Increasing Regional Original Tax Revenue in the Era of the COVID-19 Pandemic: Strategy of the Pekanbaru City Regional Revenue Agency

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ABSTRACT

This study aims to determine the strategy of Local Revenue Agency (LRA) of Pekanbaru for increasing local tax revenue because there was a decrease in tax revenue in Pekanbaru City during the COVID-19 pandemic. For governance funding to run effectively and efficiently and avoid overlapping funding, the government delegated authority to Bapenda Pekanbaru City as an extended branch. Therefore, RRA implemented strategies to increase taxes during the pandemic. This qualitative research uses a qualitative descriptive analysis method that uses data collection methods such as observation, interviews, and documentation. The benchmarks for assessing the success of the strategy are through indicators concerning the future of a decision made now, the process that starts with making strategic plans, facilities, and policies in developing implementing plans; certain attitudes and ways of life because strategic plans determine work habits with consideration of the future; as well as linking three strategic plans at the same time, namely strategic plans, medium-term plans, and short-term budgets. Based on the results of research on the strategy of the Pekanbaru City Local Revenue Agency in increasing local original tax revenue (PAD) during the COVID-19 pandemic, the strategy of digitizing services and payment methods is the right thing to increase local tax revenues. However, socialization regarding the strategies made has yet to be carried out evenly to the community, as well as the level of public awareness that still needs to be improved in paying taxes.

Keywords: Strategy; PAD; COVID 19 Pandemic

INTRODUCTION

Resources are something important and very necessary in an organization. One aspect of organizational resources is Human Resources (HR). Good human resources will result in increased productivity and performance of an organization. Human resource management is part of management science which is more specifically applied to human resources (Rumawas, 2018). Human Resources are currently progressively taking a major part in the achievements of an organization. Many organizations understand that the human component in an association can provide excellence, they create goals, techniques, progress, and achieve hierarchical goals (Rintjap et al., 2021). Human resource development is needed in order to improve employees’ technical and conceptual abilities in developing the organization.

Human resource development programs are very important in an organization to make employee performance better, because development can encourage the self-quality of existing employees (Rintjap et al., 2021). Human resource management is needed to influence the performance of employees in the organization, not only operational employees but also includes
managers levels in the company. Therefore, the higher the development of human resources, the better the employee performance and vice versa, the lower the development of human resources, the weaker the employee performance in the organization. (Armstrong, 1997) states that human resource development is related to the availability of learning opportunities and development, creating training programs which include planning, organizing and evaluating these programs.

One variable that can be used in developing human resources is to understand organizational capability. Organization capability is useful so that TVEs developers can carry out their business processes well, so that TVEs can grow and develop. There are three things in understanding organizational capability, namely: social capital, human capital, and intellectual capital. Social capital has a role in facilitating access to wider sources of information and improving the quality, relevance and timeliness of information (Adler & Kwon, 2002). These conditions allow individuals to increase their knowledge through daily interactions with coworkers (Cabello-Medina et al., 2011). Furthermore, high social capital can also increase human capital (Cabello-Medina et al., 2011).

Human capital is defined as knowledge, skills and abilities that reside with individuals and are utilized by individuals (Subramaniam & Younnt, 2005). Research (Cabello-Medina et al., 2011) shows that human capital has a direct and positive effect on company innovation. Human capital and intellectual capital are the forms that form the basis of innovation and both have potential interactions (Cabello-Medina et al., 2011). Intellectual capital is conceptualized as knowledge to determine organizational capabilities (Nahapiet & Goshal, 1998). Zhang et al., (2017) show that intellectual capital can increase organizational capabilities both directly and indirectly in process innovation and increase understanding in developing capabilities.

Human resource development can be carried out in all organizations, one of which is in village organizations, namely Village-Owned Enterprises (TVEs). TVEs is a business organization owned by a village which includes economic activities such as community economic empowerment, micro, small and medium enterprises, tourism, cooperatives and others. The basis of TVEs is to strengthen the economy at the village level in order to realize general welfare based on services and village potential needs to be formed through joint efforts based on the principle of kinship. The complexity of developing and managing TVEs is also felt by the people of Jombang Regency with various complex problems. Many villages in Jombang Regency are confused about realizing their work programs for village development. Villages face various problems that cannot yet be resolved, such as the difficulty of determining the TVEs business model in running their business. On the other hand, quite a few village businesses that have been formed have actually stalled. Many people just create but are confused about how to move because they don't have a clear business model. So far, village people have felt worried when they want to form a village business because of negative thoughts about losses. This is because, in general, villages do not have a future concept regarding the village development business model they have created, especially regarding the development of TVEs.

