

Regional Tax Management Optimization Model to Realize Regional Financial Independence in Pekanbaru City, Riau Province

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Abstract. The financial independence of the Pekanbaru City area is based on the amount of the original regional income, especially the local tax revenue. The purpose of the research is to analyze the determination of regional tax targets with real potential, analyze the process of optimizing regional taxes for regional financial independence, and find a regional tax optimization model for regional financial independence in Pekanbaru City, Riau Province. The research used qualitative research with 12 units of analysis with 20 informants who were determined by purposive sampling. Secondary data collection using literature studies and primary data using interview techniques based on optimizing local tax management by observation. Data analysis uses descriptive analysis developed by triangulation of observers. The results of the study concluded that the determination of regional tax targets was carried out by expanding the revenue base by improving the database and assessment of local taxes determined based on the collection process and improving the supervision process, the application of sanctions to improve administrative efficiency and cooperation between agencies in Pekanbaru City, Riau Province, the process of optimizing local taxes is carried out by intensification and extension of tax subjects and objects to increase regional financial independence, and the regional tax optimization model is: Model Four Pillars of Optimization of Regional Tax Management in the context of financial independence based on intensification and extension, institutional and information system. It is recommended to increase the efficiency of tax administration and reduce collection costs through improving administrative procedures and increasing the efficiency of collecting each type of local tax as well as carrying out better tax planning by improving the coordination of related agencies within the regional government of Pekanbaru City, Riau Province.

Keywords: *Optimization of Revenue, Local Tax, and Financial Independence.*

A. INTRODUCTION

The implementation of government affairs is part of the governmental authority vested in the hands of the President according to the law and cannot operate independently. This demands synergy in funding for affairs in order to achieve national goals. In realizing these objectives, most recently based on the Explanation of Law Number 1 of 2022, it must be based on 4 (four) main pillars, namely: (1) Developing a Tax system that supports efficient national resource allocation; (2) Developing Financial Relations between the Central Government and Regions in minimizing vertical and horizontal disparities through Regional Financial Transfer as known in Indonesian as “Transfer Keuangan Daerah” (TKD) policies and Regional Debt Financing; (3) Encouraging the improvement of Regional Spending quality; and (4) Harmonizing fiscal policies between the central and regional governments for optimal public service provision and fiscal sustainability.

The presence of Law Number 1 of 2022 perfects the implementation of fiscal decentralization and is a consequence of the political decision of decentralization or regional autonomy. Law Number 23 of 2014 asserts that Regional Autonomy in its broadest sense is actually a very good opportunity for regional governments to demonstrate their ability to exercise the authority that belongs to the region. The progress of a region is largely determined by the ability and willingness of the regional government to implement it. Regional

governments are free to be creative and expressive in building their regions, of course, without violating statutory provisions. One consequence is that regions have a significant responsibility in financing government affairs in their areas; therefore, regional autonomy must be fully supported by increasing regional fiscal capacity.

One factor that can encourage an increase in regional fiscal capacity is through the expansion of fiscal decentralization, including strengthening and expanding tax and levy collection, thus expecting an increase in regional fiscal independence (BPK, 2021). Regional fiscal independence is a key indicator in measuring the ability of Regional Governments to finance their activities without relying on assistance from the Central Government. Similarly, Ritonga et al. (2017: 17) mention that one indicator of the level of regional autonomy in financing its needs can be seen from the ability of a regional government to generate local revenue compared to total income or often referred to as the Degree of Fiscal Autonomy as known as “Derajat Otonomi Fiskal” (DOF) in Indonesian. The higher the DOF of a region, the higher the level of fiscal autonomy of that region.

Furthermore, Government Regulation Number 12 of 2019 concerning Regional Financial Management ensures that regional financial management must be conducted in an orderly, efficient, economical, effective, transparent, and accountable manner, taking into account fairness, propriety, benefits to society, and compliance with statutory provisions based on the Regional Budget as known as “Anggaran Pendapatan dan Belanja Daerah” (APBD) in Indonesian, consisting of Revenue, Expenditure, and Financing. The Central Government grants authority to regions to collect Taxes and Levies by providing new sources of regional taxation, simplifying types of Levies, and harmonizing with Law Number 11 of 2020 concerning Job Creation. There is great hope for the optimization of local taxes and levies to become the main support for regional income, which has underpinned the enactment of Law Number 28 of 2009 concerning Local Taxes and Levies. The expectation is to create the effectiveness of regional income sources that will increase local revenue productivity, as Law Number 1 of 2022 updates regulations on local taxes and levies. Based on these regulations, regions are given the authority to levy taxes based on democratic principles, equality and justice, community participation, and accountability, taking into account regional potentials.

