

# The Mapping of Padang's Local Tax Using Klassen Typology

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## ABSTRACT

The purpose of this study is to map Padang local tax by using Klassen typology. This research is a quantitative descriptive study. The data used was obtained from Padang Regional Revenue Office for year 2015-2019. The population was all local taxes based on Law Number 28 Year 2009. The sample was selected by using saturated sample technique. Based on Klassen typology, data was processed through two approaches, namely growth analysis and proportion analysis. The results showed that 36.36% of local taxes were in prime position, 18.18% were in potential position, 45.45% were in growth position and no taxes in backward position. For local taxes that are in the prime category, local tax intensification policies can be carried out, while for regional taxes that are in the potential and development category, intensification and extensification policies can be carried out.

**Keywords:** city of Padang, growth, Klassen, local tax.

## 1. INTRODUCTION

Law of the Republic of Indonesia Number 23 of 2014 concerning Regional Government Article 285 states that sources of regional income consist of regional original income, transfer income and other legitimate regional income [1]. Regional original income consists of local taxes, local retributions, the results of separated regional wealth management and other legitimate regional original revenues. Meanwhile, transfer income can be in the form of Central Government transfers and inter-regional transfers. Central government transfers include balancing funds, special autonomy funds, privilege funds and village funds, while inter-regional transfers include revenue sharing and financial assistance. As for other legitimate regional income, it is all regional income other than original regional income and transfer income, which includes grants, emergency funds, and other income in accordance with the provisions of laws and regulations [1].

Regional original revenue is the revenue obtained by the regional government from sources within its own territory which is collected based on regional regulations [2]. If the actual amount of local revenue is compared with the realization of total regional income, it will show the degree of decentralization of regional finance [3]. Fiscal decentralization is defined as the transfer of expenditure and revenue functions from the central government to local governments [4]. With this fiscal decentralization, there is a clear and firm separation in financial affairs between the central and regional governments. Fiscal decentralization shows the delegation of authority for

local governments to manage their own finances by using concepts or applications of regional financial management in accordance with applicable regulations. The implementation of financial decentralization is expected to encourage the improvement of regional financial capacity and provide great benefits both macro and micro economics as well as improve the quality of services and public welfare. Based on the criteria made by Fisipol UGM in collaboration with the Research and Development Agency of the Ministry of Home Affairs in 1991[5] the benchmarks for the degree of fiscal decentralization are: (1) The ratio value between 0.00% - 10.00% is categorized as very poor criteria, (2) The ratio value between 10.01 - 20.00% is categorized as less criteria, (3) The ratio value between 20.01% to 30.00% is categorized as moderate criteria, (4) The ratio value between 30.01% - 40.00% is categorized as sufficient criteria, (5) The ratio value between 40.01% - 50.00% is categorized as good criteria, and (6) The ratio value above 50.00% is categorized as very good.

The city of Padang as a local government is located in the province of West Sumatra and is the capital of the province. In the National Spatial Plan, Padang City has been designated as a National Activity Center in addition to Padang City as the capital and center of higher education in West Sumatra Province. Based on Government Regulation No. 17 of 1980, the administrative area of Padang City is 165.35 Km. According to Regional Regulation Number 10 of 2005 concerning the area of Padang City, it is known that there has been an increase in the administrative

area to 1,414.96 Km<sup>2</sup>, where the addition of the sea/water area is 720.00 km<sup>2</sup>. Geographically, Padang City is located between 00 44 00 and 01 08 35 South Latitude and between 100 05 05 and 100 34 09 East Longitude. The city of Padang which stretches from north to south has a beach of 68,126 km and there is a

row of Bukit Barisan with a length of hill area (including rivers) of 486,209 km<sup>2</sup> [6].