This research was conducted in Wonosalam District, Jombang Regency, involving TVEs in the district. Wonosalam District was chosen because Wonosalam District has a variety of potential, ranging from economic potential to tourism. Wonosalam District was also chosen because this district received special attention and priority programs from the Jombang Regency Government in the context of improving the economy. Apart from that, Wonosalam District is the district that has the largest area with an area of 121.63 km² and has 9 villages and 43 hamlets. (Central Statistics Agency, 2019).
Tax revenue had the potential to reach 141.5 million prior to the COVID-19 pandemic because people could have still gone to the Local Revenue Agency Office in person to remit land and building tax. After the COVID-19 pandemic, tax revenue experienced a substantial decline as a consequence of the pandemic's repercussions. Due to the decrease in the populace’s economy, their tax obligations have diminished significantly (Kastika, Y., & Adianto, A. 2022: 560-561).

COVID-19 is a disease that is due to SARS-coV-2, an RNA coronavirus. The rapid transmission of this virus to Pekanbaru City is evidenced by the increasing number of positive patient cases each day. Hence, to expedite the management of COVID-19, the central government issued PP Number 21 of 2020 regarding Large-Scale Social Restrictions. People were consequently unable to conduct business as they had prior to the pandemic.

Meanwhile, local tax is widely recognized as a significant contributor to local-owned revenue (PAD). In accordance with Law No. 28 of 2007 amending Law No. 6 of 1983 regarding General Provisions and Tax Procedures to include the Third Amendment, the government imposes administrative and criminal penalties on taxpayers who fail to comply with their tax obligations. Administrative sanctions include increased penalties, interest-bearing sanctions, and fines. All the sanctions can be elaborated as follows:

a. Fines are imposed on taxpayers who fail to file their returns on time or at all and who break applicable restrictions.

b. Interest sanctions are imposed on taxpayers who violate their commitment to pay taxes. The monthly interest rate has been set in accordance with the relevant legislation. The imposition of this interest penalty is grounded on the provisions of Article 9, paragraphs 2 (a) and 2 (b) of the KUP Law. Article 9, paragraph 2 (a), addresses the specific monetary penalties that are imposed on taxpayers who fail to pay their overdue taxes. The interest rate is 2% per month, computed from the due date to the date of tax payment. Article 9, paragraph 2 (b) stipulates that taxpayers who fail to submit their tax returns by the due date will incur a monthly penalty of 2% of the outstanding amount. The penalty is determined by the period between the deadline for filing tax returns and the date of tax payment. If the payment is made at the start of the month, the calculation will still be conducted for the entire month.

c. Taxpayers who engage in infractions such as data falsification, manipulating income amounts by understating them to reduce the tax charged, or committing other forms of fraud, will face heightened sanctions. Taxpayers found guilty of cheating will face penalties in the form of an augmented tax liability. The quantity corresponds to half of the diminished tax.

As a manifestation of concern for tax-payers, The Pekanbaru City Local Revenue Agency (LRA), acting as the regional tax manager, has implemented a decision signed by the Mayor of Pekanbaru (No. 82 of 2020) regarding the exemption and elimination of administrative sanctions for regional taxes. This decision aims to address the concerns of taxpayers, particularly those related to hotel and restaurant taxes. During the period of managing the Corona Virus Disease 2019, taxpayers are exempted from paying taxes and are offered the option to make instalment payments or postpone tax payments. Additionally, administrative punishments are waived.

Therefore, leadership skills are needed in making policies to encourage members to achieve organizational goals (Yandra, 2021). Furthermore, the Local Revenue Agency (LRA) of Pekanbaru has devised other measures to streamline the process of tax payments. One recent development involves the introduction of the “Smart Tax” application. This application,
developed by LRA Pekanbaru City, is designed to enable taxpayers to report PBB tax in a more efficient and effective manner. The public can utilize this application to register online, access information regarding the amount of tax bills that need to be paid, and communicate inquiries to LRA via the Smart Tax application.

To initiate the process of paying taxes using the innovative tax application, taxpayers can begin by accessing the PBB registration menu and registering for PBB tax. Next, the taxpayer will be instructed to provide their NIK (National Identification Number) and full name to proceed to the following registration menu. Subsequently, taxpayers are requested to provide the precise location of the object by selecting the green button and to furnish the necessary documents for upload, such as KTP (identity card), land certificate, moving certificate, SPPT (property tax payment slip) and other necessary documents. Upon completion of the validation procedure, taxpayers will be notified by email and SMS with a payment number, which may also be accessed on the Smart Tax Pekanbaru application. Upon successful registration, the taxpayer will subsequently receive a message via the identical platform.