Strategic and fundamental steps in consolidating fiscal decentralization policies, particularly in building more ideal financial relationships between the Central Government and regions (Marihot, 2013: 56), aim to improve three main aspects: the refinement of the local tax and levy collection system, granting greater authority to Regional Heads in taxation (local taxing empowerment), and enhancing oversight effectiveness. These three aspects are known as strengthening local taxing power and are executed through various means, including expanding the types of local taxes in regencies/cities by: (1) Land and Building Tax in both rural and urban sectors as known as “Pajak Bumi dan Bangunan sektora Pedesaan dan Perkotaan” (PBB-P2); (2) Acquisition Duty on Rights over Land and Buildings as known as “Bea Perolehan Hak atas Tanah dan Bangunan” (BPHTB); (3) Groundwater Tax; and (4) Swiftlet Nest Tax.

Based on Law Number 1 of 2022, it regulates the provision of new sources of regional taxation, simplification of levy types, and harmonization with Law Number 11 of 2020 concerning Job Creation. Tax restructuring is carried out through the reclassification of 5 (five) types of consumption-based taxes into one tax type, namely: Tax on Certain Goods/Services as known as “Pajak atas Barang/Jasa Tertentu” (PBJT). This aims to: align tax objects between central and local taxes to avoid tax duplication; simplify tax administration resulting in higher benefits compared to collection costs; facilitate integrated tax collection monitoring by regions; and facilitate citizens in fulfilling their tax obligations, while also supporting ease of doing business through tax administration simplification. In addition to integrating consumption-

based local taxes, PBJT regulates the expansion of tax objects such as parking at recreational facilities, and the rental of sports facilities and infrastructure.

The strategic geographic location of Pekanbaru City has led the local government to formulate Pekanbaru as a MICE (Meeting, Incentive, Convention, Exhibition) City, known for exhibitions and meetings. Some key sectors that can be developed include: (1) being a city used as an international trade route making Pekanbaru strong in services and trade; (2) fostering tourism, especially as a leader in MICE tourism. The potential for local taxes: Hotel Tax, Restaurant Tax, Advertisement Tax, Groundwater Tax, Land and Building Tax, and Acquisition Duty on Rights over Land and Buildings should be proportional to strengthening Pekanbaru as a MICE City. This represents tremendous potential for regional financial revenue as reflected in data on the number of Tax Administration Officials, the number of Local Tax Objects and Subjects in Pekanbaru City. The ideal instruments are expected to accelerate the realization of community welfare through improved services, empowerment, and community participation, as well as enhancing regional competitiveness while adhering to the principles of democracy, equality, and justice.

In the last 5 years, local taxes have contributed between 80% to over 93% to Pekanbaru City's Local Revenue as known as "Pendapatan Asli Daerah" (PAD), and its realization has also shown an increasing trend every year (except during the pandemic in 2020). These figures are also much higher than the national average, where the contribution of Local Taxes in regencies/cities is only around 50%, with the City Government level at 81.29%. This means that local taxes have a strategically determining position in fiscal policy direction in Pekanbaru City. Despite the increasing trend in revenue and a higher contribution percentage compared to the national average, Pekanbaru City has never once achieved its local tax targets as set.

In order to minimize factors hindering or constraining the optimization of local taxes in Pekanbaru City caused by:

1. Insufficient availability of adequate tax database
2. Human resources that are not fully competent in managing local taxes
3. Inadequate availability of information technology roles to accelerate local tax services.
4. Lack of representative and adequate infrastructure to support community comfort in managing their tax administration.

The extensive format of regional autonomy actually presents a very good opportunity to demonstrate its ability to exercise the authority that belongs to the region. The expansion of fiscal decentralization serves as a strategic medium for creativity and expression in developing the region, of course, without violating applicable laws and regulations. Meanwhile, the fiscal independence status of Pekanbaru City is still progressing towards fiscal independence.

Table 1. Proportion of Local Revenue (PAD) to Total Regional Revenue of Pekanbaru City for the Years 2017-2021

Year	PAD	Total Revenue	% PAD
2017	697.466.656.720	2.171.590.365.093	32,12%
2018	592.707.161.812	2.235.018.502.739	26,52%
2019	710.129.196.651	2.369.118.059.824	29,97%
2020	618.046.995.965	2.338.992.907.604	26,42%
2021	667.902.676.889	2.217.608.792.963	30,12%

Source: BPKAD Pekanbaru (2023).

The Fiscal Independence Index of Pekanbaru City is still categorized as "Towards Independence" with a range of Local Revenue (PAD) contribution approximately between 25% to 33% of the total Regional Revenue in the City's APBD. Meanwhile, the realization of local taxes has contributed to PAD at around 83% to over 93%, making local taxes the main

backbone of PAD in Pekanbaru. Therefore, breakthroughs and efforts are needed to achieve fiscal independence, so that the region can be financially independent or at least local taxes have a high contribution in the proportion of PAD (Zakaria, 2022: 23).

Fiscal independence refers to the ability of local governments to finance their own activities, development, and services to the community through taxation and levies as necessary sources of revenue for the region (Halim, 2008). A region is said to have fiscal independence if it meets two criteria (Zakaria and Syahputra, 2022): financial capacity, meaning the region has the ability and authority to seek, manage, and use its own financial resources to finance governance, and dependency on central assistance should be minimized, where PAD becomes the main source of funding supported by central and regional financial policies.