Padang City in the period 2011 to 2020 has a ratio of degrees of financial decentralization which is in a less and moderate position. This can be seen in Figure 1 below:

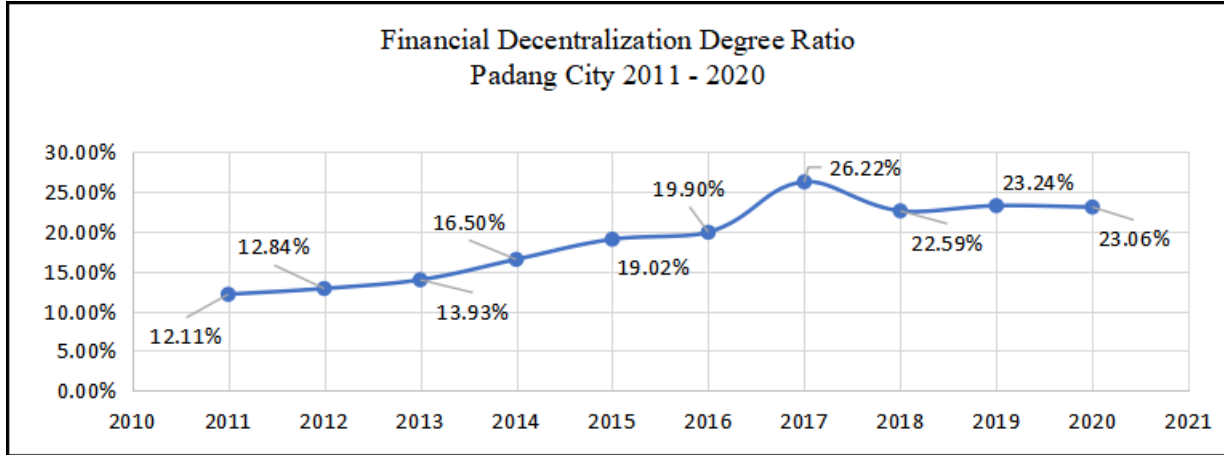


Figure 1. Padang City Decentralization Degree Ratio 2011 – 2020 (processed) [7][8]

Based on Figure 1, it can be seen that the value of the degree of financial decentralization in Padang City was the highest in 2017 with a value of 26.22% and the lowest in 2011 with a value of 12.11%. During the 2011-2020 period, the value of the degree of decentralization ratio fluctuated, namely in 2011 to 2017 it continued to increase but from 2017 to 2018 it decreased, then increased in 2019 and fell again in 2020.

The low value of the degree of financial decentralization gives a signal that the Padang city government must try harder to increase local revenue. There are 4 types that are classified as regional original income, namely regional taxes, regional levies, the results of separated regional wealth management, and other legitimate regional original income [1]. The contribution of each type of local revenue can be seen as follows:

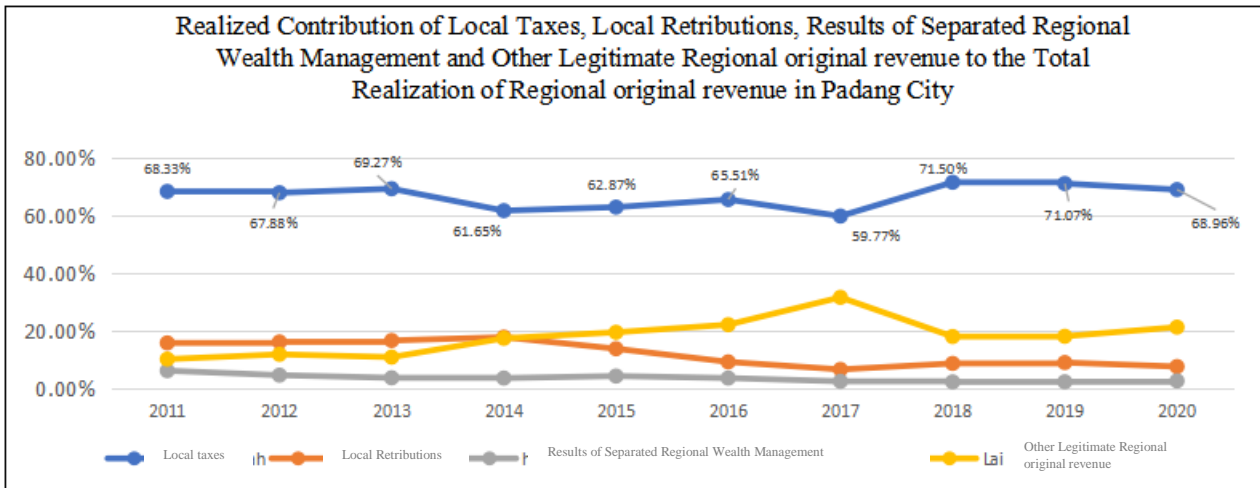


Figure 2. Realized Contribution of Regional Taxes, Regional Levies, Results of Separated Regional Wealth Management and Other Legitimate PAD to Total PAD Realization of Padang City (processed) [7][8]

