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Robert A Simanjuntak

Georgia State University

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International Studies Program
Andrew Young School of Policy Studies
Georgia State University
Atlanta, Georgia 30303
United States of America

Phone: (404) 651-1144
Fax: (404) 651-4449
Email: ispaysps@gsu.edu
Internet: http://isp-aysps.gsu.edu

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Introduction

One crucial element of any system of local government, especially in relation to local autonomy concept, is the power to tax the local population in order to finance the provision of local services. Regional governments often regard the proportion local taxes and charges in their total budget revenue as the main indicator of the degree of local autonomy which they enjoy. The larger the taxing power, the larger the proportion of own-source revenue in the total budget, and the more autonomous they are. Many local government officials in Indonesia nowadays share this view.

However, the local tax base have been unsatisfactory for many years, i.e. it is not yielding sufficient revenue, or its incidence is perceived unfair. Table 1 shows us that during 1990s, the majority of province's own source revenue were less than 30% of their total budgets. The situation is even less satisfactory for districts/cities. Regional governments have thus entered the autonomy era with such condition.

Reform can either concentrate upon improving administration of the existing taxes or search for alternative local taxes. It can, of course, seek to do both. However, the last two years have witnessed that there are so many regulations produced by regional governments. Most regulations are about the proposals of new local taxes or user charges. This reflects the efforts of local governments to seek new local taxes more than their efforts to improve local tax administration.

This short paper will look primarily at the criteria for evaluating many alternative forms of local tax, their advantages and disadvantages. As an example, the usage of these criteria for evaluating taxes on property, income, and expenditure will be discussed. Then, the criteria will also be used to review list of taxes which include: regional taxes (provincial and local) as stipulated in Law No 34/2000, several taxes proposed by local governments through their regulations, and some taxes which some government officials think suitable as local tax.

The Evaluation Criteria

To judge the potential and performance of taxes, some criteria are needed. These will be set out under six headings: adequacy and elasticity; equity; administrative feasibility; political acceptability; economic efficiency; and suitability as local tax/ revenue.

Adequacy and Elasticity

The first and most obvious requirement for revenue sources is that they should be adequate to meet the costs of the services which they are intended to finance. Such taxes are desirable.

However, costs of services are not static. They increase because of several causes, i.e. inflation, growing population (especially in urban areas), rising standards of living that inspire demands for higher standards of services, and because national development plans may expect services to be improved and expanded. Therefore, it is desirable that revenue sources should have some "elasticity," i.e. their capacity to yield additional revenue should respond to the same pressures as the increasing demands upon public expenditure. Also, the tax base should grow automatically when price rise, the population increases, the economy expands, etc.

Equity

A second major requirement is equity - that is the burden of maintaining public expenditure should be borne by sections of the community in proportion to their wealth. By these standards, taxation is good if it is progressive, i.e. if the percentage of a person's income paid in tax increases with the level of that income. It is tolerable if it is proportionate, i.e. if the percentage of income paid in tax is constant at all levels. But, it is bad if it is regressive, i.e. if the percentage of income paid in tax declines with rising income levels.

In terms of local taxation, the question of equity has to be seen in three dimensions. First, the incidence of tax should be equitable as between people of different income levels ("vertical" equity). Second, it should be equitable between different sources of income; a salaried man should not pay more than one with an identical income derived from business or agriculture ("horizontal" equity). Third, the incidence of taxation should be fair as between geographical areas; people should not be taxed more heavily simply because they live in one area rather than another (this is likely to happen on the borders of town).

Equity has particularly to be seen in relation to both revenue and expenditure. It may be fair to tax people more highly if they live in an area which has quite an exceptional quality/level of government service. Equity will be worst when people are taxed more heavily in relation to their income and yet enjoy a substandard level of services.

Here, a progressive tax structure is quite desirable on grounds of social justice. It means, that people in the lowest income groups should be subject to very light taxation or totally exempt. However, this is easier to achieve in industrial (well-developed) economies. In developing (or least developed) countries, where most of the population are in the lowest income range, the tax base provided by the middle and high income groups may be too small to bear the major weight of public expenditure.

Administrative Capacity

Revenue sources vary in the amount of skill, integrity and determination required in their administration. They also vary in the amount of time and money involved in collecting them, compared with the yield. In many developing countries the majority of the population, especially in the cities, are self-employed, or working for small "informal sector" businesses without clearly assessable income. The administrative costs of assessing and collecting any direct property or income tax from such a population are very high, although the average amount that can be collected per capita may be low.

