

Paradigm Change of Local Tax

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Abstract. Together with the implementation of local autonomy, Indonesia implemented the concept of fiscal decentralization, manifested through the local government's authority to collect tax and retribution. The implementation process of such policy, however, still triggers certain problems, such as people's perception of tax as burdensome obligation without any right of counter-achievement (compensation) for its payment. This research aims to study the paradigm change of local tax, viewed from three aspects: (1) the paradigm shift of local tax in Indonesian governance system, (2) new paradigm of local tax, (3) the effect of local tax paradigm change toward local developments. The approach used is qualitative with data collection techniques of observation, in-depth interview and literature study. The result shows that the paradigm change of local tax is necessary since there is a spectrum of democracy development in society due to the fact that the revenue from local retribution is less than the revenue from local tax. As a consequence, local tax paradigm should be altered i.e. local tax must give counter-achievement for the related tax sectors. Hence, local tax paradigm change shall increasingly influence the taxpayers to obediently fulfill their obligation of paying local tax since they may directly enjoy the benefit of their tax.

Keywords: *Paradigm, Local Autonomy, Decentralization, Local Tax*

INTRODUCTION

A decentralist division of governance authority is notably required and suitable for a country who has a wide-spread archipelagic territory with varieties of pluralistic culture such as Indonesia. Apart from making easy the governance coordination, the decentralization system is more democratic since the implementation of power is appropriated with cultural characteristics as well as norms of each locality.

One of the main components of decentralization in local autonomy is fiscal decentralization (local autonomy funding). The concept of fiscal decentralization has been appealing for many countries in the world. Vazquez and McNab (2003) state that the increasing interest in fiscal decentralization is firstly caused by the belief that it is an effective means to improve the public expenditure efficiency, even though it may risk the horizontal fiscal imbalance among regions and macro-economic stability. Second, it is also perceived as a way to divide central government's economic power by transferring fiscal authority to local government. In addition, Tiebout (1956) also states that the local control of expending its revenue enables public sector to respond more effectively by making consumer's choices of public goods more various (Brueckner, 2009).

In a decentralization system, the responsibility of District/Municipal Government has been extended by giving most of the public expense functions, previously done by the central government and its concentrated departments. Although there have been transfers of funding, local government is still under pressure to create their own revenue from

taxation as well as non-taxation sources (Mann 2001).

Kovács (2009) argues there are some reasons why tax should be authorized to local government, i.e.: Provision and financing of services at a local level might induce improvement in attitude to taxation, imposing taxes by the central government might cause an increasing economical return to scale concerning administration costs, Higher local tax revenue might reduce the dependence on state budget support.

Fiscal decentralization can be applied by determining the sources of local revenue which can be explored and used according to its own potentials. The authority of the region is displayed through the local collecting of tax and retribution. Based on the collector, Indonesian taxation can be divided into two groups: central tax and local tax. Local tax is the tax collected by the local government from the residents in its jurisdiction, without directly provides counter-achievement (compensation). Local tax is regulated in an Act issued by the local government, consented by the local house of representatives, and is collected by the institution inside the structure of concerned local government (Lutfi 2006).

According to Bratakusumah (2001), local tax and national tax within taxation system in Indonesia basically put burden on the people; taxation policy must therefore be made just. Along with the national taxation system, the development of local tax must be done, integrated with the national tax. The development is done continuously, especially one related to tax object and tariff, so that local and central taxes are complimentary. Furthermore Mardiasmo (2001) defines that local tax is the tax collected by a local government based on the tax regulation stipulated by the