Based on Figure 2, it is known that local taxes provide the highest contribution to local original income compared to other sources of local revenue, although the contribution made by local taxes fluctuated up and down during the 2011-2020 period. The fluctuation of local tax revenue is influenced by the receipt of 11 local tax components, namely hotel

tax, restaurant tax, entertainment tax, advertisement tax, street lighting tax, non-metallic mineral and rock tax, parking tax, groundwater tax, swallow's nest tax, land tax. and rural and urban buildings, as well as fees for the acquisition of land and building rights [9]. This fluctuation of local tax contributions also affects the

effectiveness of local tax revenues, as shown in Table 1 below:

**TABLE 1. Effectiveness of Padang City Local Tax Revenue**

Year	Target (Rp)	Realization (Rp)	Effectiveness of Local Tax Revenue
2015	241.501.000.000	232.870.240.318	96,43%
2016	295.308.809.319	256.746.611.787	86,94%
2017	334.574.208.858	327.916.583.327	98,01%
2018	400.911.615.195	348.898.024.970	87,03%
2019	565.430.000.000	388.095.396.286	68,64%
2020	492.017.178.000	344.743.134.377	70,07%

Source: processed data (2021) [8]

Based on Table 1, we see that the realization of local tax revenues for the 2015-2020 period did not reach the target. To optimize local tax revenues, each type of local tax needs to be mapped so that appropriate policies can be made. One way to map each type of local tax is to use the Klassen typology method. Klassen typology is a method used to identify and analyse

sectors, business sub-sectors or superior commodities or priorities of a region. In this Klassen analysis, comparative information will be obtained between the contribution and growth of the sector and the sector under study. Classification of Klassen Typology is divided into four categories namely Prime, Potential, Growth and Backward as shown below:

<p><b>CONTRIBUTION RATIO</b></p> <p><b>GROWTH RATIO</b></p>	$\frac{Y_i}{\hat{Y}} \geq 1$	$\frac{Y_i}{\hat{Y}} < 1$
	$\frac{\Delta Y_i}{\Delta Y} \geq 1$	<p><b>PRIME</b></p>
$\frac{\Delta Y_i}{\Delta Y} < 1$	<p><b>POTENTIAL</b></p>	<p><b>BACKWARD</b></p>

Figure 3. Classification of Klassen Typological Mapping [3][10][11]

Information:

- Y<sub>i</sub> = Tax Revenue i in year t
- $\hat{Y}$  = Average Tax Value in year t
- $\Delta Y_i$  = Growth of tax revenue type i in year t
- $\Delta Y$  = Total tax revenue growth in year t

- The categories used for determination are as follows
- a. If the contribution ratio  $Y_i / \hat{Y} > 1$  and the growth ratio  $\Delta Y_i / \Delta Y > 1$ , then it is in a prime position
  - b. If the contribution ratio  $Y_i / \hat{Y} > 1$  and the growth ratio  $\Delta Y_i / \Delta Y < 1$ , then it is in a potential position
  - c. If the contribution ratio  $Y_i / \hat{Y} < 1$  and the growth ratio  $Y_i / \Delta Y > 1$ , then it is in a growth position
  - d. If the contribution ratio  $Y_i / \hat{Y} < 1$  and the growth ratio  $Y_i / \Delta Y < 1$ , then it is in a backward position

According to [3] after knowing the position of the types of local taxes, a policy can be taken to optimize

the potential for local taxes, namely for local taxes that are in a prime position, the policy that can be done is intensification, for local taxes in a potential position and developments can be made. intensification and extensification policies, while for regional taxes that are in a backward position, policies can be made to review or abolish. Intensification of local taxes is defined as an effort made by the government to increase tax revenue which is usually applied in the form of changes in tax rates and increased tax management [12] or efforts made by the government to increase regional revenues which are pursued through increasing compliance of

existing tax subjects [12]. 13]. While tax extensification is an activity to look for something hidden, namely tax subjects who have met the requirements as taxpayers but have not been registered as taxpayers [14], this is done in an effort to find / find objects or taxpayers and new regional levies or expand the scope existing taxes [12].