The theory of independence can optimize local revenue by addressing the problems encountered in the practice of governance. Optimization of local tax management to achieve regional financial independence is based on optimization theory to seek, manage, and use its own funds to finance governance based on coordination theory by Terry (1979: 102) with coordination (Syafie, 2018: 44) dividing coordination into 4 elements, including regulation, synchronization, common interests, and common goals.

For the optimization of tax revenue, the fundamental theory known as the four canons of Adam Smith is used, which consists of 4 elements (Kustiawan, 2016: 72) to optimize local tax revenue, namely: equality, certainty, convenience, and economy. Furthermore, it outlines the optimization of local tax management by the Pekanbaru City Government by examining available regulations, synchronizing activities, and agreeing on common interests and goals. The optimization of local tax management by the Pekanbaru City Government is carried out to enhance regional financial independence by increasing voluntary compliance of the community in paying local taxes.

Given the issues and challenges faced by Pekanbaru City in achieving regional fiscal independence, the research problem analyzes the determination of Local Tax targets with real potential, the process of optimizing local taxes for regional financial independence, and finding a model for optimizing local taxes for regional financial independence in Pekanbaru City. Therefore, the interesting question to be answered factually, which is addressed in the research, is about the Model of Optimization of Local Tax Management to Achieve Regional Financial Independence in Pekanbaru City.

B. METHOD

This research employs a qualitative method (Tohirin, 2016: 3 and Moleong, 2019: 6). The researcher utilizes concepts (Creswell, 1994; Merriam, 1994; Fadli, 2021) that are expected to help explain the Model of Optimization of Local Tax Management to Achieve Regional Financial Independence in Pekanbaru City. The research design encompasses the entire process required in the planning and implementation of research on regional taxation issues and specifically examines, comprehensively and sequentially, local taxes within the framework of regional autonomy based on the latest legislation, all discussed meticulously within the framework of tax law theory with dimensions and indicators: 1) Expanding revenue base: Improving data basis and assessment; 2) Strengthening collection processes: Drafting local regulations and Enhancing Human Resources (HR); 3) Enhancing supervision: Improving supervision processes, Implementing sanctions; 4) Increasing administrative efficiency and reducing collection costs: Enhancing efficiency of collection types; and 5) Enhancing revenue capacity through better planning: Collaborating or coordinating with relevant agencies.

The type of data used is qualitative data (Muhadjir, 1996: 2) to understand the Model of Optimization of Local Tax Management to Achieve Regional Financial Independence. Regarding data collection techniques, it is associated with the understanding that as a qualitative

researcher (Suryabrata, 1987:93), one needs to possess common sense understanding to perceive and differentiate real truths from errors or inconsistencies based on the researcher's perspective and logic and to know, accept, and present informant views as they are supposed to be. In this research, data collection techniques (Miles & Hubberman, 1984), Marshal & Rossman (1995), and Bodgan & Biklen (1992) in Tohirin (2016:26) used include interviews conducted with 12 informants with 20 questions, observation, and documentation.

C. RESULT AND DISCUSSION

In analyzing and identifying the Model for Optimizing Local Taxes for Regional Financial Independence in Pekanbaru City, it is based on the analysis of the issues of optimizing the management of local taxes by the Pekanbaru City Government. Determining the targets for local taxes in Pekanbaru, Riau Province, based on field data, secondary data, analysis, and discussions are conducted as follows:

1. Expanding Revenue Base

One step in optimizing the management of local taxes (11 local tax objects: Hotel Tax, Restaurant Tax, Advertisement Tax, Parking Tax, Entertainment Tax, Street Lighting Tax, Non-Rock Metallic Mineral Tax, Groundwater Tax, Land and Building Tax (PBB-P2), Land and Building Acquisition Duty (BPHTB), and Swiftlet's Nest Tax) is carried out in several ways using Sutedi's theory (2008: 100-101), which thoroughly discusses the issues of regional taxation and levies and specifically examines local taxes and levies within the framework of regional autonomy based on the latest legislation, all discussed meticulously within the framework of tax law theory with the improvement of the database.

In increasing regional own-source revenues, the target for local tax receipts is essentially compared with the actual collections. At the same time, local governments are expected to continue various incentive programs for Taxpayers (TP) to accelerate economic recovery efforts. Achieving revenue targets is certainly not easy; the prolonged Covid-19 pandemic has caused economic growth to remain unsatisfactory. Meanwhile, natural growth in local tax revenues is usually associated with assumptions about economic growth and inflation. The assumption of economic growth in very optimistic figures amid the current uncertainty conditions. The Pekanbaru City Government through the Regional Revenue Agency requires extraordinary work strategies. In other words, there is no room for authorities to conduct business as usual every year. Every year, tax authorities are always familiar with extension and intensification strategies. If in one year this is done in conditions of very difficult revenue target achievement, although it is not impossible to achieve. This means that an extraordinary strategy is needed to improve the local tax base.

