

An Analysis of Contributions and Effectiveness of Government Regulation No. 23 Year 2018 in Tax Revenue: A Case Study at KPP Pratama Pekalongan

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Abstract. This study aims to determine the levels of contributions and effectiveness of Government Regulation No. 23 Year 2018 (PP No. 23/2018) on tax revenue at KPP Pratama Pekalongan. It used effectiveness and contributions formulas for data analysis. The research results showed that the effectiveness level of this regulation on tax revenue at KPP Pratama Pekalongan indicating ineffective criterion. On the one hand, the contribution level of this regulation implementation on tax revenue at KPP Pratama Pekalongan indicating very poor criterion. Based on the data collected, this regulation were unable to increase the tax revenue at KPP Pratama Pekalongan.

Keyword: *Government Regulation No. 23 Year 2018, Effectiveness, Contributions, and Tax Revenue*

1. Introduction

Taxes play an important role in a country, especially regarding the sustainable national development program in many aspects due to improving people's welfare. In order to understand an independent economy, generally, the government of a country reduces its funding from abroad, and highly optimizes financing from the tax sector. It is the greatest revenue contributor sector for center and local governments, as well as the easiest for collecting taxes. These can be conducted because taxes collection is supported by Law of Tax that has been implemented[1]. Paying taxes is a form of state compliance and obligations for taxpayers in accordance with applicable regulations. Taxes have an essential role in a country, especially related to sustainable national development programs in various sectors to improve people's welfare.

Table 1. Details of the 2019 State Budget

No	Budget	Total (IDR)
1	Tax Revenue	1.786,4 T
2	Non-tax State Revenue (PNBP)	378,3 T
3	Grant	0,4 T
Total of Budget		2.165,1 T

Source: the 2019 State Budget and Expenditure (APBN)

Table 1, in this case, shows that revenue of tax sector still becomes the greatest state budget source. In 2019, the tax revenue implementation in Indonesia was able to grow by 1.4% compared to the same period last year. With a predetermined target, there is a shortage of tax revenue (shortfall) in 2019. According to the information above, it can be concluded that even though the tax revenue scores contained in APBN showed the great amounts, the actual taxes in this country can be improved continuously.

One of tax sectors that is further increased its contribution is Micro, Small and Medium Enterprises (MSMEs). Based on a survey conducted by BPS, it recorded the amount of MSMEs in Indonesia in 2017 was 98.8% from the total of enterprise units and able to employ workers by 96.99% of the total workforce. This sector contributed 60.3% of the total Gross Domestic Product (GDP). MSMEs are embryos for generating great and tough entrepreneurs in the future. Therefore, the government's role is very essential in managing an economic system that is able to survive and continue to grow. The MSMEs that can survive and grow give advantage for the government because they contribute on economic development and one of their roles is to enable to employ great numbers of workers and for the income taxed by the government[2]. This is in a line with DJP's statement in its official website that the revenues in 2015 were 3.4 trillion, 4.4 trillion in 2016 and 5.7 trillion in 2018[3]. The government recently pays attention to a private sector that has been ensured to have a large potential for tax revenue namely MSME which has lesser turnover than big companies. Nevertheless, the existence of this sector can be found throughout the country. Moreover, MSME has provided significant contribution on Indonesian economic development.

The government attempts continuously to form independent MSMEs that can continue to grow and become a formidable business in order to create a strong national economy. Taxation which is considered complicated and inconvenient makes the government offer convenience for MSME businesses. Conveniences such as lower tariff discounts, easier calculation methods, and easy repayment and reporting are all regulated in PP No. 23/2018. It regulates PPh tariff 0.5% for MSMEs that the previous was 1%. It has been implemented since 1 July 2018. This new tariff is implemented for business revenue with turnover is lower than 4.8 billion in a year. The partiality surely shown by the government through this new regulation, hopefully, is able to further trigger the growth of new small businesses in the community. Hence, their presence can improve the level of contributions to the MSME sector for the country's economy which can be seen from the increasing ratio of taxes received by the state to Indonesia's GDP. Of course, with the government's new policy breakthrough, it expects to be able to provide convenience and simplicity to MSMEs people in carrying out their tax obligations. The previous research conducted in Malang City[4] found that this regulation set by the government had not run optimally in this city because the taxpayers did not really understand the procedure for determining the time period for this new tariff cut.

