

## UNLOCKING REVENUE POTENTIAL: A KLASSEN TYPOLOGY ANALYSIS OF REGIONAL TAX POLICIES IN GARUT REGENCY, INDONESIA

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### ABSTRACT

This research examines the effectiveness of regional tax policies in Garut Regency, Indonesia, using the Klassen typology analysis. The study analyzes the contribution and effectiveness rates of various regional taxes, such as entertainment tax, street lighting tax, urban and rural land and building tax, and property transfer fees. The findings indicate that these taxes play a crucial role in the region's revenue generation, with entertainment tax being the highest contributor. Despite the challenges posed by the Covid-19 pandemic, the region has managed to increase its tax revenue, particularly in 2020. However, there are still areas for improvement, including optimizing the contribution of regional taxes to regional income by exploring untapped potentials and addressing tax policy changes that may affect revenue streams. The research highlights the importance of strategic tax planning and administration in maximizing revenue collection and promoting economic growth in Garut Regency.

**Keywords:** Regional Tax Policies, Klassen Typology, Revenue Potential

### INTRODUCTION

The relationship between taxes and economic stability and continued development of the country is very vital (World Bank, 2020). The government can use taxes as a very dynamic economic regulatory tool to stabilize the inflation rate, motivate investors, and stimulate the rate of economic growth (Minh Ha et al., 2022). Therefore, taxes are a very effective instrument in forming an economic environment that is not only stable but also sustainable. The tax contribution to Indonesia's state revenue in 2023 is 77.69%, this country's tax revenue will grow 5.94% from 2022 (Ministry of Finance, 2023; Tax Supervisory Committee, 2024). In Indonesia, state tax revenues can support

various development projects such as infrastructure, quality education, superior health services, and social programs with transformative power. This reflects the tax's function as a budgetary, regular end, stability, and income redistribution function (Anggadini et al., 2022).

Tax collection in Indonesia is governed by Law No. 1 of 2022, which assigns tax collection responsibilities to the central government, provinces, and regencies/cities. The central government collects income tax, value-added tax, luxury goods sales tax, and other taxes. Provinces collect motor vehicle tax, vehicle title transfer fees, and other taxes, while regencies/cities collect various taxes including those on land, buildings, hotels, restaurants, entertainment, advertising, street lighting, and natural resources. This distribution of tax collection authority ensures a comprehensive approach to tax administration, supporting the country's fiscal sustainability and enabling regional development (Law of the Republic of Indonesia Number 1 of 2022 Concerning Financial Relations Between the Central Government and Regional Governments, 2022). Thus, the central and regional governments have the authority to increase their tax revenues according to their potential.

Garut Regency as an autonomous region, located in West Java Province, has diverse geographical characteristics, covering lowland to mountainous areas. With an area of around 307,407 hectares and consisting of 42 sub-districts and 421 villages, Garut Regency is home to around 2,718,330 residents. The economic potential of this area is mainly related to the tourism sector, residential areas, shops, restaurants, and several other sectors. Garut Regency's Original Regional Income in 2022, which comes from Regional Taxes, will increase by 6.39% from IDR 126,527,804,958 to IDR 157,569,982,468 or a contribution of regional tax revenues to the original regional income of 32.42%. This increase in regional tax revenue is due to business growth in Garut Regency, as a sign of recovery from the impact of the Covid-19 pandemic, economic activity and business transactions are increasing, and the government is implementing more effective tax policies so that tax revenues increase. This indicates that the region is optimizing its potential to increase its tax revenues. Successful utilization of regional potential in regional tax revenues has occurred in several countries such as Brazil, Sub-Saharan Africa, China, and Nigeria. Population growth has the potential to generate property tax revenues because more and more land is used by people for residence (Caldeira et al., 2023; Fjeldstad & Rakner, 2003; Jia et al., 2020). Developing the tourism sector in each region can increase tourism tax revenues which include entertainment tax, hotel tax, and restaurant tax (Afonso & Moulton, 2023; Descals-Tormo & Tamarit, 2022; Mukti et al., 2021).