In the context of data upgrading and cleansing, Bapenda has issued regulations in the form of Mayor's Regulations, namely Mayor Regulation of Pekanbaru Number 7 of 2023 concerning the Procedure for Eliminating Local Tax Receivables. This is done to verify data that is considered inaccurate, duplicate, incomplete, in the wrong format, or damaged in the data set owned, especially the overflow of Ground and Building Tax (PBB-P2) receivables from the Directorate General of Taxes.

Individual assessment activities for PBB-P2 tax objects are one way to upgrade the property value of taxpayers on specific objects with the potential for increased Tax Object Sales Value as known as "Nilai Jual objek Pajak" (NJOP). Pekanbaru's strategic geographic location has led the Mayor of Pekanbaru to designate Pekanbaru as a MICE (Meeting, Incentive, Convention, Exhibition) city, or more commonly known for exhibitions and meetings. The potential of local taxes such as Land and Building Tax should be commensurate with strengthening Pekanbaru as a MICE city due to the rapid growth of investment reflected in the

emergence of numerous properties in Pekanbaru. Therefore, individual assessment activities for high-value economic objects are of concern to Bapenda in upgrading their NJOP.

The planned Land and Building Tax (PBB) census by the Regional Revenue Agency (Bapenda) is a data collection activity regarding PBB tax obligations aimed at expanding the tax base by visiting taxpayers (individuals or entities) in the Pekanbaru city area as an effort to optimize local revenue collection. Additionally, with this local tax census, it is expected that the Pekanbaru City Government can map and understand the current conditions of tax objects in the field. Generally, the activities of the census will include: (1) Implementation of PBB-P2 Mapping Survey consisting of Formation and Verification of PBB-P2 Maps; (2) Implementation of Validation & Quality Control of Spatial Data; (3) Implementation of affixing attributes/stickers for the PBB Tax Census, and (4) Data collection of other local Tax Objects that are part of the PBB Objects visited to create a concept of 'big data' for local taxes (For example; it could be that there is a restaurant on the PBB object, meaning this is also a local tax object, and so on).

The persuasive approach through summoning new tax objects is generally carried out for objects that are already familiar on main roads (protocols) but have not yet been registered as local tax objects in Pekanbaru. The activity starts with a direct survey by officers, documented in minutes, and then a summoning letter is sent to the object requesting them to apply as local taxpayers. If the business owner or prospective taxpayer refuses, they will be registered as local taxpayers by Bapenda officers. Furthermore, the exchange of data and/or information to enrich the local tax database has many benefits that can improve the efficiency and effectiveness of local tax management. Efforts made by Bapenda Pekanbaru include strengthening cooperation for improving the local tax database with relevant stakeholders, including cooperation with: the Prosecutor's Office in Forced Tax Collection; the Population and Civil Registry Office of Pekanbaru City in data collection of taxpayers; the Department of Population and Civil Registration and Population (DPMPTSP) for synchronizing potential local tax; the Regional Office of the Directorate General of Taxes as known as "Direktorat Jenderal Pajak" (DJP) in Riau for strategic data exchange to explore potential leakage of local taxes; Optimization of cooperation with the Riau Provincial Government related to the addition of new tax objects in accordance with the Regional Tax and Retribution Law (Opsen PKB; and Opsen BBNKB); Optimization of cooperation with the National Land Agency (BPN); Active communication with the Pekanbaru Information and Communication Office (Diskominfo) in optimizing information technology-based services; The Land Office of Pekanbaru City in optimizing the use of the SMART PETAKU application for PBB-P2 and BPHTB.

2. Strengthen the Collection Process

In the sector of regulatory strengthening, the approaches taken include: (1) Accelerating the Preparation of Regional Regulations on Local Taxes and Levies in accordance with the Regional Autonomy Law; and (2) Facilitating Regulations for the ease and leniency of local taxes to optimize and improve the local tax database. Meanwhile, in the Cooperation sector, the Bapenda strengthens collaboration with all relevant stakeholders to intensify and extend local tax collection, including: (1) Expanding cooperation with banks and online payment institutions related to tax payment convenience; (2) Collaborating with the Public Prosecutor's Office in Coercive Tax Collection; (3) Collaborating with the Department of Population and Civil Registration of Pekanbaru City in collecting taxpayer data; (4) Collaborating with the Department of Population, Civil Service, and Civil Registration to synchronize the potential of local taxes; (5) Collaborating with the Regional Revenue Office of Riau in exchanging strategic data to explore potential tax leaks; (6) Optimizing cooperation with the Riau Provincial Government regarding the addition of new tax objects according to the Regional Autonomy Law (PKB and BBNKB options); (7) Optimizing cooperation with the National Land Agency

(BPN); (8) Actively communicating with the Pekanbaru Information and Communication Office in optimizing local tax services based on information technology; (9) Collaborating with the Pekanbaru Land Office in optimizing the use of the SMART PETAKU application for PBB-P2 and BHPHTB; and (10) Bapenda task force cooperating with the Pekanbaru Public Order Agency in regulating certain street vendors.