This research also stated that taxpayers whose a certain gross turnover had not clearly understood this new rule. On the one hand, another study revealed that their knowledge of this regulation had effect on their obligation itself. The previous research had elaborated more on the problem of socialization of regulations and the level of knowledge of taxpayers about this regulation because it was conducted in the early period of the regulation implementation. The regulation has implemented since 1 July 2018, thus, it is interesting to study and determine more about its effectiveness and contribution as well as for measuring them for tax revenue. This research would like to study the levels of effectiveness and contributions of this regulation on the taxes received. This study is performed at KPP Pratama Pekalongan because it does not only serve taxation in Pekalongan City, but also serves taxation in Pekalongan Regency and Pematang Regency, so that its scope is wider and heterogeneous. In addition, Pekalongan is well known as Batiks City, one of Indonesian greatest batiks center, and has many handicrafts--made from other natural materials--industries. These make it named as the World Creative City in December 2014 ago by the Director General of UNESCO, Irini Bokova. On the other hand, Pematang Regency is known as textile industry and apparel industry (confections). From the descriptions above, it can be concluded that there are many MSMEs distributions from large to small scales in Pekalongan and Pematang areas. Therefore, it is very appropriate to know the level of

effectiveness and contribution of PP No. 23/2018 which regulates the MSME tax rate on tax revenues at KPP Pratama Pekalongan. This study contributes to KPP Pratama Pekalongan in the form of consideration material and thought contribution so that it can be evaluated as a reference in the future in making policies that are useful for increasing tax revenues, especially in the MSME sector.

2. Literature Review

2.1 *Income Tax Article 4 Paragraph 2 (PPh Article 4 (2))*

PPh Article 4 (2) encompasses income in the form of interest on deposits and other savings, income from transactions of shares and other securities on the stock exchange, income from the transfer of property in the form of land and or buildings as well as certain other income, the taxation of which is regulated by Government Regulation [6]. Withholding Income Tax Article 4 (2) cannot be credited because it is final. Taxes received from the MSME sector are included in certain other income categories, namely PPH Article 4 (2) and are final.

2.2 *Government Regulation Number 23 Year 2018*

Government Regulation Number 23 Year 2018 (PP No. 23/2018) has been implemented since 1 July 2018[7]. Based on this policy, tax rate imposed for MSME actors is 0.5% of the total gross (turnover). It replaced Government Regulation Number 46 Year 2013 with the rate by 1%. There is a set time limit for utilizing this rate that is different for each tax subject. For instances, seven years for individual taxpayers, three years for corporate taxpayers in the form of PT, while for corporate taxpayers in the form of CV, firms, and cooperatives, the term is four years. The term for the old taxpayer had been implemented since the tax year of the new policy is implemented. On the contrary, the term for the new one is counted since he administered. Business people whose turnovers less than 4.8 billion in a year can take advantage of this policy.

2.3 *Effectiveness*

Effectiveness indicates either success or failure in goal achievement[8]. Effectiveness measurement is output reflection. If an organization wants to build a hospital with 250 beds, four operation units, an accident and emergency unit, an external patient unit and all of these targets are achieved then the organization's performance mechanism is considered effective. If there are only 1,150 beds built, it considers that the organization works ineffective.

2.4 *Contributions*

Contributions in the form of money or fund contributions, energy assistance, thought assistance, material assistance, and all kinds of assistance/donations that might help the success of activities in a forum, association and so on[9]. The contribution, in this case, is how tax revenues of PP No. 23/2018 contribute the amount of the tax revenues on the total of the tax revenues. It compared between the certain period of PPh final tax revenues of this regulation and total of the particular tax revenues. The greater result comparison means the greater role of the regulation on total of tax revenues, and vice versa.

3. Methodology

It used a qualitative descriptive research. Object of this study was analysis of PP No. 23/2018 on tax revenues at KPP Pratama Pekalongan. The primary data used was in the form of result of interviewing employees at KPP Pratama Pekalongan regarding to the realization of this regulation. Meanwhile, it obtained the secondary data from PPh income data article 4 (2) that the tax received from MSMEs sector at Tax Office Pekalongan in the period of 2018-2019. The data analysis technique used was to calculate the values of effectiveness an contributions according to the formulas of them.

3.1 Effectiveness [10]

$$\text{Effectiveness} = \frac{\text{Tax Revenue Realization}}{\text{Tax Revenue Target}} \times 100\%$$

Table 2. Classification of Effectiveness Measurement

Percentage (%)	Criterion
>100	Very Effective
90 - 100	Effective
80 - 90	Enough Effective
60 - 80	Less Effective
<60	Ineffective

3.2 Contributions [11]

$$\text{Contributions} = \frac{\text{PPH Revenue Total of PP 23/2018}}{\text{PPH Revenue Total of Article 4 (2)}} \times 100\%$$

Table 3. Classification of Contributions Measurement

Percentage (%)	Criterion
> 50	Excellent
40,01 - 50	Good
30,01 - 40	Moderate
20,01 - 30	Fair
10,01 - 20	Poor
< 10	Very Poor

4. Results and Discussion

4.1 Effectiveness

To determine the effectiveness level, it compared between the realization of MSMEs tax revenues and the tax revenues target in the certain period.