However, the contribution of regional taxes to regional income still needs to be optimized by exploring regional potential (Ahmadov, 2022; Shapovalova et al., 2023). Apart from that, the problem experienced by Garut Regency is a change in tax policy which diverts potential tax revenue into a source of income for the provincial government. Another problem is that the collection administration capacity in the regions is still low, this means that tax collection tends to be burdened by large collection costs. PAD is still classified as having a low level of buoyancy due to the existence of a "target" system in regional levies. As a result, some regions are more inclined to meet these targets, even though in terms of economic growth actual regional tax and levy revenues can exceed the targets set. Weak financial planning and supervision capabilities result in very significant leaks for the region.

The Garut Regency Government's efforts to increase regional tax revenues are exploring existing tax potentials to optimize blood revenues in carrying out development in the Garut Regency area. Therefore, it is important to map potential and regional tax collection systems. Therefore, this research aims to map the regional tax potential of Garut Regency using the Klassen typology. By categorizing regional taxes based on their contribution and effectiveness, the study seeks to provide insights into optimizing tax revenues in Garut Regency. The Klassen typology can be used to provide an overview of regional sectoral growth patterns and structures. This analysis is based on grouping a sector by looking at the growth and contribution of a particular sector. Previous research used the Klassen typology to map a region's leading sectors in the fields of agrotechnology, mining, and food and beverage products (Katti et al., 2019; Rahayu, 2010; Siradjuddin et al., 2021; Tallo et al., 2018). This research aims to map regional tax potential which refers to the contribution and effectiveness rate of regional tax revenues using the Klassen typology.

## LITERATURE REVIEW

Three main theories are employed to examine tax revenue: the cost of service theory, the benefit theory, and the socio-political theories on taxation (Ojong et al., 2016). The cost-of-service theory posits that the costs borne by the government for providing specific services to the public should be shared by the recipients of those services. This theory suggests that tax rates are akin to prices, implying that individuals not using state services should not be taxed. However, this theory faces several criticisms, including constraints it imposes on government services and its failure to account for welfare activities such as medical care, education, and social services (Ojong et al., 2016). Additionally, quantifying the cost per person for the numerous services offered by the state is challenging, and the theory's tax base is considered misleading.

Due to the limitations of the cost of service theory, it has been modernized, leading to the development of the benefit theory of taxation (Ojong et al., 2016). According to this perspective, individuals should pay taxes in proportion to the benefits they derive from government services. This theory suggests a reciprocal relationship between taxpayers and the government, where the government provides social goods in exchange for taxes paid by taxpayers. However, the theory has been deemed invalid due to the difficulty in quantifying the benefits individuals receive from government services. In contrast, the socio-political philosophy of taxation argues that the primary considerations in taxation should be social and political objectives. It contends that a tax system should not be designed to benefit individuals but should instead address societal issues as a whole (Ewa et al., 2020; Ojong et al., 2016). The primary objective of taxation is to generate income to finance governmental expenditures, facilitate wealth redistribution, and manage economic activities. Shapovalova et al. (2023) identifies three principal aims of taxes: to provide revenue for the government, to oversee the economy and economic operations, and to manage income and employment.

Research by Ritonga et al. (2012) highlights the critical role of financial capacity in enabling local governments to effectively manage their functions. Insufficient finances hinder their ability to fulfill duties, forcing them to rely solely on their inherent authority. Conversely, stronger financial capacity enhances their governance. Decentralization reforms have made local government restructuring a key focus, leading to shifts in central-local relations and service delivery (Cheremisin, 2018). Regional autonomy is governed by two laws, the regional autonomy law, and the fiscal balance law, shaping the transfer of powers from central to regional governments (Arintoko & Bawono, 2021). However, decentralization's success is hindered by challenges in power transfer to regional levels (Isufaj, 2014). Financial autonomy is crucial for regional autonomy, requiring adequate resources and transparent responsibility allocation (Ouali & Boussetta, 2017). Fiscal decentralization, including revenue decentralization, is pivotal. Internal revenue sources, managed by local governments, play a vital role (Caldeira et al., 2023; Jia et al., 2020). Developing countries aim to boost local revenue, essential for regional autonomy's success, promoting better service delivery and accountability (Fjeldstad & Rakner, 2003). Local tax optimization is crucial, outlining key features: local assessment, rate setting, collection, and revenue allocation. Local governments play a significant role in local tax administration, assessing and collecting various taxes based on their potential. Local tax policy is a potent economic tool, synergizing with other economic policies for development (Kim et al., 2020).