The Pekanbaru Mayor Regulation Number 115 of 2021 governs the Smart Tax Pekanbaru Application operation at the Pekanbaru City Regional Revenue Agency office. The introduction of the Smart Tax application is founded on Government Regulation (PP) Number 12 of 2019, which pertains to Regional Financial Management and the implementation of an Electronic-Based Government System (SPBE). This specific public sector business entity (SPBE) facilitates the process of electronifying local government transactions, known as Electronification of Local Government Transactions (ETPD).

The following table provides a data analysis of the accomplishments and actualization of the Regional Original Tax in Pekanbaru City from 2019 to 2022, as obtained by the SIKD on an annual basis. According to the data in Table 1.2, it is evident that the annual tax collection has not yet achieved the intended goal. Nevertheless, despite the impact on the Indonesian economy, which has struggled to recover from the Corona crisis over the past two years, the realization from 2021 to 2022 has improved following COVID-19. This situation demonstrates that even during economic turmoil, taxpayers continue to fulfil their tax responsibilities dutifully.

Between 2019 and 2020, there was a noticeable increase in the government’s set targets. However, the actual tax revenue collected needed to align with these targets. The current state of affairs is distinct in the year 2021. This year, tax revenue has experienced a modest growth of 5% compared to the previous year.

Moreover, in 2022, the government’s aim fell, while the actual achievement grew by 10% compared to 2021. Despite falling short of the projected aim, the government is able to sustain itself during the post-Covid-19 economic rebound. This predicament arises from the annual growth in municipal tax collection.

The issue with local tax revenue at the Local Revenue Agency of Pekanbaru City during the past three years is that it still needs to meet the predetermined objective, resulting in a shortfall in tax revenue compared to the government’s expectations. The author is prompted to ask various questions about this fact. The author’s temporary survey reveals multiple issues that can be identified:

1. The predetermined local tax target was unmet due to a decrease in local tax revenue in Pekanbaru City during the COVID-19 pandemic. This has hindered government programs as local taxes are a significant source of funding for the region.
2. Insufficient compliance and disciplinary measures exhibited by taxpayers continue to pose a challenge for tax collection officers, impeding the attainment of the intended local tax revenue target.

METHOD

The type of research used is a qualitative research method that is descriptive qualitative, which defines and explains research that makes data in the form of written or oral words (interviews) to related parties. Alpert et al., (2016) state that qualitative research is conducted in natural conditions with a naturalistic approach. According to this approach, research data must be obtained in actual conditions and situations—data collection techniques through observation, interviews, and documentation. As for data analysis techniques used, this study applies data reduction, data presentation, and conclusion drawing (Miles et al., 2014).

RESULTS AND DISCUSSION

Result

1. Trend of Target and Achievement of Local Tax

The LRA of Pekanbaru collects local taxes every year, with 11 different tax categories managed by the Agency. Out of the 11 taxes, the nominal amount has been adjusted following the Pekanbaru Mayor Regulation. Amidst the COVID-19 Pandemic over the past two years, tax collection has been significantly affected, particularly for individuals engaged in business activities who have had to suspend operations temporarily. The pandemic highlighted LRA’s effective management in achieving its intended aim. In order to determine the effectiveness of the method employed, one can assess the annual local tax income to ascertain whether it exhibits growth. The subsequent data represents the actualization of local tax revenue at the LRA of Pekanbaru over the past four years.

Based on the provided statistics, it is evident that in 2019, 11 local tax services achieved 50% of their projected target. Notably, both restaurant tax and PBB-P2 realization had a growth of over 100%. This year has demonstrated that the local tax revenue has been notably sturdy in the restaurant sector and the PBB-P2 program. However, other tax revenues have also met the anticipated levels.

The tax data for 2020 reflects the challenging circumstances faced by Indonesia, particularly Pekanbaru City, due to the COVID-19 epidemic. This health crisis has necessitated people to stay at home and limit outdoor activities, leading to the closure of numerous businesses and widespread job losses. These events significantly influenced the economy, notably the collection of taxes. Tax revenue declined this year compared to the previous year, particularly in the tourism sector, such as restaurant, hotel, entertainment, and PBB-P2 taxes. Nevertheless, the hotel tax remains in effect as it serves as a designated facility for independent isolation. Additionally, despite people staying at home, the purchasing power remains active through e-commerce, resulting in the continuation of restaurant tax collection through internet transactions, commonly referred to as takeaway.
In 2021, taxes in Pekanbaru City, particularly those related to restaurants and hotels, have started to rise in comparison to 2020 despite the ongoing epidemic. However, the government and the community are trying to sustain economic activity in addition to the implemented policies and tactics to achieve the local tax revenue objective. However, in 2022, the tax revenue objective seems to have decreased. Nevertheless, the actual revenue for this year experienced a substantial increase, approaching the previously established target. Indonesia is currently endeavouring to recuperate from the COVID-19 pandemic in several domains, including the economy, during the year 2022.