Table 1. Local taxes in Hungary, Dutch, and Philippine

Hungary	Dutch	Philippine
Local Taxes: <ul style="list-style-type: none"> • Business Tax • Communal Tax • Urban Land Tax • Building Tax • Tourist Tax 	Provincial taxes: <ul style="list-style-type: none"> Taxes on income and property: <ul style="list-style-type: none"> • Levies on Water Pollution households • Shares in Motor Vehicle Tax household Taxes on production and import: <ul style="list-style-type: none"> • Levies on Water Pollution industry • Shares in Motor Vehicle Tax industry • Groundwater Tax Cities Tax: <ul style="list-style-type: none"> Taxes on income and property: <ul style="list-style-type: none"> • Levies on Water Pollution households • dog license • Commuter Tax • Property Tax household • Sewage Charges household Taxes on production and import: <ul style="list-style-type: none"> • Levies on Water Pollution industry • Building Land Tax • Hotel and Boarding House Tax • Property Tax owners and industry • Sewage Charges household 	Provincial Tax: <ul style="list-style-type: none"> • Real Property Tax • Tax on Transfer of Real Property Ownership • Tax on business of printing and publication • Franchise Tax • Land and Gravel Tax • Professional Tax • Amusement Tax on Admission • Annual Fixed Tax per Delivery Truck or Van of Manufacturers or Producers of or Dealers in Certain Products Municipal Tax: <ul style="list-style-type: none"> • Tax on Business • Fees and Charges • Fishery Rental or Fees and Charges • Fees for Sealing and Licensing of Weight and Measures and • Community Tax Cities Tax: <ul style="list-style-type: none"> • The city may levy and collect among others any of taxes, fees, and other imposition that the province or the municipality may levy and collect Barangays village Tax: <ul style="list-style-type: none"> • Tax and Fees • Service Charges • Contributions

Source : Ismail (2004)

local government in order to finance for the household of the concerned region.

Bird (2000) in his article, "Intergovernmental Relations: Universal Principles, Local Applications", asserts some characteristics of local (sub-national) tax: (1) it is assessed by sub national government, (2) it is at rates decided by sub national government, and that (3) it is also collected by sub national government, with of course (4) its proceeds is accruing to sub national government.

From among the aforementioned characteristics, it is clear that the role of local government is significant in stipulating and collecting local tax. A local government can stipulate and collect various kinds of local tax according to its owned potential. This is possible if the local

government has a capacity to stipulate its own types of possibly collected local tax without any intervention from the higher level of government (Lutfi 2006).

According to Bird (2000) a good local tax principally must fulfill two criteria:(a) It must give sufficient revenue for the region according to its owned degree of fiscal autonomy. (b)It must evidently affect the fiscal responsibility of the concerned local government.

Moreover, Musgrave (1989) formulates the guides for local tax collection, that are:(1)Mobile tax bases are to be taxed at intermediate or lower level of government. (2) Local taxes must not be sensitive to business-cycle fluctuation (recession or boom). (3)Benefit taxation is required at all level of government.

The easy and possible method which best achieves the goal of local tax collection is to let the local government stipulate its own types of tax and their tariffs by still paying attention to the regulations having the force of law. In many developing countries, local governments as well as their administrative units have their own legal authority to impose tax, however their bases of tax collection are too weak since they still significantly dependent on subsidies given by the central government, therefore their authority to impose tax may frequently be hampered (Rondinelli 2000).

While according to Kenneth Davey (1988), to value the performance potential of a tax collection we need a set of criteria which can be grouped into six items: a. Sufficiency and elasticity b. Justice c. Properness/administrative skills d. Political consent e. Economic efficiency and f. Compatibility for local tax. Those criteria can also be seen in the taxation principles which can be used to determine the suitable sources of revenue for central and local governments.

In Indonesia, local tax is stipulated in Law No. 28 of 2009 on Local Taxes and Retributions. According to the Law, provincial taxes consist of Vehicle Tax, Vehicle Ownership Transfer Fee, and Vehicle Fuel Tax; Surface Water Tax and Cigarette Tax, whereas Municipal Taxes are Hotel Tax, Restaurant Tax, Entertainment Tax, Advertisement Tax, Street Lightning Levy, Non-Metal Minerals and Rocks Tax, Parking Tax, Groundwater Tax, Swallow Nest Tax, Rural and Urban Property Taxes, and Land and Building Title Acquisition Fee.

Besides Indonesia, there are other countries in the world whose taxation systems are decentralized and apply local taxes. The following is a table of Local Taxes applied in several countries:

Indonesian people, who had undergone colonialization for more or less three and a half century, have never forgotten the bitterness of colonialization. Soemitro (1998) states that particularly in taxation, people generally recognize tax merely as a repressive mean of colonial government and hence people hate taxes. People hate the government since taxes are considered as a burden that makes life difficult, without any proper counter-achievement in return.

