in the behavior of taxpayers have been imposed since 2013, particularly policies leading up to the obedience of taxpayers. Among the policies are some regulations on the procedure for collecting property tax and the reinforcement of the procedure for billing property tax.

Characteristics of residences of a region may affect regulation on the management of property tax. An interview with the Head of Subsection of property tax has revealed that regions have local wisdom in settling the problem of property tax in their regions. The example is the problems related to the file of relief or even waiver of property tax in Bandung City. On average the file is submitted by retirees and elderly people who have objections to the tariff of taxes imposed on them. This condition indicates that not all taxpayers of property tax are able to pay taxes, as in the case of majority of other types

of taxes (such as hotel tax, restaurant tax, entertainment tax, etc.). Other types of local taxes are usually imposed based on the sales of goods and services, while property tax is imposed on objects of personal properties (individual). Therefore, there are the provisions of reduce and waiver of owed taxes and reduce and also reduction and waiver of sanctions. Hence, property tax becomes one of the types of taxes which have the most number of regulations because of the complexity of its problems.

One of the local-wisdom-based regulations are the granting of tax incentives/reduction or release from tax as a form of appreciation for groups of people considered to have served the country, such as retired civil servants, members of the Indonesian National Army (TNI), members of the Republic of Indonesia State Police, veterans, environment activists, and social workers. Moreover, incentives are also given to the people with low incomes as regulated in Regulation of Mayor of Bandung Number 1331. In 2014 among 4,493 taxpayers who received tax incentives, 471 people were taxpayers with low incomes. In 2015 among 5,146 taxpayers who received tax incentives, 878 people were taxpayers with low incomes. In 2016 among 5,600 taxpayers who received tax incentives, 702 people were taxpayers with low incomes. Meanwhile, in 2017, the tax incentive in the form of release from tax for the poor is targeted to reach 1,384 taxpayers.

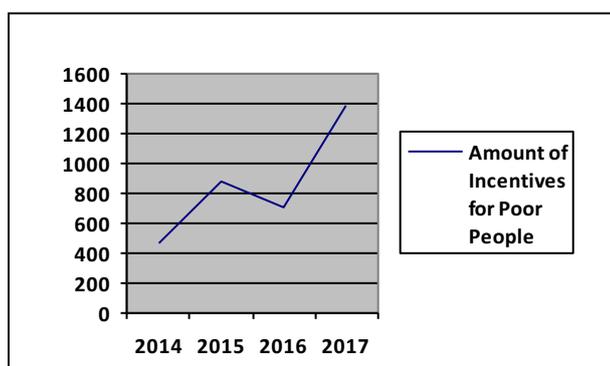


Fig. 1 Amount of Incentives for Poor People

The policy on incentives for people with low incomes in 2017 has increase significantly. As a result, there is a predicted of potential loss of 5.1 billion. In order to cover the loss in 2017 a regulation on the rise of Tax Object Sale Value (NJOP) for the well-to-do, ranging from 3% to 100%, has been issued. Therefore, the potential loss caused by the release from taxes for taxpayers with low incomes can be covered by the rise of NJOP, which is predicted to be able to increase revenues of 148 billion.

The policy on incentives is expected to be able to realize the aspect of justice as a requirement regulated in Law Number 28 of 2009 on Local Taxes and Charges; hence eventually it is able to increase the level public trust to the local government.

B. Tax System Reform

The strategy for raising awareness about paying property tax in Bandung City has been conducted by the three divisions

in BPPD. Each division has played its role, both in preventive and repressive ways, in raising awareness about paying property tax. There are three strategies for reforming the tax system conducted by BPPD to increase the obedience of taxpayers.

a. Increasing the Public's Understanding of Property Tax

The effort to increase the public's understanding is conducted through the socialization of the role of local taxes in development and regulation on local taxes to the public. The socialization is conducted through exhibitions, advertisements in the print media, electronic media, banners, roadshows in every district and on car free days (CFD), mobile bus services, and location base advertising (LBA) system or promotion broadcasting service system by using the media of SMS and MMS at certain location and times. Through the LBA, the Office of Tax Service socializes policies and regulations on tax services and also educates the public on taxes. At the moment, some spots for LBA have been designated and the office has cooperated with some telephone service operators to socialize 2,000 SMS on tax services of Bandung City. It is adopted from the method which has been conducted by private companies for their promotion.

b. Improving the Image of the Organization

The effort to improve the public's trust is conducted through two ways. The first way is through the good image performed by officers of BPPD of Bandung City in serving the public. One of the efforts is to make use of the interest of the public of Bandung to their favorite football club, Persib Bandung. The appointment of football players of Persib as local tax ambassadors is expected to be able to change the public stigma regarding property tax as a rigid and procedural organization into a friendlier one. The effort to improve the image of the organization also appears in the advertisement material of local taxes which contains the appeal to the public to obediently pay taxes by using interesting words. Besides that, BPPD has improved facilities and infrastructures of the office and established partnership with some parties to facilitate the access to the payment of PBB. It is attempted to improve the quality of public services. The improvement in the good image of the organization is expected to be able to enhance the public's trust.