The study utilized Klassen Typology analysis to identify the key types of taxes requiring optimization for future tax revenue enhancement. Initially employed to examine patterns and structures of economic growth, Klassen Typology categorizes regions based on regional economic growth and income per capita. As research on regional autonomy grows, this tool has been adapted to analyze local tax potential. Previous studies, such as those by (Kautsar, 2020) and (Wijaya et al., 2020) have applied Klassen Typology to analyze local taxes and own-source revenue. However, this study expands on these by applying Klassen Typology to local tax mapping and comprehensive analysis, tailored to the specific conditions of the study area.

## METHODOLOGY

The Klassen typology was adopted to quantitatively map local tax potential in Garut Regency. This typology uses secondary data from 2017-2022 to compare the average total regional tax growth rate with the average total regional tax contribution. Analysis of potential regional tax revenues refers to the contribution of regional taxes and the growth rate of regional taxes:

$$\text{Contribution: } \frac{Y}{X} \times 100\% \quad (1)$$

Which is, Y shows the receipt of each local tax element; X shows regional tax revenue. The percentage of contribution will serve as an indicator:

**Table 1.** Indicator of Tax Contribution

Percentage (%)	Indicator
0,10-10,00	Very Low
10,10-20,00	Low
20,10-30,00	Moderate
30,10-40,00	High
40,10-50,00	Very High
>50,00	Excellent

Source: (Kemeterian Dalam Negeri, 2020)

$$\text{Effectiveness} = \frac{Y}{T} \times 100\% \quad (2)$$

In this context, Y represents the actual realization of revenue for each element of local taxes, while T represents the target revenue for local taxes. The primary factor for attaining the goals or objectives set by organizations, activities, or programs is effectiveness (Wahyuni & Arief, 2020). Effectiveness is achieved when the predetermined goals or objectives are met. The assessment of the effectiveness of local taxation involves comparing the target with the actual realization of local tax revenue (Akbar et al., 2019). Furthermore, Isfariyanto et al. (2020) define effectiveness as the ability to complete a task according to the plan, whether it be within the specified time, cost, or quality.

**Table 2.** Indicator of Tax Effectiveness

Level of Effectiveness (%)	Criteria
>100	Very effective
86-100	Effective
71-85	Quite effective
56-70	Less effective
<55	Ineffective

Source : Akbar et al. (2019)

The results of this comparison will determine the regional tax classification which includes prime, developing, potential and underdeveloped groups.



**Table 3.** Classification Local Tax Based Klassen Typology

Contribution		$Y_i > Y$ High	$Y_i < Y$ Low
Growth	$r_i > r$ High	Quadrant I Prime	Quadrant II Potential
	$r_i < r$ Low	Quadrant IV Developed	Quadrant III Under-developed

Source: Tallo et al. (2018)

Which is,  $Y_i$  shows the average contribution of regional tax components;  $Y$  shows the average regional tax contribution;  $r_i$  shows the average effectiveness of regional tax elements;  $r$  shows the average regional tax effectiveness. The classification in the Klassen typology in quadrant I is a prime condition which shows the contribution and growth rate of regional tax elements is high; Quadrant II shows potential taxes, meaning the contribution of regional tax elements is higher than the contribution of regional taxes and the average growth of regional tax elements is small compared to the average growth of regional taxes; Quadrant III shows underdevelopment with high regional tax contribution and high regional tax growth rate; and Quadrant IV is a developing condition which shows the level of local tax contribution and high growth rate.