After Indonesian independence, more than half a century, people are still unaware of their obligation to pay tax (Bisnis Indonesia, 1999). This is due to the philosophy of tax use which has so far never directly given benefit for people, as seen in definitions of tax which do not state that tax payment should be accordingly followed by a direct counter-achievement for the taxpayers provided by the government (Mardiasmo, 2001). The absence of direct counter-achievement that can be enjoyed by the taxpayers has become a paradigm that colors the Indonesian taxation system so far.

The government has encountered many problems and

constraints in terms of tax as a source of state revenue, now it is multiplied by the implementation of local autonomy (decentralized governance system). Local autonomy, instead of bringing government's service and people nearer, has infact put more burden of tax collection in order to self-finance the region. This is supported by the definition of tax which clearly states that tax is a compulsory fee in which taxpayers do not accept any direct counter-achievement. In its implementation, thus, the aspect of public service as the return form of tax collection is often absent. This paradigm must be changed in order to guide tax according to its function as a mean to serve people.

Based on the background, the research has several aims, particularly those related to Local Autonomy and its paradigm change, i.e.: (1) Clarify the paradigm shift of Local Tax in Indonesian Government system (2) Explain the new paradigm of Local tax (3) Describe the effect of paradigm change of Local tax toward local development

METHODOLOGY

In this research, qualitative approach is used with the paradigm of post positivism. The research is supported by empirical field research and the data collection technique is direct observation in the regions, literature study and in-depth interview with competent respondents to study the real condition in the concerned regions. The interviews provide several benefits, such as the higher percentage of research result, more accurate information, and more communication with the respondents since the language used in the interview is suited with their skills and educational levels.

Over all, from among 33 provinces and 497 districts/municipalities in Indonesia (the data of April 2011), the present writer conducted research on four regions, i.e. two provinces and two districts/municipalities. The selected regions consist of four characteristics which have previously been determined, i.e. the closest region (West Java Province) and the farthest region (West Papua Province) from the central government, the region whose local tax gives the highest and lowest contribution to its Local Owned Revenue (West Java Province and Badung District, by exception of DKI Jakarta Province, considering its status as the capital city which surely has the highest Local Owned Revenue), and the region whose local tax gives the lowest contribution to its Local Owned Revenue (West Papua Province and Tambrau District); the data of which are taken from the Minsitry of Finance.

RESULT AND DISCUSSION

A. Paradigm Shift of Local Tax in Indonesian Governance System

There are two major reasons why local tax paradigm must be changed along with the change on local gover-

nance system in Indonesia, i.e. there is a spectrum of democracy development in the society and the ratio of local retribution revenue increase is higher than that of local tax revenue increase.

a. Spectrum of Democracy Development

Indonesian experience of encountering crisis transparently shows that the national integration, which was glorified during New Order, turns to be more artificial and contains higher "pressure" than before. The fall of Soeharto due to the pressure of mass movements becomes the witness of the dynamic of change, and thus democracy took place. In terms of center-periphery relation, there appears the demand that local autonomy be evidently developed. Such is the result of local gap that has lasted for long. At least there are five chronic gaps in Indonesia in terms of center-local government relation so far (Tim Lapera, 2001):

First, gap of local revenue among regions. By far inter-local revenue gap in Indonesia is still significant. The region like DKI Jakarta has a relatively high per capita income and economic, while region like Bengkulu is notably low. Second, huge gap of inter-local investment. Centered investment policy and bureaucracy for 32 years impede the investment growth in the regions, since most of investment activities are concentrated only in Java island. Third, industrial centralization in Java. As a result of centered investment policy and bureaucracy, as well as better infrastructures in Java Island, the investment growth is only centralized in Java Island. Fourth, local revenue is controlled by the central government. Centralization results on the controlling of local revenue by the center. Thus regions are very much dependent on the allocation of subsidies from the center. Fifth, the huge net negative transfer. One of the factors that trigger the wider local gap is the imbalance of credit allocation.

The fact of inter-regional injustice, where the rich regions are unable to enjoy their abundant resources, becomes part of concrete reality that leads to the emergence of local autonomy. In the implementation of local autonomy, the whole dispossessed economic rights during the New Order must be returned back. For example, income and natural resource taxes which had so far entirely become central government's revenue, after the local autonomy, are shared with local government.

