



# Government Policy Design to Improve Taxpayer Compliance in Paying Local Taxes in Bandar Lampung

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**Abstract.** Tax Compliance is a classic problem facing tax authorities around the world. Efforts to increase tax compliance have also been around for a long time to the attention of the tax authorities. The same goes for problems taxpayer compliance in Bandar Lampung City which is still low, for example, the case of a tax dispute between a restaurant must collect tax and Bandar Lampung City Government as restaurant tax collector, due to implementation of Tapping Box in 2021 ago. The purpose of this study is to find a policy design for The Government of Bandar Lampung City so it can increase taxpayer compliance in paying local taxes in Bandar Lampung. In order to increase tax compliance, the government first requires a mapping problem of taxpayers knowledge and awareness, taxpayer's needs, and making policy strategy in the form of awarding taxpayers who are obedient in paying taxes, even though it violates the definition of tax that does not have a counter-achievement or direct service that can be enjoyed. This puts forward a humanist tax approach before carrying out intensive tax collection to the public.

**Keywords:** Tax Compliance · Local Taxes · Tax Policy

## 1 Introduction

Local taxes are one of the most important sources of regional income for local government. Local tax is a mandatory contribution to the Region which is owed by an individual or entities that are coercive under the law, by not receiving direct compensation and are used for the benefit of the region to the greatest prosperity of the people [1].

Regional taxes are collected in the manner as regulated in the laws and regulations concerning regional taxes. Tax collection consists of a series of activities starting from collecting data on tax objects and subjects, determining the amount of tax payable for tax collection activities to taxpayers as well as supervision the payment.

Regional taxes in Indonesia can be divided into Provincial taxes and City/District taxes which the collection is carried out based on Regional Regulations. The legal basis for the latest local tax collection is Law Number 1 of 2022 About Relationship Finance Between Central Government and Local Government. This Law regulates the financial

relationship between the Central Government and the government regions based on fiscal decentralization, as well as efforts to create efficient, transparent, accountable and equitable allocation of resources in the regions, one of them is through local tax collection.

Indonesia adheres to a self-assessment system, which is a tax system that give trust to taxpayers to fulfill and carry out their own tax obligations and rights, such as calculating, depositing, and reporting own tax liability [2]. For this reason, tax compliance is one of the important factor in the implementation of tax obligations. Therefore, taxpayers consciousness are the spearhead of the success of the tax system as the provisions of the applicable laws and regulations. The key to increasing state revenue is compliance and the high level of tax voluntary from the taxpayers themselves.

Even though it gives trust to taxpayers, the government also keeps carry out supervision and always strive to improve tax compliance. Unfortunately, the myopia point of view is still widely available in society, considered that taxation is a form of deprivation of rights that does not provide no benefit to taxpayers.

Tax compliance as a classic problem facing tax authorities around the world. Efforts to improve tax compliance have also been a long concern for tax authorities, likewise with the problem of taxpayer compliance in Indonesia. Bandar Lampung is one of the city in Indonesia where tax awareness is still lacking. For example in the case of tax disputes between a restaurant must collect tax and the Government of Bandar Lampung City as a result of application of the Tapping Box in 2021 [3]. In addition to restaurant tax, on collection hotel taxes have also leaked a lot which resulted in potential losses for Bandar Lampung original income (Pendapatan Asli Daerah or PAD) [4].

According to articles on social media related to this phenomenon, many people do not understand the meaning of the restaurant tax or hotel tax, and blame the local government, in this case, the regional tax and levy management agency of Bandar Lampung or Badan Pengelola Pajak dan Retribusi Daerah (BPPRD) as an entity that does not side with entrepreneurs [5]. The main cause is the lack of public understanding of the importance of local taxes [6].

Restaurant taxes and hotel taxes that are of public concern are just a few examples of public ignorance about taxes, and these are common assumptions that lead to local tax non-compliance. Based on the background above, the problems identified in this paper are: The causes of taxpayers non-compliance in Bandar Lampung. What is the best form of The Bandar Lampung Government's policy to improve taxpayer compliance in paying local taxes.

## 2 Method

This research has been carried out normatively and empirically, which was done first by reviewing the laws and regulations related to the collection of taxes, tax supervision, and taxpayer compliance. The normative approach has been used is a statutory approach (normative approach) and other related documents applicable in the field of regional taxation. Empirically approach have used primary data collected through the interview process and questionnaire with informant and respondents.

### 3 Result and Discussion

#### A. Taxpayers Non-compliance in Bandar Lampung

Tax compliance is a behavior in which the taxpayer fulfill, all tax obligations and exercise their tax rights. According to Safri Nurmantu, tax compliance is divided into:

- Formal compliance, namely behavior in which the taxpayer tries to fulfill formal tax obligations in accordance with the formal provisions in the tax law.
- Material compliance, namely when the taxpayer substantively fulfills all material provisions of taxation in accordance with the spirit of the tax law [7].