C. Optimizing the Use of Information System

Development of the information system of property tax is based on the public need for the availability and facilities for the access to fast, correct, and accurate information on property tax, especially that related to information on property tax. In fact, many people do not know the Number of Tax Object of their property tax and the office is late in submitting Letter of Notification of Owed Taxes (SPPT) of property tax so that taxpayers think they have not had the liability to pay before receiving SPPT of property tax. It is expected that with the availability of access to information on property tax taxpayers will easily find out the data on their property tax liability so that the payment process can be expedited, without having to wait for a prior SPPT. As a result, there is

improvement in the obedience of taxpayers and receipts of property tax, because the sooner the taxpayers know their PBB liability, the sooner they will accomplish their tax obligation.

The Service Information System of property tax is also able to reduce 1/3 of taxpayers coming to the tax office because they can lodge an appeal for an online service of property tax with a user-friendly user interface. BPPD is also able to serve more appeals for services from taxpayers because it is not limited by the office hours.

The Service Information System of property tax is a form of support in order to make the era of government data openness and transparency a success. It is particularly to make vision of "Bandung Smart City" successful.

The availability of the Service Information System of property tax has cut the bureaucratic line of public services which is generally long and complicated to be a concept of simple public services. The implementation of the Service Information System of property tax has reduced face-to-face meetings between tax officers and taxpayers. It can minimize the practice of corruption, collusion, and nepotism in the circle of the City Government of Bandung.

D. Change in Tax Culture

A cultural change needs a continuous and consistent effort. It can be done directly through socialization and education, and indirectly through structural development and social process [12]. Tax reform conducted by the local government has brought a change in the behavior of taxpayers. Based on the data in Figure 2 the number of taxpayers of property tax who make on-time payment is increasing each year.

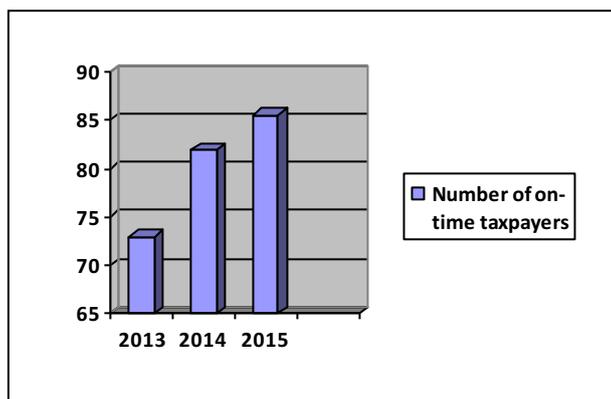


Fig. 2 Number of taxpayers who make on-time payment of property tax (LAKIP 2014-2015)

Figure 2 shows an increase in on-time taxpayers in the last three years. The average increase per year was 8.16%, in which the highest increase of 12.26% occurred in 2014. Based on interviews with taxpayers, we obtain information that they have some reasons for making on-time payment of property tax, among other things,

- Awareness that paying taxes is an obligation in the framework of a state;
- To avoid an administrative sanction due to delay in payment;

- Payment of property tax has a long-term purpose, that is, to be a requirement for the sales of property.

Taxpayers obtained the information on the important role of tax in development and an administrative sanction from the socialization conducted by the tax collector.

However, the effort of tax reform still needs improvement because there are still complaints from some taxpayers that the tariff of property tax is rising each year, but on the other side they have not felt the benefit of the development financed with the tax payment, even more so with city problems occurring nowadays, such as traffic jam and damaged roads.

It is widely acknowledged that some people do not like paying taxes [4] therefore the problem of the benefit of taxes that cannot be felt directly must be overcome by the local government. The reason is, if tax evasion is allowed to occur massively, it may cause anti-tax culture [13]. The effort that can be made by the government is to show accountable performance so that the public voluntarily will pay taxes because they think they will contribute to the development.

The rising tariff of property tax experienced every year by the taxpayers and the benefit of the development that cannot be directly felt are susceptible to distrust if it is not accompanied by the improvement in the quality of tax services. Complexity of tax system may lead tax evasion [6]. By optimizing the use of information technology, it is expected that taxpayers will be facilitated in accomplishing their tax obligation. It accords with one of principles of imposition of taxes (Smith's Canons), that is, the canon of certainty. The quality of the tax service must be obvious, clear, and certain for every taxable subject in order that it is easily understood and performed. Informants appreciated some breakthroughs in the service of property tax conducted by the City Government of Bandung to facilitate the access to tax matters. However, in the future it needs the improvement in services, such as adding the appointment of banks/payment agents of property tax to reduce the payment queue, particularly during the due date of payment and improving the access to the network.

IV. CONCLUSION

Culture is dynamic and it shifts in response to external and internal changes. A cultural change needs a continuous and consistent effort. After the transfer of property tax to local taxes, there are two main problems that must be solved by the City Government of Bandung, first, the large amount of tax receivables caused by the lack of penalty enforcement and invalid databases and second, the high rate of tax evasion. To create a new relationship pattern, tax reform has been carried out through tax policy reform and tax system reform.

As a result, tax reform conducted by the local government has brought a change in the behavior of property taxpayers who make on-time payment, whose number is increasing each year. This condition prevails because there is an increase in awareness of paying taxes and taxpayers avoid an administrative sanction.

They also get the benefit of paying property tax because one of the requirements for the sales of property is the payment receipt of PBB. Nevertheless, it is still insufficient; some taxpayers still have not felt the benefit of paying taxes to development. In order to improve it, the government needs to show a good and accountable development performance so that the taxpayers will pay taxes because they think they will contribute to the development. The change in tax culture to lower the level of noncompliance is insufficient if it is only at the level of policies and therefore it must be socialized and supported by a computerized system, and it must also raise the public's trust by improving the self-image of the organization.

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