Decentralization is not only a juridical formal demand; it has also become the country's factual necessity as a developing country. A strict centralization, besides causing high-cost governance, is also believed to be ineffective in the modern era. The aim of decentralization is to bring public service nearer to society in accordance with the growth of democratic climate. In terms of taxation system, with the growing democratic aspect in the decentralized government, people get more critical toward any collection, particularly local tax and retribution.

The increased authority of local government to

manage local taxes and retributions is good to improve the local expenditure which is funded by Local Owned Revenue. However, the local government authority must still concern with the aspect of service as the goal of local autonomy. Therefore, in relation to local tax and retribution, each collection must give counter-achievement with enjoyed benefits, as a manifestation of public service, manifestation of the principle of justice and democracy. The aspect of service, principle of justice and democracy must be reflected in the taxation system that relates local government as the tax collector and society as the tax payer.

This is appropriate with the theory of welfare state where the tax collection is aimed, besides as a source of revenue for local budget, to control the balance on the basis of the principle of justice in order to secure people's welfare. Moreover, tax collection must be truly utilized for the interest of public service.

b. The Ratio of Local Retribution Increase Is Higher Than the Ratio of Local Tax Increase

In clarifying the paradigm change, that in local autonomy local tax must contain counter-achievement (compensation aspect), we need to differentiate local tax from local retribution. Law No. 28 of 2009 on Local Taxes and Retributions defines local tax as a legally forceable compulsory fee without any direct compensation, while local retribution can only be collected provided there is direct counter-achievement from the local government.

In this research, the researcher thinks that local tax should contain the element of compensation (counter-achievement) as well as local retribution. The difference between both is that, in local tax, the counter-achievement is for public life, or at least the related tax sector; while in local retribution, the counter-achievement is given directly to its payers.

The researcher also analyzes the local tax and local retribution revenue. The result shows that in the initial period of local autonomy, the ratio of local revenue increase from local retributions is higher than the ratio of local revenue increase from local taxes, particularly municipal taxes. This shows that people are more willing to pay local retribution than local taxes whose counter-achievement is not directly felt.

Even so, in its development there is a ratio shift of local revenue increase, where the local revenue increase from local taxes become higher than that from local retributions. The following is a table comparing the ratio of local revenue increase from local taxes and retributions, both in Municipalities and Provinces, whose data was taken from the Ministry of Finance, that is, from the Local Revenue Directorate.

From the above table, the increase percentage of local tax revenue is higher than that of local retribution revenue, with a significant increase percentage number. For example in 2007, compared to its previous year, the increase of

Table 2. The Amount of Municipal Taxes and Retributions Revenue Budget Period of 2006 to 2010
(in billion rupiahs)

Types of local collection	Budget Period					Increase			
	2010	2009	2008	2007	2006	%	%	%	%
						(3:2)	(4:3)	(5:4)	(6:5)
Tax	8.107	5.933	6.664	5.476	3.686	36	-11,0	21	48
Retribution	6.605	5.966	6.109	5.269	3.617	10	-2	15	45

Source : Direktorat Jenderal Perimbangan Keuangan Pusat dan Daerah (DJKPD)

Table 3. The Amount of Provincial Taxes and Retributions Revenue Budget Period of 1999/2000 to 2003
(in billion rupiahs)

Types of local collection	Budget Period					Increase			
	2010	2008	2007	2007	2006	%	%	%	%
						(3:2)	(4:3)	(5:4)	(6:5)
Tax	39.575	36.005	38.030	29.467	22.462	9	-5	29	31
Retribution	1.430	1.476	1.894	1.858	1,338	-3	-22	1	38

Source : Direktorat Jenderal Perimbangan Keuangan Pusat dan Daerah (DJKPD)

tax revenue is 48% and retribution revenue is 45%, while in 2008, compared to 2007, the tax revenue increase is 21% and retribution revenue increase is 15%. While in 2009 the revenue from its previous year from local tax is -11,0% and from local retribution is -2% merely due to many redistricts where the new municipalities have not submitted their data of Local Owned Revenue to the Ministry of Finance.

