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Research paper



Analysis on Fiscal Capacity and Regional Financial Acceleration: A Case Study on Ternate City, Indonesia

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Abstract

Indonesian Act No. 32 and 33 by 2014 about the formation of the regional autonomy is a challenge for local governments to utilize the potentials of the region. One of the local revenues for enhancing fiscal area is Regional Own Source Revenue (PAD), which are sourced from taxes and retributions. This research aims to analyze the financial management from the Government of Ternate. The secondary data collected from DPD, BPS, and offices related to the financial areas in 2010 – 2014 as well as data on the results of interviews with officials of the Regional Work Unit that has been appointed. By descriptive analysis, the result showed that economic growth has increased and indicated the increment of regional GDP. Based on the percentage of each sector against the Gross Domestic Regional Product in 2010 – 2014, trade, hotels and restaurants as well as other sectors were significantly contributing. The analysis found that the city of Ternate has not been financially able to carry out regional autonomy. However, the Government of Ternate is expected to improve regional financial capability by implementing intensification, the efforts to internally optimize local taxes and levies, and intensification, the efforts to expand and utilize new potentialities over regional tax and levies, to improve fiscal capability of the city of Ternate. To conclude, the effort in increase the District Own Source Revenue can be done by implementing intensification and intensification of regional tax and retribution.

Keywords: *Fiscal capacity; Regional finance; Acceleration; Ternate city.*

1. Introduction

The authority of regional government originally aimed to be more dominant in regional policy and development management portion. This concept requires the regional independence to manage their own government by taking various strategies, allocations and priorities of expenditure in accordance with the society aspirations and should be able to eliminate the impression of improvident and corruption to the regional budgets [1]. The process of forming and allocating regional budgets that have been conducting is by using top down and bottom up planning approaches which the domination of central government was eliminated. The regional autonomy is granting wider authority to regions in regulating, and managing their own government. Related to this point, the role of regional government in managing regional finances is crucial to determine whether succeed or not to create the independence which has always been expected so far. The main characteristic that shows a regional capable of running the autonomy is in the ability to finance the running of local government, which the level of dependence on the central government has a smaller proportion. The District Own Source Revenue (PAD) should be the largest part in mobilizing regional government fund. Therefore, the PAD should be used as one of the benchmarks in the implementation of regional autonomy. Based on the existing phenomena, the purpose of this research is to obtain and to find the clear phenomena about the management of taxes and retribution areas as well as the role and orientation of local governments in order to optimize the PAD (Regional Original Income) of the city.

2. Methodology

This research was conducted in Ternate City, North Maluku Province and time taken around six months. The data type used in this research is primary data and secondary data. The method used in this research is Descriptive Qualitative Analysis, which is used to analyze the increase of the fiscal capacity of Ternate City.

3. Results and Discussion

In general, the success indicator of local financial management is showed by the ability of the region to increase the sustainable revenue in line with the economy without exacerbating the factors of production and justice [2-3]. The fiscal budget needed by a region to meet the needs of development expenditure of a region. The principle of financial ability appears from the principle of benefit [4]. The Region Own Source Revenue (PAD) is all regional revenue derived from the regional own source. The success in managing the sources of local tax revenues depends on the ability of the regional government to optimize the factors that contribute to its success [5].

Decentralization has been implemented in the districts/cities throughout Indonesia, but it has not optimal yet and still needs to be improved. Therefore, basic of the regional autonomy implementation is their independence in economic development and community welfare [6].

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Based on this perspective, the regional government should more focus on empowering local economic power to create economic growth than issuing the legislation related to taxes or retributions.

Table 1: Ternate Regional Tax Revenue 2010 – 2014

Ternate City Regional Tax	2010	2011	2012	2013	2014
Hotel Tax	837,227,511	1,094,955,419	1,514,697,089	1,660,736,344	2,485,877,645
Restaurant Tax	1,017,904,362	2,627,943,203	3,265,093,802	3,858617,958	5,043,419,820
Entertainment Tax	36,029,750	78,112,450	155,959,496	426,470,411	628,290,555
Advertisement tax	606,597,200	779,677,750	1,031,283,480	1,060,478,086	1,394,439,560
Road Tax	4,390,135,425	7,332,307,359	8,312,451,028	9,214,406,467	12,512,225,569
MBL&B Tax	0	2,297,471,000	1,244,892,000	1,381,787,900	2,932,744,970
Parking Tax	0	42,267,540	74,153,400	128,610,270	506,100,502
Water and Land Tax	0	107,395,280	167,584,613	769,192,768	3,004,749,800
BPHATDB Tax	0	1,287,025,825	2,049,600,193	3,086,441,450	2,527,233,422
Tax Level Tax	1,291670,000				
Home Rent Tax	7,450,000				