Based on the description above, the researchers are interested in mapping each type of local tax in the city of Padang using the Klassen typology, thus formulating the research problem, namely how to map local taxes in the city of Padang using the Klassen typology? The purpose of this research is to map each type of local tax using Klassen typology so that it can provide policy recommendations based on the results of mapping each type of local tax.

**2. METHOD**

This research is quantitative descriptive. The data used is the realization of the receipt of each type of local tax in 2015-2019 obtained from the Padang City Regional Revenue Service. The population is all local taxes based on Law No. 28 of 2009. The sample was selected using the saturated sample technique. The research method used is the Klassen Typology Method. This method is used to map the potential of local taxes based on the average value of local taxes and the average rate of growth. The data processing techniques carried out are as follows:

- a. Calculate the average annual local tax using the formula:

$$\hat{Y} = \frac{\sum_{i=1}^n Y}{n}$$

(1)  
 $\hat{Y}$  = Average tax value in year t  
 Y = all types of local taxes in year t  
 n = the number of types of local taxes in year t

- b. Calculating local tax contributions using the formula:

$$r = \frac{Y_i}{\hat{Y}}$$

- (2)  
 r = contribution of tax i to the average annual local tax pajak  
 $Y_i$  = Tax Revenue i in year t  
 $\hat{Y}$  = Average tax value in year t

- c. Calculating the growth of each type of local tax using the formula

$$\Delta Y_i = \frac{Y_{it} - Y_{i(t-1)}}{Y_{i(t-1)}} \times 100\%$$

- (3)  
 $\Delta Y_i$  = Tax growth i  
 $Y_{it}$  = tax revenue i in year t  
 $Y_{i(t-1)}$  = tax revenue i in year t-1

- d. Calculate the total tax growth, using the formula:

$$\Delta Y = \frac{Y_t - Y_{(t-1)}}{Y_{(t-1)}} \times 100\%$$

- (4)  
 $\Delta Y$  = Total tax growth  
 $Y_t$  = Total tax revenue on year t  
 $Y_{(t-1)}$  = Total tax revenue in year t-1

- e. Calculating the ratio of the growth of each type of local tax to the total growth of taxes, using the formula:

$$\frac{\Delta Y_i}{\Delta Y}$$

(5)

- f. Mapping the types of local taxes
- g. Recapitulation of local tax categories
- h. Making policy recommendations

**3. RESULTS AND DISCUSSION**

**a. Research Result**

The results of the study are as follows:

**TABLE 2. Research Results**

No	Tax Type	$\frac{Y_i}{\hat{Y}}$	$\frac{\Delta Y_i}{\Delta Y}$	Category
1	Hotel Tax	1,1159	1,4174	Prima Prime
2	Restaurant tax	1,1563	2,0011	Prima Prime
3	Entertainment Tax	0,2191	2,7128	Growth
4	Advertisement tax	0,2708	1,7412	Growth
5	Street Lighting Tax	3,4929	0,5632	Potential
6	Parking Tax	0,0665	3,3874	Growth
7	Groundwater Tax	0,0228	1,2702	Growth
8	Swallow's Nest Tax	0,0002	3,0976	Growth
9	Non-Metal and Rock Mineral Tax	1,4579	0,1920	Potential
10	Land and Building Rights Acquisition Fee	1,5187	1,7323	Prima Prime
11	Rural and Urban Land and Building Tax	1,6512	1,3371	Prima Prime

Source: processed data (2021) [15]

Based on Table 2, we can see that there are 4 types of local taxes that are in the prime category, namely hotel taxes, restaurant taxes, land and building rights acquisition fees, and rural and urban land and building taxes. For the potential category, there are 2 types of local taxes, namely the street lighting tax and the non-metallic mineral and rock tax. As for the developing category, there are 5 types of local taxes, namely entertainment tax, advertisement tax, parking tax, groundwater tax and swallow nest tax.