For provinces, even though the average increase percentage of local retribution revenue (3.5%) is still fairly lower than that of tax revenue (16%), it is acceptable since the service authority tends to be at district/municipal level, in line with local autonomy emphasis in Indonesia, i.e. at district/municipality.

From the above analysis, we can conclude that there are shifting tendencies that local revenue sources from local tax are higher in ratio than from local retribution. This shows that public service in local level is still low. Instead of selling service in the form of retribution collection, local governments prefer to employ tax collection that has a coercive force.

Considering that the potential of local revenue from local tax is higher than that from local retribution, to fulfill the need of Local Owned Revenue, local government may still focus on local tax. Nevertheless, to make the tax collection has the same aim with local autonomy, i.e. to provide reliable public service in the regions, the local tax collection paradigm must be shifted toward counter-achievement. As such, after the paradigm shift, it is hoped that local revenue from local tax as a source of Local Owned Revenue will increase during local autonomy.

Although we must keep in mind that tax collection must be done compliant with the Law. Mikesell (1982) affirms that retribution is considered more just and efficient than tax. Therefore tax imposition especially local tax must be well accountable and its implementation must not be counter-productive since people are burdened by too much tax.

Ronald John Hy and Willliam L Waugh Jr (1995), fiscal decentralization experts, affirm that:

“States are always looking for ways to acquire additional revenues without raising taxes. Fees and user charges are commonly used. Closing tax loopholes for sales and income taxes also is frequently employed. Whatever the form of revenue enhancement, it seems obvious that for now broad-based tax increases are not on the horizon”

Therefore fundamental change of Law on Local Taxes and Retributions as stipulated in Law No. 28 of 2009, which enacts closed list system where regions are not allowed to add any tax besides those stipulated in the Law, becomes relevant and appropriate.

B. New Paradigm of Local Tax

Along with the goal of local autonomy which brings public service closer to society, the local tax function is not merely to fulfil local budget. In term of tax as the budget fulfiller, the emphasis is on its budgeter function instead of its regulerend function. From the two functions, the later is closer to the meaning of local autonomy and must be more exploited and developed, since it is related to the effort of service improvement.

The function of tax regulating is not merely within the scope of budgeter function or taxation for revenue only, but also to regulate the revenue level in private sector; organize redistribution of revenue; and regulate the private expense volume (Soemitro 1982). Along with the development of governance and democratic system, the regulating function of tax must be directed to service function of local government for its people. Thus the local tax paradigm, which has so far been attached to tax, i.e. without any compensation/counter-achievement, must be changed and directed to the tax function that gives compensation to the concerned tax sector. The definition of local tax as stipulated in Law No. 28 of 2009 on Local Taxes and Retributions is as followed:

Local Tax, hereinafter shall be referred to as tax, is a compulsory fee, enforced by Law, payable to a region by individual or institution, without any direct compensation and is used for regional interests for the greatest benefit and prosperity of its people.

The definition does not contain any element that affirmatively refers to an active responsibility of the local government as the tax collector to use the tax revenue to “serve” its people, thus inconsistent with the goal of local autonomy. Such definition only normatively affirms that the tax is used “for the local interest for the greatest benefit and prosperity of the people”. Hence the definition is not in line with the local autonomy, where the position of local government is no longer as the ‘local king’ as in the previous era, but as the civil “servant”.

In order to affirm the function of local government as a tax collector in the local autonomy era, the definition of tax must be changed by adding a normative and affirmative clause in the definition, i.e. local tax must also be used to serve the interest of related tax sector as a counter-achievement.

Interconnected to the addition of tax definition, the taxpayers shall no longer consider tax as a burden or feel being coerced by local government, since by paying tax they shall get more benefit in the form of public services. The greater their tax payment is, the better services and facilities provided by the local government are.

All revenue from local tax flows into local income used by local government through Local Budget mechanism validated by the Local House of Representative. In the Local Budget mechanism, all local revenue and expenditure have been planned and allocated to local development sectors in general; the development of services for particular tax sectors related to particular local tax types is not clarifyingly mentioned. This is of course unfair for the taxpayers. For example in Hotel industry, even though hotel tax significantly contributes to the local income, still in the next Budget period, there is no fund allocated to

develop tourism which should be a direct manifestation of service return from the hotel tax.