On the other hand, a substantial revenue may be collected through a duty on petroleum, for instance, at negligible administrative cost. In such economies there is a heavy bias of administrative convenience towards dependence upon indirect revenues (which can be levied on formal sector commercial transactions through large manufacturers, importers, distributors, etc.). This is no necessarily consistent, however, with considerations of equitable incidence.

Political Acceptability

Any tax is not popular. That is why political will is needed to impose taxes (i.e. to decide questions of liability and assessment, to collect them physically, and to enforce sanctions against defaulters).

Sometimes political sensitivity focuses on particular questions of social values (e.g. should you tax land, or charge for water), or of sectional interests (of landowners, civil servants, traders, etc.). More generally, taxes are usually less sensitive politically if they are indirect (concealed), and do not involve too many overt political decisions such as parliamentary/council decision to raise the rate of tax.

Economic Efficiency

Taxation basically has two purposes: to provide money for public purposes, and to influence economic behaviour. Taxes affect the cost of individual decisions. For instance, a property tax affects the profitability of building and renting a house, a sales tax affects the cost of buying a shirt, an entertainment tax affects the cost of going to the cinema. Therefore, taxes must be judged also in terms of their effect upon the decisions of a taxpayer, upon his propensity to work, consume, save, and invest.

Economic efficiency criteria are generally more important in appraising national than local taxes. There are two arguments for this. First, it is usually central government who are principally responsible for overall (macro)economic management and who use taxes to manipulate economic behaviour. Second, the scale of local taxes is usually insufficient to make a significant difference to people choices. However, it must be nevertheless of concern whether local taxes will have significant effect (harmful or good) on local economic behaviour.

Suitability as Local Revenue

Tax administration by local authorities raises specific questions of feasibility. Some relating to the availability of administrative skills have already been raised. Others will be mentioned here.

First, is whether it is clear to which authority a particular tax liability is due. Second, and related with the first issue, is whether the feasible point for collecting a tax is necessarily the location where it is effectively paid. Third, concerns the feasibility of local variation in tax rates or assessment rules. Ideally a local authority should have discretion to set its own tax rates, to make its own decision on the levels of taxation it raises and of services it offers.

Evaluation of Three Taxes

The following section shows the use of the criteria for evaluating three kind of taxes, i.e. taxes on property, taxes on income, and taxes on expenditure.

Taxes on Property

Property tax revenues are frequently substantial, stable, and predictable. International experience shows that this is the most substantial tax sources for local (municipal) government.

But the elasticity of property taxes is relatively poor in relation to growth in prices, population, and incomes.

Property taxes are relatively equitable in that there is usually rough correlation between the income of individuals and businesses and the value of the premises they occupy. There are, however, some factors which impair equity such as: i) market forces may result in considerable differences in rental or capital values which depend upon location rather than the quality of premises or the income of the occupants, and ii) the rental or purchase costs of housing or business premises upon which the tax is based, may represent higher percentage burden on the income of the poor than on the rich.

Regarding administrative capacity, the great merit of property taxation is that liability is, or should be obvious. One cannot conceal a plot or a building. Even so considerable effort is necessary to keep good surveys and taxrolls up to date.

However, property taxes are highly sensitive politically. There are two reasons. First, they have to be collected directly from taxpayers, and therefore even more seen as a burden than income taxes which may be deducted by employer. Second, any increase in tax, whether by tariff revision or revaluation, is normally dependent upon a deliberate political decision by ministers, members of parliament, mayors, or councilors.

Likewise, this tax is often debated in terms of its incentive effects on land use and construction. But, for this tax, it is clear to which authority the liability is due, since a plot or building is clearly located within a particular jurisdiction.

Taxes on Income

(National) income tax is buoyant, certainly so far as inflation and economic growth are concerned. This would benefit local authorities which exploit it through surcharging or tax sharing. This taxation is also potentially the fairest form and can readily be made progressive. The problem, however, to achieve horizontal equity, i.e. to achieve equal taxation of people with equal incomes but from different sources. Assessing salary earners is easy, but assessing self-employed person is more difficult. Two devices are common here - self assessment, or the use of presumptive income criteria.

Income taxation is relatively simple to administer so far as wage and salary earners are concerned (if employers are required to deduct at source). Assessment of and collection from the self-employed is far more difficult and collection costs can be high. Use of presumptive incomes here will help assessment, but the resulting inequity is only tolerable where the incidence of the tax is low.

In terms of political acceptability, income taxation is sensitive insofar as it is a direct tax. But collection at source mitigates this to some extent, and increases in payment take place automatically as income rise. Taxation of the self-employed, however, is more sensitive since much argument may arise in the assessment process, and effective collection may depend upon an enforcement.