## DISCUSSION

Over the past six years, the tax revenue figures in Garut Regency demonstrate that the targeted tax revenue has been achieved. However, there was a notable decline in regional tax revenues during the Covid-19 pandemic. The decline amounted to 11.59% (refer to Table 4), primarily attributed to the limitations imposed on community activities, resulting in a halt to economic activities. In 2021, there was a resurgence in regional tax revenues, growing by 7.87%, followed by a significant increase in 2022 to 25.48%. This surge in tax revenues in the two years following the Covid-19 pandemic was driven by the recovery of economic activities and the effective implementation of tax policies.

**Table 4.** Regional Tax Revenues in Garut Regency

Year	Target of Local Tax Revenue (Rp)	Local Tax Revenue (Rp)	Indicator
2017	119,976,840,367.00	113,025,412,527.00	Target achieved
2018	121,776,492,973.00	128,132,402,078.00	Target achieved
2019	133,954,142,270.00	131,675,124,090.00	Target achieved
2020	105,239,491,927.00	116,413,508,876.00	Target achieved
2021	122,382,000,000.00	125,578,180,742.00	Target achieved
2022	156,311,500,000.00	157,570,032,468.00	Target achieved

Source: Regional Revenue Office, 2023

The degree of regional autonomy is typically assessed based on the proportion of local own-source revenue to the total regional revenue. In many regions, particularly those serving as economic hubs, a substantial portion of their local own-source revenue is derived from regional taxes. The extent to which Regional Taxes contribute to local own-source revenue is indicative of their significance within the regional revenue structure. This study examines the actual collection of local own-source revenue and the collection of Regional Taxes in Garut over six consecutive fiscal years.

**Table 5.** Contribution of Local Tax Revenue on Local Own Revenue (%)

Year	Contribution Rate	Indicator
2017	15.809	Low
2018	30.414	Moderate
2019	27.047	Moderate
2020	24.527	Moderate
2021	22.393	Moderate
2022	32.419	High

The analysis of regional tax contributions to the indigenous regional income indicates suboptimal performance during the period from 2017 to 2021, with the contribution rate remaining below 30% throughout these five years, reflecting a low to moderate level of contribution. However, in 2022, there was a notable improvement, with regional taxes accounting for a substantial 32.419% of local revenue, signifying a significant increase in their contribution. Consequently, the anticipated growth in indigenous regional income for 2022 is expected to be driven primarily by the revenues generated from regional taxes.

**Table 6.** Contribution of Each Local Tax on Local Tax Revenue (in %)

Type of Local Tax	Year					Average	Indicator
	2018	2019	2020	2021	2022		
Hotel tax	5.711	15.241	-31.524	8.009	52.037	9.895	Very low
Restaurant tax	33.624	22.597	-34.123	12.713	60.324	19.027	Low
Entertainment tax	58.166	33.604	-62.822	-40741	259.411	49.524	High
Advertisement tax	26.876	7.580	-6.129	16.933	1.883	9.429	Very low
Street lighting tax	7.777	3.838	-6.100	5.452	21.642	6.522	Very low
Land and building title fees	-38.836	-8.235	-15.520	-5.929	20.573	-9.589	Very low
Parking tax	54.692	56.429	-46.128	-31.532	74.817	21.656	Moderate
Groundwater tax	-12.793	-15.079	-38.447	5.426	26.146	-6.949	Very low
Swallow's nest tax	0.000	9.050	-9.544	2.294	78.475	16.055	Low
Urban and rural land and building tax	9.127	1.744	-2.462	3.500	5.786	3.539	Very low
Property transfer fees	18.704	-23.685	15.490	23.879	26.739	12.225	Low

The analysis of 11 different types of regional taxes reveals that entertainment tax stands out as the highest contributor to regional tax revenues, surpassing other tax categories. The average contribution of entertainment tax amounts to 49.524%. This significant increase in the contribution of entertainment tax can be attributed to the substantial rise in revenue observed in 2022. This surge can be attributed to several factors, including the increased number of tourist attractions and tourist visits to Garut Regency. Additionally, the region has seen a rise in the variety of entertainment activities offered, such as folk parties, cultural parades, and various festivals. Conversely, the groundwater tax demonstrates the lowest contribution among the 11 tax types. This low contribution is primarily a result of the relatively low tax rate imposed on groundwater. Consequently, the revenue generated from groundwater tax appears comparatively small when juxtaposed with other tax categories.