The compensation / counter - achievement given to the taxpayers is different with counter-achievement for the retribution payers. In retribution, the direct compensation is simply given to the retribution payers who intend “buy” the service provided by the local government, while in local tax, the counter-achievement is the local government responsibility and is given not simply for the concerned taxpayers, but also for the public (for example in the form of facilities which can be enjoyed by both the payers and the non-payers).

However, the earmarking of local tax must be kept efficient and must be truly used for providing public service in the related tax sector. A big expense of public service, which cannot be met by certain tax revenue, can even be subsidized from other tax revenues. However it must be clear and accountable through Local Regulation, so that there is no space for a misuse in the earmarking of local tax collection.

Here, I explain the general concept how the service manifestation should be “returned” by the local government to its taxpayers from different types of local tax, both provincial and municipal.

First, Vehicle Tax, Vehicle Ownership Transfer Fee The revenue from Vehicle Tax and Vehicle Ownership Transfer Fee must be used for improvements of streets and road signs, organization of safety and security facilities, terminal building, and other facility and infrastructure building, such as fuel stations.

Second, Vehicle Fuel Tax must be directly used to facilitate infrastructure and facility related to the monitoring of fuel quality in the market, the regulating and controlling of business competitions, and the facility and infrastructure building of vehicle-caused environmental impact control.

Third, Hotel and Restaurant Taxes are used to provide security and comfort for the hotel guests and restaurant customers. Generally, they must be well-plannedly used to improve tourism sector in the regions where the hotel and restaurant are. By the tax collection, the local government shall no longer expect any fund from the hotels or restaurants for tourism promotion in its region, since it has become the responsibility of local government..

Fourth, So far Advertisement Tax has become the favorite for the government since it gives significant revenue. Nevertheless, the advertisement tax revenue in most big cities in Indonesia are in fact used by neglecting the aspects of city planning, citizen comfort, security, and citizen interests in general. Hence the revenue from advertisement tax must be allocated to monitor, control, and maintain the advertisement-related facility and infrastructure.

Fifth, From time to time the local government must guarantee the availability of facility and infrastructure of sufficient street lightning in its region. Street Lightning Levy is actually a levy on electric use, both for industry and house-hold, provided by State Electric Company as well as by using genset. Therefore by collecting street lightning levy, particularly on electricity from State Electric Company, the local government is expected to guarantee sufficient electric supply, for example there must not be any light-off caused by insufficient electric stock, electric power damage, etc.

The research in the regions shows that most of the lightning conditions during local autonomy are not different from the previous era. The local government pays more attention to how to get highest revenue from local tax sector without considering the interests of taxpayers by providing reliable public service as a manifestation of counter-achievement. Generally, the taxpayers in regions state that during the local autonomy, bureaucracy becomes longer and more complicated, period of permit becomes shorter and the fees becomes higher than before. These cause high-cost economy.

Revenue from local tax during local autonomy is higher, however local development and infrastructure maintenance are getting neglected. In the researched regions, it seems that there is no development activity, some even like a “dead city” abandoned by its residents.

The interview with the heads of Local Revenue Office (Kadispenda) shows that personally they agree and even wish to change the condition. They agree that the counter-achievement for the taxpayers must be actually and directly given. They wish for a regulating system which can clearly control the allocation use of local tax revenue, which in their opinion should be regulated based on the percentage of the revenue from particular tax sector, so that it can be returned as a “subsidy” for the concerned taxpayers. For example 30% of Hotel Tax must be allocated to continuously provide, maintain or renew the infrastructure in the hotel environment. All must be targeted to give direct benefit to the taxpayers as proposed by the taxpayers.

The research in the Local Revenue Office in Badung District (Bali) who owns many tourism objects shows that Badung people are satisfied with their Street Lightning Levy which is returned in the form of funding for electricity sector services. The effect is many foreign tourists stay longer in Badung than in any other place since they find the place convenient.