Regarding the suitability as local tax, some arguments arises over (local) income taxation where an individual resides in a different jurisdiction from that in which she or he works. It is usually held that the area in which a person lives should get the tax but some towns claim the right to tax commuters. The most difficult question arises over taxes on corporate incomes, where profits may be derived from operations in several locations. This may be solved by developing formulae for assigning these to different local authorities, but the process is very complex.

Taxes on Expenditure

Taxes on expenditure are perhaps the most buoyant of all, particularly if tariffs are expressed in percentages of prices and not on a unit price basis. The volume of business taxed (or of traffic in the case of vehicle taxation) should automatically reflect growth in population or personal incomes. Local tax sources such as motor vehicle tax in Indonesian provinces have proved extremely elastic.

However, the equity of taxes on expenditure is difficult to determine because of uncertainty as to who really bears the tax. So far as such taxes are passed on to the consumer, it can be argued that equity is preserved since expenditure is a reflection of ability to pay.

In terms of administrative capacity, these raise very large revenues with very little cost or difficulty where they are collected through large marketing or manufacturing organizations. Or, as with vehicle taxation, imposed through forms of licensing which the public have a strong incentive to obtain. These levies are much more costly and difficult to apply to commercial transactions conducted through small business, markets, and the " informal sector."

Taxes on expenditure are usually the least sensitive politically since they are normally indirect and subject to a measure of concealment. They may however encounter opposition where they are seen to contribute to price rises which foster discontent, or where an attempt is made to imposing high rates on luxury items which affect political and business elites.

Evaluation of Existing and Proposed Local Taxes

Before Law No 18/1997, there were about 40 kinds of regional/local taxes and 180 user charges. Law No 18 limited local government taxes to only 9 and user charges into 30. Until the year 2000, the provincial and local taxes and charges are principally regulated by this Law. Such law was not considered suitable for local governments to enter regional autonomy era. Therefore it was amended, and the new Law is called Law No 34/2000.

Under Law No 34, there are 11 regional/local governments taxes, but they are also allowed to design and impose their own additional local taxes and charges. One argument for this may be to fulfill the need for revenue choice at the margin. It is very hard, however, to identify suitable such additional taxes and charges which meet the criteria laid down in that Law (which are based on widely accepted principles). That is why, there is a tendency many local governments re-implement the "old taxes" being abolished by Law No 18/1997, or they propose new (potential but "nuisance") local taxes.

The following section reviews the local taxes as stipulated in Law No 34, several taxes which are proposed by many regional governments to be added to the list of local taxes, and some taxes that seem to be potential as part of local own-source revenues. The evaluation is summarized in table 6.

Motor Vehicle (Transfer) Tax

The yield of the two motor vehicle taxes are always substantial, compare to the other taxes. It is also elastic. Collection costs tend to be very low, especially in the cities like Jakarta, Surabaya, dan Medan where the system are computerized.

These taxes can be considered as reasonably equitable, especially since car ownership is generally limited to the high income groups. Regarding economic efficiency, there are no obvious negative effects, given problems of traffic congestions and pollution such taxes could be said to have a positive economic impact. These taxes are also relatively easy to implement, and despite the visibility of large lump-sum payments, these taxes appear to be politically acceptable.

Finally, they are suitable as local/regional revenues since in most cases it is easy to identify the correct location of the tax object (although there may be certain problems of shifting registrations if tax rates are vary significantly between regions - such as between Jakarta and Bekasi).

Fuel Tax (Tax on Gasoline)

This tax has many advantages. This is a buoyant tax, since the yield are quite substantial, and the collection costs negligible (since it is collected through Pertamina, the national oil company). Also, this has an equitable effect, because it would bear mainly on car-owners, and a clear relationship between the tax and local government’s responsibilities for road maintenance. There is, however, counterargument which concerns the effect on transport costs for passengers and freight. But, the effect should be minimum (5% increase in the price of fuel), and largely could be avoided if the tax were applied to gasoline only.

Hotels and Restaurants Taxes

Previously this was one tax, but since the implementation of Law No 34, these are separated into two taxes.

Both taxes have similar characteristics. They are buoyant, and have quite a substantial yield. Since they are based on percentage of turnover, the yield should be quite elastic. In practice, however, since most of the smaller establishments do not issue receipts, turnover has to be estimated, and this must be done regularly if revenues are to keep pace with inflation. This direct assessments increase administration costs.

There are no obvious economic efficiency issues, and the taxes can be regarded as comparatively equitable (since the rich are likely to spend proportionately more on hotels and restaurants than the poor). The taxes are also relatively easy to assess and collect, although for the bulk of establishments which produce no receipts, there are often causing a process of "negotiation," with all the scope for abuse which that implies.