Not only with government agencies, but Bapenda also involves non-government stakeholders such as: (1) Actively communicating with communities related to local tax optimization such as PHRI (Hotel and Restaurant Association), the Indonesian Notary Association, and other relevant communities; and (2) Involving religious leaders in disseminating information on tax payments, especially PBB-P2 taxes, to their respective congregations to promote taxpayer education. With the various efforts outlined above, the condition of local taxpayers in Pekanbaru from year to year is reflected in the following table:

Table 2 Development of Local Taxpayers in Pekanbaru 2020-2022

No	Tax Type	Number of Taxpayers		
		2020	2021	2022
1	Hotel	336	344	502
2	Restaurant	1.198	1.270	502
3	Entertainment	164	173	192
4	Advertisement	66.926	67.825	68.502
5	Street Lighting Tax	242	246	249
6	Non-Metallic Minerals and Rocks	984	1.057	1.150
7	Parking	429	80	82
8	Groundwater	687	684	1.090
9	Swiftlet Nest	141	143	143
10	BPHTB	11.312	12.304	13.170
11	PBB	277.681	289.655	299.865
Total Taxpayers		360.100	373.781	385.447

Source: Regional Tax Departments I and II, Pekanbaru Regional Revenue Agency (2023)

In order to enhance the effectiveness of implementing the Regional Regulation in Pekanbaru City that has been previously established, socialization has been conducted to the community and relevant parties. The socialization is carried out in accordance with the provisions of Article 94 of Law Number 12 of 2011 concerning the Formation of Laws and Regulations as amended by Law Number 15 of 2019. Furthermore, to improve the quality of tax management human resources, the Pekanbaru City Government through the Head of the Regional Revenue Agency has conducted various technical guidance in the field of regional taxation, especially with the issuance of Law Number 1 of 2022 concerning Central and Regional Financial Relations. As conveyed by the Head of the Pekanbaru Regional Revenue Agency, as follows:

3. Enhancing supervision

The efforts made by the local government in supervising the tax collection process are basically carried out based on supporting business processes, which are processes that do not directly add value to the main administrative process but need to be done to ensure the continuity of the main business process. There are 6 types of supervision processes that determine the management of regional taxes, namely: 1) Human Resources; The human resources (HR) process encompasses all activities related to employee management. This process includes HR planning, recruitment and selection, HR administration, training and development, performance management, career management, employee evaluation and

supervision, as well as 4) Information Technology; 5) Knowledge Management; The knowledge management process encompasses all activities related to the creation, distribution, use, and management of knowledge and information within the regional tax agency.

Furthermore, the improvement of supervision is based on: 1) General Processes; all activities related to administrative affairs, correspondence administration, archives, and general matters, 2) Security; The security process encompasses all activities related to data, process, asset, and environmental security aspects, 3) Procurement; The procurement process involves receiving/acquiring and purchasing goods or services from third parties with the aim of obtaining the best goods or services needed by the organization in terms of price, service, quality, and quantity, 4) Regulation; The regulation process involves formulating appropriate tax policy for the community, 5) Risk Management; The risk management process involves identifying, monitoring, and managing potential risks to minimize the negative impact they may have on the organizational process, 6) Internal Compliance; The internal compliance process involves monitoring internal control throughout the organization, and 7) Performance Management; The performance management process involves determining, measuring, and evaluating the performance of processes and employees related to the tax administrative process.

Equally important, strict sanctions are imposed on taxpayers who are not compliant in paying taxes when tax supervision planning has been prepared, which includes: drafting supervision plans and setting supervision priorities, followed by supervision implementation based on formal compliance research, material compliance research, requests for explanation of data and/or information, and visits to taxpayers.

4. Enhancing administrative efficiency and reducing collection costs

Improving administrative efficiency and reducing collection costs are measures taken by the region, namely: improving tax administration procedures through simplification of tax administration and increasing the efficiency of collection for each type of levy. Collection costs refer to the expenses incurred by the implementing officers of local tax collection and supporting officers in the collection activities. This can be achieved by utilizing media (through banking or similar means) to facilitate tax collection in the city of Pekanbaru. The calculation of the amount of local tax collection costs in Pekanbaru is determined by clear regulations, through the establishment of tariffs and collection fees in accordance with Regional Regulations and their derivative regulations through the Mayor's Regulations of Pekanbaru City. Regional regulations and their derivative regulations through the Mayor's Regulations in reducing the cost of tax collection in Pekanbaru City ensure that taxes become one of the sources of revenue originating from the region and can be developed according to the conditions of each region.

5. Enhancing Revenue Capacity through Better Planning

Increasing the capacity of local tax revenue through better planning is an integral part of optimizing local revenue. This enhancement can essentially be achieved by collaborating with relevant agencies and harmonizing coordination with stakeholders. This is demonstrated by collaborating with relevant agencies as stipulated by the Ministry of Home Affairs regulations or the Ministry of Finance regulations to bind all local governments and local tax offices to implement cooperation and the basis of local government policies in order to optimize the collection of Central and Local Taxes.