The new Law on Local tax i.e. No. 28 of 2009 has stated the paradigm change of this counter-achievement, though it is only applied in Provincial Taxes, i.e. Vehicle Tax and Cigarette Tax. The Law stipulates that at least

10% of the revenue from Vehicle Tax must be allocated for developments and/or maintenances of road, as well as for improving public transportation capital and facilities. In addition it is stated that at least 50% of the revenue from Cigarette Tax must be allocated to fund public health services and legal building by the authorized apparatus.

Head of Local Revenue Office of DKI Jakarta particularly suggests the regulation on the counter-subsidy toward other local tax revenue which demands high-cost service fee and which cannot be fulfilled by the related sector. The counter-achievement must be agreed by both local government who provide public services and the taxpayers who enjoy the counter-achievement. As a consequence, there will be an excellent cooperation between the government and the taxpayers, thus the taxpayers shall no longer consider tax as a burdensome tribute with its coercive force.

C. The Influence of Local Tax Paradigm Change toward Local Development

In this section, I would in particular discuss the relation between the paradigm change of local tax collection and the local development and its multiplier effect toward local public service in general, during local autonomy. To begin with, I agree with Bagir Manan (1990) that principally Local Autonomy is independence, which means regions are expected to independently give services to their people. Jimly Asshiddiqie (2000) also affirms that the meaning of local autonomy is improving public services to local people through the local government. The implementation of Local Autonomy must be ideally found on Local Owned Revenue sources.

Local Owned Revenue based on the Law are: Local Tax, Local Retribution, Revenue from Local Government-owned Business, etc. Local tax and Retribution are not the goals; they are only media to fund for public services. Thus if local tax collection is considered burdensome for people, then it becomes counter-productive for Local Autonomy. Therefore to hinder the mistaken notion of local tax as the means of local autonomy, the paradigm of local tax must be changed by changing the definition of local tax, which previously provides no counter-achievement, into providing one for concerned tax sector. The counter-achievement is not given to taxpayers but to tax sector; this is what differentiate counter-achievement from local retribution and local tax.

Further more Bagir Manan (1990) states that there is a close relation between decentralization and public service given by the local government to people in general. Decentralization in a unitary state is in the form of lower government units (territorial or functional) which has the

Table 4. The Average Distribution Percentage of Local Revenue Sources Year 2010

No	Region	PAD	Balance Fund	Other validated revenue
Highest				
1	West Java Province	72,48%	27,14%	0,38%
2	Badung District	72,15%	22,76%	5,09%
Lowest				
1	West Papua Province	2,73%	33,48%	63,79%
2	Tambrau District	0,04%	97,16%	2,80%
Average		36,85%	45,14%	18,01%

right of self-determination for some of governance matters within its own household.

One of the important aspects in strengthening the entire local independence in development and economy is by forming the essence of local autonomy, i.e. to bring local government service closer to its people through the paradigm change of local tax. This will give positive effect and benefit of actual local public services. In addition it is in line with the aim of tax collection that is to return it back to people by funding their interest until it gives great effect toward people's economy (macro-economy) (Rachmat Soemitro, 1998).

The independence is not only in funding but more directed to local authority to use the available funding, both from Local Owned Revenue and transfer (subsidy) from the central government. Ideally the budget is funded by local sources, such as local taxes and retributions, as well as central taxes which is made local, including investment sector. However, ironically the role of Balance Fund is still dominant and most relied on for local development. Local independence is fragile since it still relies on the subsidy from central government, a condition labeled as partial fiscal decentralization by Brueckner (2009). The following is an average distribution table of local revenue from the four regions researched:

The table shows that Provincial and Municipal revenue sources of researched regions in 2010 in average are still dependent Balance Fund from the central government (45.14%) compared to 36.85% Local Owned Revenue.

Apart from that decentralization can be an effective means to achieve the main goals of human resource development vision and to improve public service access and employment, increase people's participation in any decision making that influence their lives, and to influence the response of the government (UNDP, 1997).

Even though experiences show that decentralization does not guarantee good governance, many are sure that decentralization is more conducive for better governance. Decentralizing government system, thus, is an effective means to increase public service accessibility, employ-

ment, health, education, to fight against poverty, creating a greater social economic justice, and to preserve the environment (UNDP, 1997).