Then, as a regional source of income, it is quite suitable. The tax object is clearly located, and the point of collection will normally be the same as the point of incidence.

Entertainment Tax

For many districts/cities, this is the highest yielding taxes. The yield are also quite elastic, since the tax is set as percentage of the admission price, and the collection costs are relatively low.

This tax can be regarded equitable, since entertainment is a luxury, and tariffs usually vary according to the type of entertainment, with traditional performances usually having the lowest rates. Also, this tax has few economic efficiency effects, and certainly should not discourage work or savings.

The political problems are relatively minor, since the tax is relatively easy to disguise in the price of the ticket. Regarding the administrative capacity, the requirements are not complex, and evasion can be minimized if the local government print the tickets.

Finally, this tax can also be regarded as highly suitable as a regional revenue source, since the location of the entertainment is easy to determine.

Advertisement Tax

Most local governments (especially: cities) levy a tax on advertisement signs and billboards in their area. Tax rates, however, are quite complex and are based on size and duration. The rates require regular revision to keep up with inflation. This tax is relatively buoyant, the yield and growth rates have been reasonable. However, collection costs can be quite high.

The tax presents no particular equity or economic efficiency problems, and is relatively easy to implement. It is also suitable as a local revenue source, as the location of the tax objects can be clearly identified.

Street Lighting Tax

Generally, this tax is buoyant. Until mid 1990s, it was the third largest local government's tax. The tax is collected for local authorities by the state electricity corporation (PLN) as a surcharge on electricity accounts.

This tax is relatively equitable, since the basis - the installed capacity or consumption - is likely to be reasonably well correlated with ability to pay. The problem is , perhaps, concerning economic efficiency. This is because of the tax that (however small) may distort PLN's pricing policy.

This tax is relatively suitable as local revenue source, and, with computerization, revenues can easily be assigned to the appropriate local authority.

Business (Registration) Tax

In the previous, until mid 1990s, this tax is the fourth largest local government's tax. The name is actually quite inappropriate, since it is really just a tax based on the size of the business, while responsibility for registration of businesses rests with the Ministry of Industry and Trade rather than with local government. However, in this decentralization era, many local governments assume such function as theirs.

It is levied on most businesses, using area of premises and/or installed power capacity as the basis of assessment. Being based on physical characteristics, therefore, the yield tend to be inelastic, and regular reassessment is required. As a result, collection costs are quite high.

For this tax, equity effects are uncertain. There is generally a "progressive" tariff structure, in that larger premises pay more. But this does not necessarily produce equity, since that will depend on who the final consumers are and what proportion of the tax is passed on.

Regarding economic efficiency, such tax is likely to have a negative effect on production and enterprise. It discriminates against manufacturing industries, since these are the main consumers of power. But, implementation does not present serious political problems, because the tax burden can generally be passed on.

Basically such tax is attractive as a local revenue source, as it provides a means for local governments to tap the economic base of its region. However, it presents a number of serious problems, i.e. conflict or overlap with national taxes on property, value added, and income; and the point of ultimate tax incidence may be far from the point of tax collection, especially for larger enterprises.

Land Development (Betterment) Tax

This is a tax to recover the costs of providing new urban infrastructure from land owners. In Indonesia, the potential has never been exploited yet. This tax would not generate a substantial revenues, but would facilitate the financing of a crucial sector for which local government is responsible, urban infrastructure.

This tax also would have equity advantages, since the tax would recover some of the wind-fall gains accruing to the land-owners. However, there seem to be quite a lot of practical problems, and such a tax would have to be applied carefully.

Tax on Slaughtering

This tax was levied by most local governments before abolished by Law No 18/97. There is a tendency that many local governments will re-implement the tax. Its overall level and growth of yield was actually quite reasonable.

However, since the rates are usually fixed, regular revisions are required to keep up with inflation. Meanwhile, collection costs should be fairly low since the tax is generally collected along with charges for the use of local governments' own abattoirs, where most of the slaughtering is undertaken.

This tax does not present any serious equity problems, except in that it represents a tax on only one small sector of the economy. On economic efficiency grounds, it can be argued that it discourages meat production, and may encourage unofficial (probably, substandard) slaughtering. On implementation issue, it presents few problems, but is generally suitable as local tax, although large variations in tariffs between regions could cause shifts in the location of slaughtering.

Tax on Foreigners

This was a per capita tax on foreign citizens, notably the Chinese. Until early 1980s the yield was relatively quite significant, but revenues had been declining steadily as foreigners had been encouraged to take out Indonesians citizenship. The yield, therefore, is inelastic, and collection costs are high.