Local Government coordination is implicitly regulated in Law Number 23 of 2014 concerning Regional Government. The Minister of Home Affairs is tasked with coordinating with the Minister of Finance in evaluating draft Provincial regulations on local taxes and regional levies, as stipulated in Article 324 paragraph (7) and Article 325 paragraph (3) of Law Number 23 of 2014. For the purpose of optimizing tax revenue, the Minister of Home Affairs

issued Minister of Home Affairs Regulation (Permendagri) Number 112 of 2016 concerning Confirmation of Taxpayer Status as known as “Konfirmasi Status Wajib Pajak” (KSWP) in Providing Certain Public Services in the Regional Government Environment. One form of coordination between the Directorate General of Taxes (DJP) and local governments for tax optimization is the KSWP program. Minister of Home Affairs Regulation number 112 of 2016 is the legal basis for local governments to first confirm the status of individuals or entities to the DJP before providing certain public services. This is done to ensure that the individual or entity has an NPWP (taxpayer identification number) or has fulfilled their tax obligations.

The Process of Optimizing Local Taxes to Increase Financial Independence of Local Governments in Pekanbaru City

Financial independence in development financing is indicated by the ratio of Regional Own-Source Revenue to the Equalization Fund and loans in Pekanbaru City, thus Regional Own-Source Revenue and the Equalization Fund are sources of local government expenditures that have a positive impact on a region's government expenditures. Strategies need to be implemented, including: conducting a re-registration of taxpayers to increase local tax revenue; collaborating with private sector/NGOs in the management and collection of local taxes; and improving the management of local tax administration.

Local taxes are the largest contributor to Regional Own-Source Revenue in Pekanbaru City, which is also derived from the structure of regional revenue components.

Table 3. Contribution of Local Taxes to Local Revenue (PAD) in Pekanbaru City Year 2018-2022

Year	Local Tax Revenue (IDR)	Realization of Regional Original Revenue (IDR)	% of Local Tax Revenue to Regional Original Revenue
2022	719.631.498.620	777.089.494.099	92,6%
2021	587.504.311.853	684.642.966.382	85,81%
2020	537.808.483,141	618.046.995.965	87.07%
2019	620,937,643,530	710.129.196.651	87.44%
2018	499,490,899,787	592,707,161,811	84.27%

Source: Pekanbaru City Regional Revenue Agency (2023).

Over the past 5 years, from 2018 to 2022, local taxes have contributed between 80% to almost 93% of the Local Own Source Revenue (PAD) in Pekanbaru City, and its realization has shown an increasing trend every year (except in the pandemic year of 2020). These figures are significantly higher than the national average, where local taxes contribute only around 50% at the municipal level, which is valued at 81.29%. The Fiscal Independence Index of Pekanbaru City is still categorized as "Moving Towards Fiscal Independence," with local taxes contributing around 25% to 33% of the total Local Revenue in the Pekanbaru City APBD. Meanwhile, the realization of local taxes has contributed between 83% to almost 93% of PAD, making local taxes the main backbone of PAD in Pekanbaru. Regarding the fiscal independence of Pekanbaru City, as evidenced by the Financial Performance of the Pekanbaru City Government, incorporating the Fiscal Independence Index formulated by the Supreme Audit Board (BPK), Pekanbaru City is still in the position of “Moving Towards Fiscal Independence”. The results of this formulation are as follows:

Table 4. Proportion of Local Own Source Revenue to Total Local Revenue in Pekanbaru City, 2017-2021

Year	PAD	Total Revenue	% PAD
2017	697.466.656.720	2.171.590.365.093	32,12%
2018	592.707.161.812	2.235.018.502.739	26,52%
2019	710.129.196.651	2.369.118.059.824	29,97%
2020	618.046.995.965	2.338.992.907.604	26,42%
2021	667.902.676.889	2.217.608.792.963	30,12%

Source: BPKAD Pekanbaru (2023).

Based on the explanation above, the process of optimizing local taxes is carried out through intensification and expansion of local tax subjects and objects to increase local own-source revenue, thereby enhancing the financial independence of Pekanbaru City. In the short term, the easiest and most immediately feasible activity is to intensify existing local tax objects or sources, especially through the utilization of information technology. Furthermore, enhancing the effectiveness and efficiency of local tax sources or objects can be achieved by increasing the productivity of local taxes without necessarily expanding new sources or objects of local taxation, in accordance with regulations that require extensive study, processes, and time.

Model Optimization of Local Tax Management to Achieve Financial Independence

Financial independence of the region is a strategic issue based on the optimization of local tax management, as derived by researchers. Below are the elaborated results and reconstruction of the model into conceptual dimensions, as presented in the following figure:

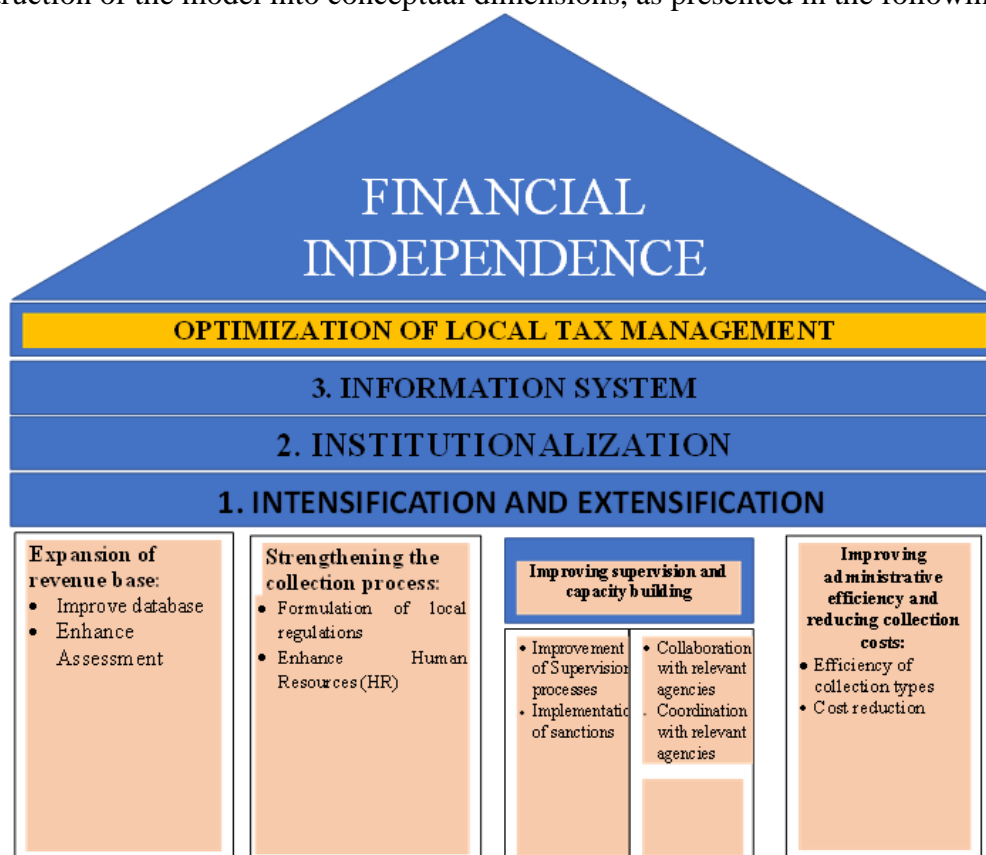


Figure 1. Four Pillars Model of Local Tax Optimization

Source: Processed by Researchers (2023)

The model with scenarios that can be used as a reference for optimizing local tax revenue is based on options and stages that can be implemented by the Pekanbaru City Government. These include intensification and extension, institutional development, and information systems. To achieve financial independence for the city of Pekanbaru, these three foundations are followed by four pillars of optimizing local tax management, consisting of:

Pillar 1: Broadening revenue sources, which include improving local tax databases and assessments.

Pillar 2: Strengthening tax collection processes through the formulation of various policies on local taxes and strengthening tax personnel resources.

Pillar 3: Enhancing supervision and certainty of local tax revenue through improved oversight, enforcement of penalties, including cooperation and coordination with relevant agencies.

Pillar 4: Streamlining administrative costs and reducing the cost of collecting local taxes.

The process of modeling in optimizing local tax revenue to achieve the financial independence of Pekanbaru City, referred to as the Four Pillars of Local Tax Management Optimization, is as follows:

1. Intensification and Extensification of Local Tax Revenue

- a. Intensification of Local Tax Revenue

Recalculation of the value of local taxes to serve as a reference for increasing local tax rates. Intensification of local revenue can be achieved by optimizing revenue according to the region's potential and optimizing local tax revenue collection. One key to realizing local tax potential is through updating or validating local tax data. Validation of Pekanbaru City's local tax data can be done through field checks via the AsiaP PBB-P2 SPPT Application (AsiaP). AsiaP for Property Tax (PBB) and Acquisition of Rights over Land and Buildings (BPHTB) will gradually provide data on whether taxpayers remain the same or have changed. If there are changes, adjustments to the local tax database need to be made to ensure that the tax values are not too far from the operational costs required. Adjustments to local tax rates need to consider several aspects that can be improved to increase local revenue in the effort to adjust local tax rates.

There are several main factors to consider in determining adjustments to local tax rates: per capita income, economic growth, and monthly income of the population/traders. In addition to adjusting the value of local tax rates, overdue taxes by taxpayers are one of the issues that need to be resolved and will be one of the sources of local revenue. Therefore, verification of overdue local tax data needs to be conducted to all taxpayers in Pekanbaru City to ensure the accuracy of overdue data that can be collected and cannot be collected. Therefore, the determination of outstanding local tax regulations needs to be further regulated through legislation through regional head regulations or regional head determinations.