Four types of local taxes or 36.36% are in the prime category, namely local taxes which have a contribution ratio greater than 1 and a growth ratio greater than 1. Furthermore, 2 types of local taxes or 18.18% are in the potential category, namely local taxes which have a ratio of the contribution is greater than 1 and the growth ratio is less than 1. While the most, namely 5 types of regional taxes or 45.45% are in the growth category, namely regional taxes which have a contribution ratio less than 1 and a growth ratio greater than 1. Meanwhile, there is no backward category in this mapping.

The local tax that has the highest contribution ratio is the street lighting tax with a value of 3.4929, meaning that the total street lighting tax has a contribution of 3.4929 x the average amount of local taxes received. Meanwhile, the local tax that has the highest growth ratio is the parking tax with a value of 3.3874, meaning that the parking tax growth is 3.3874 x higher than the total growth of local taxes received. The lowest contribution ratio is the swallow's nest tax with a value of 0.0002 while the lowest growth ratio is the tax on non-metallic minerals and rocks with a value of 0.1920

## **b. Discussion**

Based on the results of mapping local taxes using Klassen typology, it is known that 4 types of local taxes include hotel taxes, restaurant taxes, land and building rights acquisition fees, and rural and urban land and building taxes are in prime position. For local taxes in the prime category, an intensification policy can be made [3], namely increasing tax revenues which are usually applied in the form of changes in tax rates and increased tax management [12] or efforts made by the government to increase regional revenues which are pursued through increasing tax subject compliance. already exist[13]. The concepts used in the intensification effort will include institutional aspects, management aspects, and personnel aspects, the implementation of which is through the following activities [16] [17] [18]:

- a. Adjust or improve institutional/organizational aspects of local revenue management.
- b. Give an impact towards increasing local revenue, because this system can encourage the creation of:
  - 1) An increase in the number of local tax payers
  - 2) Improved methods of tax determination

- 3) Increased tax collection in the correct amount and on time,
  - 4) Improvement of the bookkeeping system, making it easier to find data on tax arrears which in turn can facilitate the collection.
- c. Improve or adjust aspects of management, both administrative and operational, which include:
    - 1) Adjustment or improvement of levy administration,
    - 2) Tariff adjustment,
    - 3) Adjustment of the levy management system
  - d. Increased supervision and control which includes:
    - 1) Juridical supervision and control,
    - 2) Technical supervision and control,
    - 3) Supervision and administrative control.
  - e. Improvement of human resources in the management of local revenue by improving the quality of human resources or local revenue management apparatus can be done by involving the apparatus in regional finance courses, as well as education and training programs related to regional financial management.
  - f. Increase outreach activities to the community to raise public awareness of paying local taxes.

Furthermore, for 2 types of regional taxes that are in the potential category (street lighting tax and non-metallic mineral and rock taxes) and 5 types of regional taxes in the development category (entertainment tax, advertisement tax, parking tax, groundwater tax and swallow's nest tax). In addition to intensification, extensification can also be carried out [3], namely activities to find something hidden, namely tax subjects who have met the requirements as taxpayers but have not been registered as taxpayers [14], this is done in an effort to find / find objects or taxpayers and new regional levies or expanding the scope of existing taxes [12]. One of the policies in an effort to extensification sources of revenue from regional taxes and regional retributions that are very rational and not hurt the community is the investment policy [18]. Efforts that can be carried out to increase local revenue through extensification are inviting investors to be willing to invest in the region, through promotional activities and creating a conducive business climate. Through the presence of investors, they can provide input to local governments in the form of local taxes.

## **4. CONCLUSIONS**

Mapping of local taxes in Padang City using Klassen typology resulted in 4 types of local taxes in the prime category, 2 types of local taxes in the potential category and 5 types of local taxes in the growth category. For local taxes that are in the prime category, local tax intensification policies can be carried out, while for local taxes that are in the potential and growth category, intensification and extensification policies can be carried out.

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