The tax raises issues of equity as between one ethnic group and another, and because rates are not related to ability to pay. Although there are no important issues of economic efficiency or ability to implement, it is not particularly suitable as a local tax, since it is often difficult to locate the person on whom the tax is to be levied. Considering these, it would seem much better to incorporate this tax within a progressive national income tax system.

Tax on Non-Motorized Vehicles

Revenues for this tax have been virtually static, and collection and enforcement costs probably consume a substantial proportion of the revenues. It also can be regarded as regressive, since users of bicycles and operators of *becaks* and similar vehicles are likely to be among the poorer members of society.

With regards implementation, it has a considerable nuisance value, since it is generally levied in addition to fees for vehicle inspections, licenses, and number-plates, which are separately administered by the police.

Radio Tax

This tax, probably once quite a significant local revenue source, had declined rapidly before the abolishment by Law No 18/1997. A few regions are reintroducing the tax, since in the regions it is probably still a significant earner. But, collection costs probably outweigh yields, since it involves house-to-house collections for trivial amounts. There are, however, no particular equity or efficiency issues. It presents problems of enforcement, since the tax object is easily hidden, although this may be considered suitable as local revenue source.

Land and Building (Transfer) Tax

Land and building tax and land and building transfer tax are two national taxes with great potential as local revenue source. As international experience has shown, property taxes are usually in the hand of regional governments.

In terms of adequacy, equity, and its suitability as local revenue, these all scored well. Transfer of these taxes to local governments would make a substantial contribution to increasing local fiscal autonomy and accountability.

The transfer, however, would require attention to some practical problems, notably concerning the off-shore portions of the oil and gas sectors. Also, the administrative capacity in some local governments. But they should not prove insuperable.

Sales Tax

At its simplest form, such a tax on local sales would be confined to retail sales of goods (with an exemption of non-luxury food, clothing, and other basic needs). This tax may be buoyant, and could be considered to be economically neutral, and the burden across the community reasonably equitable (if it is assumed that the real burden falls mainly to consumers).

However, for most local governments in Indonesia nowadays, capacities to administer such a tax effectively and fairly must be seriously in doubt. In practice, it will be very likely that collection effort would focus on large retailers, producing unfair discrimination and a disincentive to the formation of larger scale retail concerns.

Finally, the tax would also be seen as aclear duplication with the national value- added tax, although this tax is quite suitable as local tax.

Payroll Tax

A payroll tax is clearly a levy on selected businesses, namely those businesses which employ other than the owner(s). This may be levied as flat monthly amounts per employee, or as percentage of monthly company payrolls.

The yield should be good, but it may be considered as inequitable, since the self-employed would escape liability. It could also act as disincentive for formal employment, leading to avoid the use of contract and informal labour, and then adding to job insecurity. Therefore, the tax could be argued to be economically distortive. While assessment and collection would seem relatively simple, and within the capacity of, as well as suitable for, local governments, there could be problems with the effective and fair administration of a wage-bill related tax. This is because of the employers would tend to seek to minimize liability by keeping their wage scales low.

Other Local Taxes

Many of the thirty local taxes being abolished by Law No 18/1997 are going to be (or already) implemented by local governments. Most of them, in general, are very unsatisfactory. The largest group was made up of taxes on local products, most of which are important only in certain areas. Certain taxes such as dog tax and the tax on sale of alcohol can be seen as having regulatory function, but this is often totally ineffective. It may also overlap with a licensing system, for which a separate charge is made, as in the case of the sale of alcohol.

Apart from being less buoyant (yielding very little), many of these other taxes cost more to collect than they yield, if all the costs are accounted for. There are often problems of assessment and enforcement, while the effects in terms of equity and economic efficiency are frequently unsatisfactory.

Another issue is, if the tax is buoyant, it does usually not comply with the other criteria, such as: “distortive” to the economy, problems of double taxation, and discriminate between particular sections of the community.

The proposals made by local governments for such taxes have generally emerged as a result of a desperate attempt to try to find anything in their local area from which they can derive some revenue, but most represent highly unsuitable forms of local taxation. This, in particular, is for local governments with lack of natural resources and/or low economic potential.

Concluding Remarks

Table 6 illustrates the broad pattern of performance, and shows that many local taxes (especially those being proposed by local governments) perform quite poorly. However, local governments seem to be not recognizing many of these issues or criteria used for the evaluation. Their main concern has been simply to increase local tax revenues. This concern has been encouraged in the autonomy era by one misperception, i.e. regarding theproportion of local taxes and charges in their total budget revenue as the main indicator of the degree of genuine autonomy.