The prominence of entertainment tax in the regional tax revenue structure underscores the importance of tourism and entertainment sectors in the economic landscape of Garut Regency. The rise in entertainment tax revenue signifies a positive trend in the region's tourism industry and suggests a potential for further growth and development in this sector. However, the low contribution of groundwater tax highlights the need for a

reassessment of the tax rate and possibly other strategies to enhance revenue generation from this source. The increase in revenue from entertainment tax is a positive indicator of the region's economic development, driven by its vibrant tourism and entertainment sectors. This growth can be further nurtured through strategic planning and investment in tourism infrastructure, promotion of cultural and entertainment events, and effective tax policies that balance revenue generation with industry growth.

**Table 7.** Effectiveness of Local Tax Revenue

Year	Effectiveness Rate	Indicator
2017	94,206%	Effective
2018	105,219%	Very effective
2019	98,299%	Effective
2020	110,618%	Very effective
2021	102,612%	Very effective
2022	100,164%	Very effective

Effectiveness describes the level of program achievement compared to the set target. Simply put, effectiveness is the comparison between outcomes and outputs. The analysis of regional tax effectiveness is an analysis that describes the ability of regional governments to realize the planned regional original income compared to the set target based on the region's real potential. The effectiveness analysis of regional taxes over six years reveals predominantly high levels of effectiveness, with most values exceeding 100 percent. Particularly noteworthy is the peak effectiveness observed in 2020 amidst the COVID-19 pandemic, reaching 110.618%. This exceptional effectiveness can be attributed to the government's decision to reduce the regional tax revenue target by 11.59%, from IDR 133,954,142,270 to IDR 105,239,491,927.00. Despite the challenging circumstances posed by the pandemic, the region managed to surpass its revised revenue target, demonstrating a remarkable level of efficiency in revenue generation through local taxes in Garut Regency.

**Table 8.** Effectiveness of Each Local Tax Revenue

Type of Local Tax	Year						Average	Indicator
	2017	2018	2019	2020	2021	2022		
Hotel tax	90,364	104,685	105,017	121,326	118,426	81,171	103,498	Very effective
Restaurant tax	107,560	130,660	121,140	110,119	119,932	118,936	118,058	Very effective
Entertainment tax	102,210	123,170	100,167	101,006	34,066	79,317	89,989	Effective
Advertisement tax	97,243	115,570	111,615	113,285	111,148	93,643	107,084	Very effective
Street lighting tax	101,052	101,268	101,590	100,574	104,124	103,136	101,957	Very effective
Land and building title fees	678,332	466,756	228,437	311,098	277,872	203,936	361,072	Very effective
Parking tax	9,311	76,820	106,031	121,236	79,151	87,130	79,947	Quite effective
Groundwater tax	8525,807	7286,374	5671,996	4232,740	4048,494	4845,009	5768,403	Very effective
Swallow's nest tax	0,388	0,335	0,518	1,150	0,485	1,068	0,657	Uneffective
Urban and rural land and building tax	101,719	96,592	97,16%	123,164	102,872	96,035	102,924	Very effective
Property transfer fees	78,774	73,647	49,644	100,053	104,023	110,955	86,183	Effective

**Tabel 9.** The Classification of Local Tax Based Klassen Typology

Contribution	$Y_i > Y$ High	$Y_i < Y$ Low
Growth  $r_i > r$ High	<b>Prime</b> <ul style="list-style-type: none"> <li>• Entertainment tax</li> <li>• Street lighting tax</li> <li>• Urban and rural land and building tax</li> <li>• Property transfer fees</li> </ul>	<b>Potential</b> <ul style="list-style-type: none"> <li>• Hotel tax</li> <li>• Restaurant tax</li> <li>• Advertisement tax</li> <li>• Land and building title fees</li> <li>• Groundwater tax</li> </ul>
$r_i < r$ Low	<b>Developed</b> <ul style="list-style-type: none"> <li>• Parking tax</li> </ul>	<b>Under-developed</b> <ul style="list-style-type: none"> <li>• Swallow's nest tax</li> </ul>