All ease and chance of local economic development, as mentioned above as well as stipulated in legal entity, cannot be optimally used by regions of the paradigm of local tax does not change. In local autonomy era, public interest becomes the most important aspect. Have people been involved in determining choices of which service and goods must be provided by the government efficiently, transparently, and conforming to the aspect of justice? Here, the perspective of public choice becomes significant. Principally, the inter-government relation (central-local), inter-local government relation, relation between central/local government with private sector, relation between government and public (people) follow a voluntary exchange principle on the basis of mutually beneficial choices of rational thinking, as affirmed by Gerry Stoker:

Institutional public choice theory uses concepts and methods derived from neoclassical economics to explore political phenomena. The concern is with collective decision making rather than the behavior of private firms of consumers, hence the term public choice.

In terms of central-local financial relation, central-local government are demanded to provide right of goods and service for public interest satisfyingly, efficiently, responsibly and accountably. There is a principle of balance between central-local as well as inter-local relations in financial distribution and management by exchange principle to hinder any vertical or horizontal imbalance (Supriyono 2003). Therefore it is important to understand how local regulations of tax and retribution collection affect fiscal decentralization. In my opinion, each alteration has its own impact toward the entire system.

In part of taxpayers, fiscal decentralization is targeted to ensure taxpayers actually enjoy the function of public service provided by local government as a counter-achievement (compensation). The role of central and/or local government, in policy level, institutional level,

or operational level must accommodate public demand institutionally so that the required needs of service can be fulfilled satisfyingly, justly, and transparently. The relation between all level of government and the public in institutional management is a mutual exchange. All level of government conduct institutional management to ensure public interest, and are willing to operate institutional reform should the public interest guarantee cannot be fulfilled. Governmental decentralization can fulfill public demand efficiently if they are able to understand choices required by public, as affirmed by Gery Stoker (1995): "New right public choice ideas have played a stronger role in policy analysis and prescription than providing an understanding and explanation of the processes of restructuring in intergovernmental relations. Yet it is clear that the potential is there for rational choice and, more particularly, institutional public choice models to offer a major contribution to social science".

In the perspective of public choice theory, the role of central-local government is among others providing public goods satisfactorily. As far as public goods concern, central-local government must allocate their financial sources effectively both through big or small groups in order to fulfill people's needs collectively. In this context, thus, public choice emphasizes on the valuation of individual as well as social rational decisions or central-local governmental rational decisions. In this conception there is a process of exchange, where people have their rational choices to response to central-local government's policy, on the other hand the central-local government can also act rationally in fulfilling people's demand.

Even so, Elinor Ostrom (1990) states that public choice model, in its operation, is frequently not backed up by institutional support which formally and informally has a significant role in providing public choice. Therefore a clear, transparent, accountable institutional structure is needed; in relation to its duty and function in providing public services.

CONCLUSION

From the analysis, we can conclude:

First, There are two reasons to explain the paradigm shift of local tax in Indonesian governance system: (a) There is a spectrum of democracy development in society. In relation to local tax, the spectrum has positively influenced the flow of thinking where local tax paradigm must be changed according to the flow of thinking of democracy and local autonomy. Decentralization develops since it is Indonesia's factual necessity. The centralized governance system, apart from only causing high-cost governance, based on empirical experience is also proven to be

incapable of answering the challenge of the century; (b) The ratio of local retribution revenue increase tends to be higher than the ratio of tax revenue increase. The difference shows that people actually prefer direct counter-achievement for each payment collected on them. People are more willing to pay for local retribution than local tax since the benefit (compensation) is direct.

Second, The tax paradigm change resulted from this research is that local tax must provide counter-achievement for the concerned tax sector. Therefore, the definition of local tax must be changed, there must be normative and strict addition, that is, local tax must also be used to serve the taxpayer community's interest as a form of counter-achievement.

Third, Local tax paradigm change shall be influential; taxpayers shall be more obedient in fulfilling their obligation to pay local tax since the benefit can be directly enjoyed. This is beneficial, both for the local government and the taxpayers. In part of local government, the increase of revenue will enable them to fund for local developments. Thus local independence as the essence of local autonomy shall be established. In part of taxpayers, particularly businessmen, local tax paradigm change shall stimulate investment in concerned region, consequently the development acceleration as aspired can come true.

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