Steps for Reform

It seems clear from the above discussion that there is no easy way to increase the role of local own-source revenues to the regional budgets. The following are suggested as possible steps for reform.

Abolition of Unsatisfactory and "Nuisance" Local Taxes

Law No 18/1997 has actually done a good job when it abolished many unsatisfactory local taxes. Most of these taxes should not be implemented again, with the exception for those few taxes which are quite significant in certain areas. But, some newly introduced local taxes (or charges) which do not comply with the criteria in Law No 34/2000 (or the expanded criteria by the Ministry of Finance) should be abolished. The local governments should concentrate only to a few but potential local taxes.

Improve the Remaining Taxes

The local taxes listed in Law No 34/2000, actually can be improved. For example, entertainments tax could be broadened to cover other sorts of amusements and recreations. Business registration tax could be extended to cover all businesses including shops and services. Tariff rates for street lighting tax could be increased somewhat without significantly affecting PLN's pricing.

Possible New Local Taxes

Given the present range of national and local taxes, there is relatively little scope for inventing good and potential new local taxes. However, as discussed before, several taxes are good candidates. They are: local and building tax and their transfer tax, which are currently national taxes; land development tax; green tax; sales tax; payroll tax; and business registration tax. Deeper study, of course, is necessary to decide whether these taxes are appropriate as local revenues.

Improve the Administration Capacity

There are, of course, plenty of rooms for improvement in terms of administration of local taxes. They could include a unified register of taxpayers for all local taxes, with the facility to cross-check assessments and payments; computerization on motor vehicle taxes, and more effective enforcement against defaulters, including closure of premises in certain cases.

One of the most omportant issues is a greater concern with the cost effectiveness on local revenue collection, taking account not only of the direct cost of tax administration but also of the overall cost burden to the economy, including compliance costs to the taxpayers.

Transfer of National Tax or Surcharging

None of the above proposals, however, will fundamentally affect the relatively weak position of local taxation within the overall local budget. Two other suggestions would have a rather greater impact. First, transfering national (central) tax(es) to local level. The strong candidates would be, as mentioned above, land and building tax, and land and building transfer tax.

It should be mentioned here, however, that the main beneficiaries of these taxes will be the urban areas, since the scope for increasing tax yields on agriculture are limited.

The second suggestion is by applying local supplements on top of certain national taxes (also known as " piggy back" taxes). The strong candidate for which such local supplementation is quite feasible appear to be the personal income tax. The fact that this is already now shared with local governments is no barrier to districts/cities a futher supplementation facility. Or, to avoid giving more burden to the society, the 20% regional share could be converted to become a local supplementary tax on the national income tax.

Again, a deeper study should be undertaken here.

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Law No 22/1999 on Local Government.

Law No 25/1999 on Fiscal Balance between Central and Local Government.

Law No 34/2000 on Regional Government Taxes and Charges.

Several Local Government Regulations.

Table 1
Distribution of Regions by Ratio of Own-Source Revenues to Regional Budget
Average 1990-1999

OSR/RB (%)	Provinces	Districts/Cities
< 10	3	151
10 - 19.99	4	82
20 - 29.99	11	38
30 - 39.99	6	13
40 - 49.99	1	7
= 50	2	1
	27	292

Source: Ministry of Finance
Note: OSR = Own Source Revenues, RB = Regional Budget

Table 2
List of Regional Government Taxes Before Law No 18/1997

Provincial

1. Vehicle tax
2. Vehicle transfer tax
3. Household tax
4. Other provincial taxes (non-significant)

Local

1. Hotels/restaurant tax
2. Advertisement tax
3. Entertainment tax
4. Street lighting tax
5. Foreigner tax
6. Surcharge on household tax
7. Tax on fishing in territorial waters
8. Road tax
9. Slaughtering tax
10. Dog tax
11. Tax on sale of fireworks
12. Tax on sale of alcohol
13. Non-motorized vehicle tax
14. Tax on luxury burial monuments
15. Temporary residence tax
16. Tax on amusement machines
17. Radio tax
18. Tax for provision of drinking water
19. Business registration tax
20. Temporary residence permit
21. Tax on ownership of land adjacent to highway
22. Tax on lodging houses
23. Tax on storage of goods on public land
24. Businesses tax
25. Tax on boats
26. Harbor tax
27. Tax on salt manufacture
28. Tax on transport of salt from region
29. Tax on pig farms
30. Tax on removal of bird's nests
31. Tax on removal of turtle's eggs
32. Tax on tobacco storage buildings
33. Tax on fish auctions
34. Other taxes