The table above shows that most types of local taxes in Garut Regency are classified into potential, weak, and prime tax groups. This means that the contribution of local taxes is sufficient but the development is not optimal. Types of taxes that are included in the potential category are land and building taxes, entertainment taxes, and parking taxes. This shows that there is an impact arising from regional development, therefore there is a potential local tax to increase local revenue. However, some things need to be improved regarding the mineral and non-rock tax and the swallow nest tax. The policy (Policy) that needs to be implemented for conditions of high tax potential and high tax efforts (Quadrant 1) is promotion and tax expansion. The positions mean allocating development budgets to activity programs that can provide a multiplier effect on various community economic activities, which in the end will become potential new income. The research findings align with Hanifah's study, which suggests that local taxes such as entertainment tax have the potential to contribute to increasing regional tax revenue. To optimize this, conducting more intensive data collection on various sectors or types/sources of regional revenue that affect the increase in regional tax revenue is recommended (Wijaya et al., 2020).

This study's findings are consistent with previous research on the importance of regional taxes in contributing to local revenue and supporting regional development. (Minh Ha et al., 2022) and (Anggadini et al., 2022) emphasize the significant role of taxes in stabilizing the economy and funding development projects. (Ahmadov, 2022) and (Shapovalova et al., 2023) also highlight the importance of optimizing regional tax revenues to support regional development. The classification of local taxes based on the Klassen typology is in line with the study by (Shapovalova et al., 2023), which suggests that local taxes, such as entertainment tax, have the potential to increase regional tax revenue (Wijaya et al., 2020). This study builds upon these findings by providing a detailed analysis of regional tax revenues in Garut Regency, focusing on the impact of the Covid-19 pandemic and the effectiveness of tax policies. Overall, this research extends previous studies by providing specific insights into the performance of different types of local taxes in Garut Regency and recommending strategies for optimizing tax revenues and supporting regional development.



## CONCLUSION AND RECOMMENDATION

Classification using Klassen typology analysis to examine the description of the types of regional taxes in Garut Regency based on the criteria of contribution and effectiveness shows that entertainment tax, street lighting tax, urban and rural land and building tax, and property transfer fees are prime taxes. Meanwhile, the emerging types of taxes are the parking tax the lagging tax is the wallet bird's nest tax. To optimize the tax potential in the region of Garut Regency, the government needs to intensify regional taxes to increase revenue from the tax sector. Additionally, tax extensification needs to be reconsidered to determine strategies that can increase taxpayer compliance.

In conclusion, the Klassen typology analysis provides valuable insights into the categorization of regional taxes in Garut based on their contribution and effectiveness. It highlights the importance of focusing on prime taxes such as entertainment tax, street lighting tax, urban and rural land and building tax, and property transfer fees to maximize revenue generation. However, attention should also be given to emerging taxes like parking tax and lagging taxes like the wallet bird's nest tax, which may require specific strategies to enhance their performance. Recommendations for the government of Garut Regency to enhance revenue generation and fiscal sustainability, the government of Garut should consider the following recommendations. Firstly, it should intensify efforts to collect prime taxes by implementing measures to improve tax administration, increase taxpayer education and awareness, and enhance compliance with entertainment tax, street lighting tax, urban and rural land and building tax, and property transfer fees. Secondly, specific strategies should be developed to enhance the performance of emerging taxes like parking tax, including exploring opportunities for tax incentives or simplifying tax processes. Thirdly, targeted interventions should be implemented to improve the collection of lagging taxes such as the wallet bird's nest tax, including reviewing the tax rate and enforcement mechanisms. Additionally, a thorough review of tax extensification strategies should be conducted to identify new opportunities for expanding the tax base and increasing revenue sources. Lastly, further research should be encouraged to explore the factors influencing taxpayer compliance and the effectiveness of different tax policies and interventions in Garut Regency. Implementing these recommendations can help the government optimize its tax potential, increase revenue collection, and improve its fiscal sustainability.

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