Table 1 shows that the realization of regional tax [7] revenue has increased every year. But, the contribution of local taxes to the budget of Ternate City is still relatively small. The increased local taxes during 2010-2014 due to increased revenue from almost all components of local taxes, hotel tax, restaurant tax, entertainment tax, advertisement tax, street lighting tax, land and building duty tax, parking tax, water and land, Land and Building Tax (PBB) and boarding taxes. The hotel taxes increasing is due to the addition of hotel taxes. Another factor encouraged the increasing number of hotel visitors because of geographical location where the area is flanked by several new autonomous regional in the North Maluku province, making it as the transit area, especially for people traveling by land, sea and air. In addition, other factors that encourage people to stay at the hotel in Ternate because the area is quite far apart. It makes the visitors, both in order to visit business, office, or family visits, stay at the hotel. The area also has a lot of tourism potential both natural and historical tourism.

Besides the factors as mentioned, there are also obstacle factors in an effort to increase tax revenues. Some of the factors are the difficulty to know the exactly number of hotel guests and hotel rates charged. Another obstacle facing the tax apparatus is that the database is still not accordance with the standards. Therefore, a standard database will be the basis in the determination of tax targets. Then, a good target setting will be one of the mechanisms of monitoring to the achievement of local tax revenues.

Due to the difficulty to reach all activities carried out by various tax objects such as hotels and the like, the authorized officers should conduct inspections and training regularly. In addition, the government should facilitate activities such as the ease of licensing, even in the process of issuing the permit for such activities should be designed in such a way that it constitutes a series in which there is a tax payment activity.

Furthermore, there are several stages that must be passed to implement the Tax and Non Tax Revenue Sharing collection such as the current stage of tax payable, calculation phase of the amount of land and building acquisition fees for land and buildings to be paid and how the calculation. In the execution of Tax and Non Tax Revenue Sharing collection, there are some obstacles encountered such as obstacles related to taxpayers such as taxpayer ignorance about Tax and Non Tax Revenue Sharing and related calculations of Tax and Non Tax Revenue Sharing such as the calculation of grants of wills received jointly by the blood family in straight line one degree to up or one degree downward with the blood family in the bloodline straight to the side. Completion of these constraints, tax officials should be more socialized about the various taxes available or the tax office may provide an easier means of calculating Tax and Non Tax Revenue Sharing for Acquisition of Rights based on a Grantee. For example, by establishing a computer program to calculate Tax and Non Tax Revenue Sharing for constraints which relates the calculation of Tax and Non Tax Revenue Sharing to the grant of testament received jointly by the blood family in straight line one degree upward or one degree downward with the blood family in straight line to the side. Before calculating the Tax and Non Tax Revenue Sharing is done, the division of the grant property first after that new calculated their respective Tax and Non Tax Revenue Sharing.

The mining taxes has also increased significantly in 2014. It is known as an area with beach areas along the side of the island and has an active volcano, and there are much of the mining materials such as sand and rocks on the island of Ternate and some big islands in the city of Ternate. Therefore, mining activities by both small-scale and large-scale communities are numerous and easy to find everywhere.

In term of types of taxes as described in previous, the Ternate City Government has collected all of the retributions for public services, business service fees and certain licensing fees. But, there are some types of retributions that have not been collected. Regional retributions are one of the most sustainable income sources, since local government spending for routine and development budgets are always increasing. The development of local retribution revenue in Ternate City during the period of 2010 - 2014.

However, there are some offices that has not maximized the revenue of its targeted retribution. Then, in 2012, retribution revenues that cannot reach the target even under the 50% of the targeted retribution are ID cards printing, toilet suction, route and fisheries retribution permit. Whereas, on the other side of the office / SKPD manage some items of retribution that has great potential.

One of the factors supporting the Region Own Source Revenue (PAD) from listed retribution is the building of various construction both by company and society, as it seems nowadays in many places in the Ternate City[8]. In term of law aspect, the Regional Regulation has been issued as a legal law to collecting the IMB (Building Permit). Hence, it is expected to increase the regional retribution revenue for Ternate City government, with the existing conditions that are supported by legal fundamental.