Source: Ministry of Finance and Ministry of Home Affairs

Table 3
Indonesia: Tax Assignment and Revenue Sharing, 1998

Revenue	Responsibility			Disposition Revenues (%)		
	Base	Rate	Adm.	Center	Province	Local
Oil and gas receipts	C	C	C	100	0	0
Income taxes	C	C	C	100	0	0
Value-added taxes	C	C	C	100	0	0
Import duties	C	C	C	100	0	0
Excises	C	C	C	100	0	0
Export Tax	C	C	C	100	0	0
Land and building tax 1)	C	C	C	9	16.2	74.8
Ld and bldg transfer tax 2)	C	C	C	20	16	64
Forestry royalties	C	C	C	55	30	15
Forestry licenses	C	C	C	30	56	14
Mining land rents	C	C	C	65	19	16
Mining royalties	C	C	C	30	56	14
Vehicle tax	C	C	P	0	100	0
Vehicle transfer tax	C	C	P	0	100	0
Fuel tax 3)	C	C	P	0	10	90
Hotels and restaurant tax	C	L	L	0	0	100
Entertainment taxes	C	L	L	0	0	100
Advertisement taxes	C	L	L	0	0	100
Street lighting taxes	C	L	L	0	0	100
Exploration tax of mine (type C) 4)	C	L	L	0	0	100
Exploration tax of surface and underground water 5)	C	L	L	0	0	100

Source: Ministry of Finance
Note:
- C = Central Government
- P = Provincial Governments
- L = Local Governments (Districts/Cities)
- For provincial and local taxes, as stipulated in Law No 18/1997

1) Center retains 9% as collection cost of the tax
2) Introduced July 1998
3) Introduced January 1998
4) Base minerals
5) Base excludes basic household and agricultural usage.

Table 4
Indonesia: Tax Assignment and Revenue Sharing, 2001

Revenue	Responsibility			Disposition Revenues (%)		
	Base	Rate	Adm.	Center	Province	Local
Oil and gas receipts	C	C	C	100	0	0
Income tax - corporate	C	C	C	100	0	0
Value-added taxes	C	C	C	100	0	0
Import duties	C	C	C	100	0	0
Excises	C	C	C	100	0	0
Export Tax	C	C	C	100	0	0
Income tax - personal	C	C	C	80	8	12
Land and building tax 1)	C	C	C,P,L	Center 10% and Regions 90%		
Ld and bldg transfer tax 2) C	C	C		Center 20% and Regions 80%		
Forestry royalties 3)	C	C	C	Center 20% and Regions 80%		
Forestry licenses 4)	C	C	C	Center 20% and Regions 80%		
Mining land rents 5)	C	C	C	Center 20% and Regions 80%		
Mining royalties 6)	C	C	C	Center 20% and Regions 80%		
Vehicle tax	C,P	P	P	0	30	70
Vehicle transfer tax	C,P	P	P	0	30	70
Fuel tax	C,P	P	P	0	10	90
Exploration tax of surface and underground water	C,P	P	P	0	100	0
Hotels tax	C,L	L	L	0	0	100
Restaurants tax	C,L	L	L	0	0	100
Entertainment taxes	C,L	L	L	0	0	100
Advertisement taxes	C,L	L	L	0	0	100
Street lighting taxes	C,L	L	L	0	0	100
Exploration tax of mine (type C)	C,L	L	L	0	0	100
Parking tax	C,L	L	L	0	0	100

Source: Ministry of Finance, Law No 25/1999, Law No 34/2000, several government regulations
Note: 1) from the centre's share (10%): 6.5% will be distributed evenly to districts/cities and 3.5% is collection incentives; from the regions's share (90%): 16.2% are provinces share, 64.8% local govt shares, and 9% collection costs. 2) all the central govt share (20%) will be distributed evenly to districts/cities; and 80% of the regions share: 16% for provinces and 64% for districts/cities. 3) 80% of regional share: 16% province, 32% producing districts/cities, 32% other districts/cities in the province. 4) 80% regional share: 16% province, 64% producing districts/cities. 5) and 6) 80% regional share: 16% province, 32% producing districts/cities, 32% other districts/cities in the province.