The data above indicates that street lighting tax revenue has remained steady in recent years despite the adverse effects of the COVID-19 pandemic. Furthermore, there has been a yearly growth in street lighting tax revenue. The restaurant tax and BPHTB have both witnessed an upsurge in 2022, potentially serving as the government's focal point in bolstering the attainment of local tax revenue. The available data demonstrates that the LRA of Pekanbaru has effectively fulfilled its tasks and responsibilities.

2. **Strategy of the Local Revenue Agency (LRA) to Enhance Local Tax Revenue**

In order to achieve the target of tax realization, the Local Revenue Agency (LRA) has devised a strategy to increase local tax revenue in Pekanbaru City. The implemented initiatives by Local Revenue Agency of Pekanbaru City include:

a. **Expanding collaboration networks, re-regulating, and socializing with diverse stakeholders.**

To enhance the collection of local taxes, the local government is imperative to implement policies and methods that serve as a conduit for attaining these objectives. In order to achieve the desired objective, LRA must establish a network of collaboration and communication with different stakeholders, to optimize the transmission of information regarding policies designed to assist taxpayers. Although LRA of Pekanbaru has used the earlier tactics, not all have successfully raised PAD revenue. Removing administrative penalties for local taxes is one tactic that has not worked out well. This measure was implemented during the COVID-19 epidemic to provide assistance to the community. It has been prolonged until August 2023. However, removing tax fines has not substantially impacted the increase in PAD income. Additionally, the abolition of tax fines is a vulnerability, as it is exploited by dishonest taxpayers to postpone their tax payments.

Furthermore, the untapped strategy is enhancing digital services via Smart Tax Pekanbaru. Most individuals in Pekanbaru City, particularly the senior population, lack familiarity with the Smart Tax application. Consequently, online data collecting, and payment processes have not been entirely efficient due to the community's lack of awareness of the program, as indicated by the findings of researcher interviews. The above information pertains to those who file their tax returns via the Smart Tax Pekanbaru program.

b. **Optimizing Smart Tax application**

The number of taxpayers using the Smart Tax Pekanbaru application to file their taxes is shown in the figures above. Taxpayers who submit their data to LRA will be enrolled by workers online in the Smart Tax application, facilitating future tax reporting through the program. Therefore, it may be asserted that the figure represents the monthly taxpayer data, provided that
individuals comply dutifully with their tax reporting obligations. Nevertheless, based on the research findings, the actual count of WP (Taxpayers) registered at LRA Pekanbaru City. A notable disparity exists between the number of taxpayers listed in the LRA of Pekanbaru and the Smart Tax Pekanbaru application, as evidenced by the data registered at the LRA of Pekanbaru, indicating that numerous taxpayers fail to report their taxes to the LRA Office. Various factors contribute to the disparity in the numbers, including taxpayer enterprises that have permanently ceased operations but have not reported their closure to LRA, resulting in data retention. Therefore, it may be inferred that the defined plan has not been executed optimally in various local tax domains due to encountered difficulties and underlying factors.

In order to optimize the functionality of the Smart Tax application, it is essential to ensure equal dissemination of information and regularly gather data to monitor the operations of businesses owned by taxpayers. Furthermore, it is imperative to implement complementary measures that guarantee the diligent execution of tax collection officers’ responsibilities, such as directly delivering SPPT to the relevant parties and preventing taxpayers from falsely claiming non-receipt of billing notice letters.

3. The Projected Approach of the Local Revenue Agency of Pekanbaru to Enhance Regional Tax Revenue

Rivai and Prawironegoro (in Devi: 2021) define strategy as the methods and instruments to attain the ultimate aim or objective. According to Argyris in Umbu (2021), strategy is an ongoing and flexible reaction to both external opportunities and threats, as well as internal strengths and weaknesses that have the potential to impact the business. Hence, the LRA of Pekanbaru implements a strategy to enhance local tax revenue to benefit the community. These funds are utilized to facilitate the implementation of government initiatives aimed at promoting the well-being of the community and are intended to address the issue of insufficient tax revenue collection.