Tax compliance itself can be defined as the willingness of taxpayers to comply with tax regulations. Tax revenue is determined by the level of taxpayer compliance. In Bandar Lampung, revenue growth from the tax sector is shown in the Table 1.

According to the table, the lowest tax realization belong to the MLBB, PBB, and BPHTB. The highest tax realization belong to the Entertainment Tax. The average growth of local taxes is only 13,77% until the second trimester during 2022.

The correlation from the table above with the results of research on respondents who come from regional taxpayers in Bandar Lampung has shown that the level of public understanding of taxes is still very low.

Out of fifty respondents from ten sub-districts in Bandar Lampung, with variations age from twenty to sixty-five years, taken at random from various types of work, only 40% claimed to be obedient to paying local taxes.

Of the fifty people, there are 60% who can distinguish between taxes collected by central government, and which are lebled by local governments; but only 12% of them

**Table 1.** REALIZATION OF BANDAR LAMPUNG REGIONAL REVENUE GROWTH IN 2022

No	Types of Local Taxes in Bandar Lampung	Realization Growth %
1	Hotel Tax (Pajak Hotel)	41,82
2	Restaurant Tax (Pajak Restoran)	46,12
3	Entertainment Tax (Pajak Hiburan)	126,39
4	Advertisement/Billboard Tax (Pajak Reklame)	11,88
5	Parking Tax (Pajak Parkir)	5,10
6	Groundwater Tax (Pajak Air Tanah)	24,02
7	Non Metal and Rock Mineral Tax (Pajak MLBB)	-68,86
8	Street Lighting Tax (Pajak Penerangan Jalan)	10,63
9	Land and Building Tax -Rural and Urban Sector (PBB-PP)	-7,82
10	Land and Building Rights Acquisition Fees (BPHTB)	-5,42

<sup>a</sup> Source: BPPRD Bandar Lampung, until second semester of 2022

are able to distinguish between provincial taxes and city/district taxes. The rest still consider provincial taxes such as motor vehicle taxes to be city/district taxes.

70% respondents know how to pay local taxes through a bank (for example PBB), but do not know that paying for food at a restaurant includes taxes.

60% respondents do not know the function of the tax they have paid, because they feel they do not get any benefit from it. Most of them think that the government has not been transparent in reporting local tax results to the public, including through the BPPRD online site.

Based on the interviews conducted with respondents using a guided questionnaire, the community feels less educated about the types of district/city taxes, what are the benefits for the government, including the sanctions. Respondents think that tax sanctions such as PBB are not strong enough, other than when they want to ask for administrative services to the sub-district office, for example.

### 1. Bandar Lampung Government's Best Form Policy to Improve Taxpayer Compliance in Paying Local Taxes

The Britannica Dictionary defined tax as an amount of money that government requires people to pay according to their income, the value of their property, and that is used to pay for the things done by the government [8].

Tax, is a contribution to the state (which can be forced) which is owed by those who are obliged to pay it according to the regulations, without getting the achievement or benefit that can be directly appointed, with the purpose to finance general expenses related to the task of the state (or region) to organize the government [9].

Basically, no one is willing and happy to pay taxes, because taxpayers feel that they are not getting reciprocal benefit of the amount of tax they pay. This is a characteristic of taxes, that the payment obligation is not followed by the benefits directly by the taxpayer. This causes taxpayers to be ignorant of the importance of taxes, that they enjoy the benefits together with other citizens who may not have the ability to pay taxes according to statutory regulations.

The reciprocal service or counter-achievement in the field of taxation is not directly felt by the Taxpayer. If the taxpayer pays taxes, the government gives nothing. However, the resulting benefits will then be received collectively for all levels of society in the form of development.

This situation is the government's obligation to provide education through socialization, or show the results of taxes that have been collected, for example in the form of improving public facilities and facilitating administrative services.

Taxes as a reality that exist in society have certain functions. In general, it is known that there are two main tax functions, namely the budgetary function (budget) and the regular-end function (regulating). Taxes have a function as a tool or instrument used to optimally enter funds into the state treasury. In this case, the tax function is more directed as an instrument to withdraw funds from the public to be included in the state treasury [10]. Funds from taxes are then used as a support for government administration and activities.

In addition to having a function as a means of withdrawing funds from the public to be included in the state treasury as mentioned above, taxes have another function,

namely the function of regulating. In this case, taxes are used to regulate and direct the community in the direction desired by the government. Therefore, this regulatory function uses taxes to be able to encourage and control community activities so that they are in line with the plans and wishes of the government.