Table 5
Evaluation of Proposals for Major New Local taxes

Expanded and Supplementary Criteria	Sales Tax	Payroll Tax	Business Tax
The Tax must be suitable as a regional government tax, i.e. the tax base must clearly be located within, or arise from within, the regional government area, and relate primarily to economic activity from within the regional government area.	Complies	Complies	Complies
The tax must be politically acceptable at national and regional levels.	Doubtful	Doubtful	Doubtful
The tax must not overlap with that of another central or local tax or license fee having the characteristics of a tax (double taxation).	Fails	Doubtful	Doubtful
The estimated potential yield of the new revenue source should represent a substantial additional contribution to the present total of local revenues; it should also be founded on a buoyant revenue base.	Complies	Complies	Doubtful (depends on base and tariff)
The gross costs (i.e. costs before deduction of any staff-related grant) of collecting the revenue must be acceptably small compared to the yield of the revenue	Complies	Complies	Doubtful (depends on base and tariff)
The tax must not prejudice national economic policy	Complies (ignoring "double taxation" aspect)	Doubtful (discouragement to employment; further burden on business)	Doubtful (further burden on business)
Except as matter of deliberate (and well-justified) policy, the tax must not seriously change the allocation of economic resources within the regional government area or between regions, nor disrupt intra- or inter-regional trade.	Complies	Doubtful (discouragement to employment)	Doubtful (depends on structure)
The tax burden must be affordable, both by the majority of those directly liable to pay it, and by those on whom it would ultimately impact its effect on prices of the relevant goods and services)	Complies (with appropriate (through exemptions)	Doubtful (depends on structure and exemptions)	Complies (given sensible structure and tariffs)
The tax must not be regressive (i.e. disproportionate shares of the ultimate impact must not fall on the less well-off).	Complies (with appropriate exemptions)	Doubtful (depends on structure)	Doubtful (depends on structure)
The tax must not unfairly discriminate between particular sections of the community.	Complies (in principle, but not when poor administration is taken into account)	Fails (favours self-employment)	Complies

Evaluation (cont'd ……….)

Regional governments must be able to administer the revenue effectively (i.e. to be able to identify all, or at least the vast majority of, liable revenue-payers; to assess each payer's liability readily and accurately; and to effectively enforce collection of the revenues assessed as payable)	Fails	Doubtful (depends on structure, wage bill-basis tax would be open to large-scale avoidance)	Complies
The tax must not deter taxpayers from taking proper action to comply with environmental conservation needs	Complies	Doubtful (could discourage posts for environ-mental impact monitoring)	Complies

Source: "Fiscal Decentralization: A Ministry of Finance Policy Agenda," Directorate General for Central and Local Financial Balance, Jakarta, 2002.

Table 6
Evaluation of Existing and Proposed Local Taxes

Tax	Criteria					Total Score
	AE	E	EE	I	L	
Vehicle Tax	2	2	1	1	2	8
Vehicle Transfer Tax	2	2	1	1	1	7
Fuel Tax	2	2	0	1	1	6
Exploration Tax of Surface and Underground Water	2	1	0	0	1	4

Hotels Tax	2	2	0	1	2	7
Restaurants Tax	2	2	0	1	2	7
Entertainment Tax	2	2	0	2	2	8
Advertisement Tax	1	0	0	0	2	3
Street Lighting Tax	2	1	-1	2	0	4
Exploration Tax of mine (type C)	1	0	0	0	1	2
Parking Tax	1	1	1	0	1	4
<u>Possible New Taxes</u>:						
Land and Building Tax	2	1	0	0	2	5
Ld and Building Transfer Tax	2	1	0	0	2	5
Sales Tax	1	1	0	-1	1	2
Payroll Tax	2	-1	-1	0	1	1
Business Tax	1	1	-1	0	1	2
Land Development	0	1	2	-2	2	3
<u>Some Proposed New Taxes by Regional Governments</u>:						
Non-motor Vehicles Tax	0	-1	0	0	2	1
Sale of Alcohol Tax	-1	1	2	-1	-1	0
Slaughtering Tax	1	0	-1	1	1	2
Foreigner Tax	0	-1	1	1	0	1
Harbor Tax	1	0	-1	0	-1	-1
Road Tax	1	-1	-1	1	0	0
Dog Tax	-1	0	0	0	1	0
Radio Tax	-2	1	0	-1	1	-1
Tax on Amusement Machine	1	1	0	2	2	6

<u>Scoring</u>: +2 = Very positive (good) effect; +1 = Positive (satisfactory) effect; 0 = Neutral; -1 = Negative (poor) effect; -2 = Very negative (bad) effect.
<u>Criteria</u>: AE = adequacy and elasticity; E = equity issues; EE = economic efficiency effects; I = implementation (political and administrative) issues; L = suitability as local tax.
<u>Note</u>: the "methodology" used here is adopted from Nick Devas, *Financing Local Government in Indonesia*, Ohio University, Monographs in International Studies, 1989.