Mechanism changes based on data improvement are to increase the number of taxpayers. Extensification of revenue can be carried out by managing new sources of local tax revenue specifically on a self-assessment basis. Management of new revenue sources from local taxes, especially for regional devices issuing permits for businesses, such as restaurant taxes, hotels, groundwater, advertising whose tax collection has not been served.

b. Extensification of Local Tax

Screening and expansion of new local tax objects are synergies with local government institutions that have inherent relationships with the community, such as the Department of One Stop Services and Investment as known as “Dinas Penanaman Modal dan Pelayanan Terpadu Satu Pintu” (DPMPTSP), National Land Agency as known as “Badan Pertanahan Nasional” (BPN), Public Order Agency as known as “Satuan Polisi Pamong Praja” (SATPOL PP), Population and Civil Registration Office as known as “Dinas Kependudukan dan Pencatatan Sipil” (Disdukcapil), Central Bureau of Statistics as known as “Central Bureau of Statistics” (BPS), and Regional Revenue Agency with the local Pratama Tax Office in managing local taxes. Synergy between institutions needs to consider the situation and policy conditions of each institution related to rewards and punishment in taxpayer compliance in making payments.

2. Institutional Strengthening

Optimizing local tax revenue and existing mechanisms to achieve the revenue potential from local taxes is part of institutional strengthening, which is a key success factor in optimizing local tax revenue. Institutional strengthening can be achieved through organizational restructuring according to regional needs, capacity building of human resources, modernization of regional tax administration, and streamlining of business processes. Through research findings, the optimization of local tax revenue through institutional strengthening (optimization of existing mechanisms to achieve the potential revenue from local taxes) serves as a model for optimizing local tax revenue in Pekanbaru City.

Phased strategies in optimizing revenue from local taxes in Pekanbaru City with four pillars that can be implemented by the Pekanbaru City Government include approaches and applications as follows:

- a. Optimization of Local Tax Payment Services Strategy by the Pekanbaru City Government. Increasing local tax revenue can be realized by prioritizing excellent service and making it easier for the public to handle local tax payments. Service quality is a key factor and is related to the satisfaction of local taxpayers in Pekanbaru City. The service to local taxpayers will influence the satisfaction of the public with the services provided by the local government of Pekanbaru City. Developing appropriate strategies is expected to boost the satisfaction of local taxpayers in Pekanbaru City, which will directly impact the increase in local tax revenue. Utilizing the role as one of the institutions for collecting local taxes in Pekanbaru City is deemed sufficient to help facilitate the public in handling local tax payments, but there are still several obstacles that need to be considered for improvement to achieve the optimization of local tax revenue in Pekanbaru City. Furthermore, it is necessary to optimize the Human Resources of Regional Devices to optimize local tax revenue from the public, as its potential revenue is still much greater than what is currently managed by Pekanbaru City. Efforts to develop Human Resources can be carried out through several activities: Organizing capacity-building activities and providing incentives/rewards for achieving the potential of local tax revenue attained within one budget year.

- b. Optimization of Information Technology Utilization Information Flow. Technological support can facilitate the Pekanbaru City Government in optimizing local revenue from local taxes (for example, through Smart Tax Pekanbaru integrated with various related networks), allowing relevant technical agencies to receive data directly. If payment transactions occur to be subsequently monitored by the Regional Revenue Agency, it needs to be considered to take part in embracing the era of technology where all local tax information can be accessed through computerization without having to meet with tax officers. Efforts that can be made in optimizing the utilization of Information Technology include:
- 1). Utilizing online-based information technology where the public can access any information related to local taxes, including waste fees, anywhere and anytime because all information can be accessed via computer or mobile phone.
 - 2). The use of the Smart Tax Pekanbaru program needs to be simplified to facilitate the acceleration of transaction flows without suspicion regarding its receipt.
 - 3). Collaborating with several merchants or businesses in providing supporting electronic devices at government offices (Districts and Villages) to facilitate people who want to handle local taxes themselves without having to visit officials.

The development model of local tax management by the Pekanbaru City government is known as the Four Pillars Model of Local Tax Management Optimization, aimed at the financial independence of Pekanbaru City, namely: Expansion of revenue base, Strengthening of collection processes, Enhancement of supervision and recipient capacity, and Improvement of administrative efficiency and reduction of collection costs based on intensification and extensification, institutional development, and information systems.

D. CONCLUSION

Based on the analysis and discussion of the research, it can be concluded that the steps to increase local tax revenue in Pekanbaru City are crucial. One of the measures taken is to expand revenue bases by improving the database and assessment of local taxes, as well as strengthening the collection process established through regional regulations. These efforts also involve improving oversight processes, implementing sanctions, and reducing collection costs to enhance administrative and collection efficiency. Additionally, the optimization process of local taxes involves intensifying and extending the scope of local tax subjects and objects to increase the city's original revenue and financial independence. In the short term, intensifying existing tax objects or sources, particularly through the utilization of information technology, is a feasible action. Furthermore, it is necessary to enhance the effectiveness and efficiency of existing local tax sources or objects without requiring extensive expansion, which would necessitate in-depth studies, processes, and time according to applicable laws and regulations. The proposed Model of Local Tax Optimization, known as the Four Pillars Model of Local Tax Management Optimization, offers a comprehensive approach with a focus on expanding revenue bases, strengthening collection processes, enhancing oversight and recipient capacity, and improving administrative efficiency and reducing collection costs. This model is based on the principles of intensification and extensification, institutional development, and improved information systems.

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