As stated by Adam Smith in his book *The Wealth of Nations*, known as the four cannons principles, that in collecting taxes it should be based on the following attributes [11]:

- Equality, means equality of sacrifice. Therefore, the tax burden must be distributed equally in relation to taxpayer ability. To ensure the equality, taxes must be levied in accordance with the principle of ability to pay.
- Certainty, argues that the tax which an individual has to pay should be certain and not arbitrary with respect to the time of payment, the manner of payment, the quantity to be paid, or tax liability. In other words, it states that there must be certain to taxpayer as well as to the tax levying authority in respect to certainty of revenue the government intends to collect over the given time period.
- Convenience of payment, means taxes should be levied and collected in such a manner that it provides the greatest convenience not only to the taxpayer but also to the government.
- Economy in collection, the cost of collecting a tax should be as minimum as possible. Any tax that involves high administrative cost and unusual delay in assessment and high collection of taxes should be avoided altogether.

The community as tax subjects is expected to actively fulfill their tax obligations even if they are only small so that in terms of collection they can reduce the cost of collection. For this reason, it is necessary to have awareness from the public as taxpayers. In other hand, the Government in collecting taxes is still carried away by the euphoria of pursuing regional revenue targets, so that collecting taxes sometimes no longer considers aspects of the potential and elasticity of regional adequacy. Taxes are still often seen as a kind of tribute that is collected without the right to question its designation let alone refuse to pay it [12].

A policy design is needed for The Government of Bandar Lampung City in order to increase taxpayer compliance in paying local taxes in Bandar Lampung. First, the government requires a mapping problem of taxpayers knowledge and awareness, taxpayer's needs, before making policy strategy.

One part of applying the principle of tax compliance is government supervision. Supervision is a process to assign work according to with a re-plan [13]. Supervision is one of the functions in management to ensure that the implementations of work runs according to the standards that have been set specified in the plan. If the implementation of work is not in accordance with the planning standards, even though inadvertently remain in a better direction, this classic and traditional look is called out of control. Thus, through supervision can be monitored to what extent deviations, misuse, leakage, shortage, waste, fraud and other obstacles in the future which will come.

The granting of authority to local governments to collect local taxes in the implementation of autonomy must take into account generally accepted criteria, as well as good local tax accuracy, namely: [14].

- Easily managed by the local government
- Collected mainly from local residents
- Does not caused harmonization or competition problems between local government and the central government.
- Does not have a negative economic impact and does not interfere with the allocation of economic resources and does not hinder the flow of economic resources between regions and export-import activities.
- Paying attention to aspects of justice and community capacity.

Based on interview with BPPRD, government plans to carry out supervision and monitoring of local taxes imposed on business entities such as restaurants, hotels, billboards, and underground water, by adding tapping boxes so that continuous monitoring and audits can be achieved. BPRD also plans to conduct a number of collaborations with the National Land Agency, Public Prosecutors Office, and the Tax Directorate General to optimize regional revenues from the tax sector.

The planning is basically good, and is a repressive means of increasing tax returns, but other ways are needed that are out of the box in responding to this phenomenon of taxpayer compliance. As the principle of Adam Smith above, there are humanist sides that can be touched to do with regard to tax collection.

In addition to prioritizing the principles of equality and certainty in tax collection, taxpayer convenience can also be a concern for the government. 80% find it difficult to pay at a place that has been designated as a place of tax payment, and feel more comfortable if local tax payments in Bandar Lampung can be done online using ecommerce, mbanking, or using an application instead. Some of them propose payment at Indomaret or Alfamaret outlets. This is considered more effective and efficient for taxpayer. This kind of attention is a form of people's rights in tax collection.

The legal rights of the community that must be protected include: [15].

- Tax regulation through legal mechanism
- Tax provisions must be published
- Aspect of legal certainty
- Tax provisions must be easy to understand, must not conflict with each other and allow for implementation
- The right to pay the correct amount of tax and no discrimination.

The application of a tax holiday or the like, as well as the provision of tax relief can be carried out above as a shock therapy that pleases taxpayers. Although in theory the tax does not provide benefits or reciprocal services directly to the payer, the government can consider giving rewards to people who are active and obedient in paying their taxes. Government can considered of awarding taxpayers who are obedient in paying taxes, even though it violates the definition of tax.

90% of respondents feel interested when offered the rewards they can receive if they are more active in paying local taxes. For examples, the research team provides an illustration by adopting a perforated lottery coupon system that will be received when paying taxes, and the government gives various gifts and prizes, from household goods

to cash, to coupon winners. This puts forward to more a humanist tax approach before carrying out intensive tax collection to the public.

## 4 Conclusion and Suggestion

There are still many people in the city of Bandar Lampung who are tax subjects and local taxpayers who have not been properly educated so that their tax awareness is still lacking. This causes low compliance in paying taxes, because they feel neglected. People still feel that they are limited to being subjects who only have the obligation to pay taxes, so they don't have feelings of mutual need between the government and the people. The government must seek humanist persuasive ways in addition to continuing preventive and repressive measures to overcome tax non-compliance, by taking taxation policies based on the principles of tax collection, without neglecting the convenience of the taxpayer.

It is suggested to the city government of Bandar Lampung to be able to provide rewards or awards for people who have obeyed paying taxes.

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