One of the obstacles is due to the lack of socialization. Socialization is a process of educating or transferring habits or values and rules from one generation to another in a group or society. From the results of interviews with some heads of SKPD Ternate City, especially those handling the sources of income from various objects of regional retribution obtained information that; socialization to the community conducted by the local government is still not run well.

The garbage and cleanliness retributions have a potential source to be the revenue for Ternate city. For instance; household garbage, government agency waste and private sector garbage, toilets with heavy equipment. Along with the rate of population growth, the development of housing and business, the income potential of the sector is very good to increase the PAD. Obstacles encountered in the field because several sectors such as low awareness from the tax payers, facilities provider, service for non-customer of water offices (PDAM) and retribution participation.

Local Government of Ternate City has issued various regulations related to regional retribution. It has been clearly defined rules and sanctions given when there is a violation. However, this regional regulation is only issued but not followed up with the supervision by the related offices. It can be seen through the low participation from society in implementing obligations related to retribution when compared with the potential. The increasing of housing de-

velopment in Ternate is very large (top 10 biggest cities in Indonesia), dynamic and growing. But, there are some obstacles that need to be handled wisely such as the lack of public awareness to take care of IBM, the building that rules the rules.

Then, the retribution revenue from a cooperative (economic enterprise) and Small Medium Enterprises (UKM) are produced from; rent places, rent places traditional market, legalization of cooperative legal entity. The level of achievement is still under 50% of the target and the obstacles encountered namely delay in paying rent, lack of awareness of the taxpayer. Accordingly, we need to socialize, coaching, monitoring and evaluation the management of Small Medium Enterprises (UKM) as the taxpayers through a persuasive approach. Other retribution revenue in other sectors that have not been managed optimally are the labor and social services such as IMPTA levies. While, firefighters have several sources of potential levies such as inspection of tube tool, retribution of fire extinguisher. There are several obstacles faced by both SKPD, among others; lack of awareness of the taxpayer, moved the address. Efforts to optimize levies should be increased socialization, counseling and good service to taxpayers through a persuasive approach as well as improving the quality of human resources. The magnitude of the potential for existing retribution has not produced an output that can increase the local revenue (PAD) of the levy sector. This will automatically impact on the small revenue of the local area of Ternate City. The Regional Original Income (PAD) is the income earned by the area levied according to the local regulations in accordance with the laws and regulations. So, if the regulation has been issued, then the government is entitled to withdraw levies on this levy imposed in the laws or regulations of the area, and also conduct supervision in the implementation.

However, the lack of communities understanding in this regard as well as the existence of opportunistic behavior, there is often a bargain between the communities as a taxpayer/levy with the officers in the field about the amount of tariffs to be paid. This attitude has to be taken as a creative attitude of the officers facing the behavior of some people. However, this is in addition to creating a lack of legal certainty in its implementation and will reduce the authority of the local regulation in the eyes of society, also potentially causing the decrease of regional income.

4. Conclusion

Based on the result of the research, it can be concluded that the financial ability of local government of Ternate City in terms of fiscal decentralization degree was still very less. Regional revenue is still dominated by the contribution of transfer funds from the center government. This is due to several things including:

- The conducive investment and economic growth of Ternate City have not been directly increasing the local revenue.
- The Regional Work Unit (SKPD) programs are not related each other, especially Regional Work Unit that has economic development in encouraging local revenue.
- The regional Owned Offices (PDAM, *Citra Gamala* and SRB), which are formed by the city government of Ternate with capital participation every year in APBD has not been able to contribute to the regional income.
- There is no sanction to individual taxpayers or entities that do not pay taxes and levies.
- Regulation in the form of local regulations related to the management of regional income has not been effective yet.
- Local taxes and levies as sources of PAD do not give an optimal contribution to APBD, where the percentage of PAD revenue is still below ten percent. This shows that the fiscal ability of Ternate City area is not sufficiently independent in financing the development.
- The Ternate city government of has not been able to calculate the potency of local taxes and regional retributions that have the greatest contribution to the achievement of District Own revenue (PAD) targets.
- Local regulation (PERDA) of parking area does not run well optimally and in some strategic parking places that have the potential to increase tax revenue parking such as parking in traditional market comrades, they are not ordered well.
- There is no proportional incentive to the regional tax collector and retributions officer in the District Own revenue (PAD) in Ternate City.
- There is no comprehensive database on the Regional Work Unit (SKPD) that manages local taxes and contributions, so it has not been connected online data with related offices.

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