The 2019 work plan of the LRA prioritizes activities such as data collecting, supervision, charging, and updating taxpayer information. This year, tax collection officers are continuing to verify tax objects individually by physically visiting the neighbourhood. Furthermore, there is a lack of policy on the digitization of the tax registration system. In 2020, LRA's work strategy remained unchanged from the previous year, emphasizing data collecting, oversight, billing, and updating taxpayer data. In that particular year, the government is actively developing initiatives on electronic-based regional financial management.

The overall work plan of the LRA for 2021 undergoes modifications. In this year, LRA's primary emphasis is on disseminating policy guidance. One such policy pertains to eradicating fines associated with hotel and restaurant taxes. Additionally, there is a focus on facilitating online registration of tax objects through the Smart Tax application. In 2021, a plan involving establishing cooperative networks, policy re-regulation, and socialization with multiple stakeholders commenced.

The 2022 work plan remains unchanged from the previous year, except for the exclusion of taxpayer determination. This year, the central LRA initiative includes technology-based tax payments and the dissemination of information to many relevant stakeholders. The challenges faced by the LRA of Pekanbaru City aim to enhance the attainment of local tax revenue through
the following measures: 1) Insufficient public consciousness regarding tax payment, 2) Inadequate dissemination of information about LRA of Pekanbaru, 3) Economic recession resulting from the Covid-19 pandemic.

**Discussion**

Increasing regional original tax revenue in the era of the COVID-19 pandemic has become a critical concern for many countries and local governments. The pandemic has significantly impacted tax revenues and the financial stability of small and medium enterprises (SMEs) (Ntiamoah et al., 2023). The outbreak has led to a decrease in tax revenues and an increase in recurrent expenditures, necessitating the need to re-engineer revenue drives for future development (Adekoya et al., 2021). The allocation of funds for COVID-19 prevention has also contributed to deficit financing, affecting regional revenue and expenditure budgets (Adekoya et al., 2021). Studies have shown that the pandemic constraints have had a negative effect on business entities and tax revenue (Femi-Olagundoye & Olagundoye, 2022). Furthermore, the analysis of developing Asia's fiscal landscape has revealed a lag in tax revenues compared to high-income economies, emphasizing the challenges faced by developing regions (Go et al., 2022).

In response to these challenges, researchers have proposed various strategies to address the impact of the pandemic on tax revenues. These strategies include utilizing mixed-frequency data and implementing tax incentive policies to support national economic recovery (Kumala & Bakar, 2022; Lahiri & Yang, 2022). Additionally, evaluating the quality of tax service during the pandemic era has been highlighted as a crucial factor in maintaining taxpayer compliance and satisfaction (Rahmiati & Inayah, 2022). The impact of the pandemic on specific sectors, such as hotel and restaurant tax revenue, has also been analyzed, emphasizing the need for targeted interventions to support affected industries (Andriansyah et al., 2021).

Moreover, the pandemic has affected the compliance level of annual tax reporting for individual taxpayers, posing a challenge for countries aiming to increase tax revenues (Ambarwati et al., 2021). In response, tax policies have been introduced to mitigate the economic impact of the pandemic and provide incentives for taxpayers (Padyanoor, 2020). Additionally, the implementation of accounting standards and education levels has been identified as factors influencing taxpayer compliance during the pandemic (Kristiana et al., 2021).

**CONCLUSION**

The strategy implemented by LRA Pekanbaru City has been successful, particularly in light of technological advancements. This strategy involves digitizing services, which has proven effective in achieving the tax revenue target. The process has become more efficient by enabling taxpayers to access these services from anywhere and transitioning from direct to online payment methods, reducing waiting times and queues. Implementing technology for submitting SPTPD (local tax notification letter) will also decrease fraudulent activities that could be carried out by dishonest personnel or the general public. LRA of Pekanbaru provides technological help,
establishes networks, revises regulations and engages in socialization with many stakeholders.

The main hindrance to LRA of Pekanbaru City's efforts to increase local tax revenue is the insufficient public knowledge, particularly among taxpayers, regarding tax payments. Taxes are a mandatory financial responsibility that all taxpayers must fulfil to contribute to the community's well-being. Therefore, it is crucial to foster knowledge within the community. Furthermore, the inadequate socialization efforts of LRA result in taxpayers residing on the outskirts of Pekanbaru City needing to be more informed about the government's initiatives to alleviate the burden of public taxes. Along with the COVID-19 pandemic-related economic crisis, a significant issue over the past two years, it is a reminder to all stakeholders to collaborate to recover from this downturn.

REFERENCE