Table 4. The Effectiveness Level of Government Regulation Number 23 Year 2018 in Tax Revenue

Year	MSME Tax Revenue Target	MSME Tax Revenue Realization	Effectiveness	Criterion
2018	220.115.980.000,00	22.104.302.451,00	10%	Ineffective
2019	271.529.939.000,00	20.127.798.702,00	7%	Ineffective

The tax revenues target of MSMEs (PP 23/2018) had increased in 2019 from 2018. Nonetheless, the revenues realization had decreased namely IDR 22,104,302,451 in 2018 from the target by IDR 220,115,980,000. On the one hand, it was IDR 20,127,798,702 from the target by IDR 271,529,939,000 in 2019. The effectiveness of the realized tax revenue of MSMEs (PP 23/2018) at KPP Pekalongan in 2018 was IDR 22,104,302,451 from the target by IDR 220,115,980,000 with ineffective criterion by 10%. On the other one, it recorded the realized tax revenue of MSMEs (PP 23/2018) in 2019 that was IDR 20,127,798,702 from the target by IDR 271,529,939,000 with ineffective criteria by 7%. These are in line with what one of the Account Representatives at KPP Pratama Pekalongan said, that the preparation of tax revenue targets consisted of many factors. This determination refers to the national tax target and categorized into each regional office and then to the Tax Service Office. In this case, the office itself does not have full power over the target determination globally. The previous year's revenue was taken into account but had a small portion, so that the final PPh revenue for the previous year's MSMEs did not become a reference for the next year's target. This caused the target often did not reflect the actual potential that was worth to be achieved. Furthermore, the business potential of the MSME sector is quite large in Indonesia and Pekalongan is an area with potential MSMEs stretching. Hence, determination of the target was based on the Final PPh on MSMEs. Later, he said it was hard to increase the tax revenues increase with very high percentage. The most possible thing is growth and growth itself will only increase with a moderate percentage not high. It is likely to be difficult to realize for increasing taxpayer deposits simultaneously and massively even with great potential.

4.2 Contributions

Determining the contribution, it compared between final PPh tax revenue of PP 23/2018 in the certain period and total of the tax revenue of the particular period.

Table 5. Contribution Level of Government Regulation Number 23 Year 2018 in Tax Revenue

Year	Month	MSMEs Income (GR 23/2018)	PPh Income Article 4 (2)	(%)	Criterion
2018	June	1.674.455.917,00	11.201.362.046,00	15 %	poor
	July	1.917.424.600,00	14.120.179.505,00	14 %	poor
	August	1.376.401.223,00	15.595.994.084,00	9 %	Very poor
	September	1.504.570.323,00	14.531.785.528,00	10 %	Very poor
	October	1.306.667.645,00	14.669.854.693,00	9 %	Very poor
	November	1.408.554.103,00	17.334.522.718,00	8 %	Very poor
	December	1.571.763.776,00	23.960.445.636,00	7 %	Very poor
2019	January	1.474.396.223,00	14.305.124.066,00	10 %	Very poor
	February	1.519.516.518,00	12.703.013.560,00	12 %	poor
	March	2.196.069.383,00	15.076.546.026,00	15 %	poor
	April	1.917.711.061,00	13.989.174.296,00	14 %	poor
	May	1.574.328.905,00	14.242.591.916,00	11 %	poor
	June	1.273.495.280,00	11.217.681.455,00	11%	poor
	July	1.665.882.791,00	14.215.278.358,00	12%	poor
	August	1.496.368.039,00	15.412.036.574,00	10 %	Very poor
	September	1.648.166.798,00	14.739.177.751,00	11 %	poor
	October	1.802.449.225,00	15.870.623.016,00	11%	poor
	November	1.752.513.339,00	17.440.221.772,00	10 %	Very poor
	December	1.806.901.140,00	25.808.828.125,00	7 %	Very poor

The highest tax revenue of MSMEs (PP 23/2018) occurred on March 2019 that was IDR 2,196,069,383 and the lowest was IDR 1,571,763,776 on December 2018. On the other hand, the highest PPh revenue Article 4 (2) occurred on December 2019 achieving IDR 25,808,828,125 and the lowest

was IDR 11,201,362,046 on June 2018. The revenue contributions of PP No. 23/2018 on the revenue total of PPh Article 4 (2) at KPP Pratama Pekalongan are as follows: the highest was on March 2019 with poor criterion by 15% and the lowest was on December 2018 with 7% contribution and very poor criterion. The average of tax revenue contribution of MSMEs (PP No 23/2018) on the revenue total of PPh Article 4 (2) for 19 months was 10% with very poor criterion. These are in line with what one of the Account Representatives at KPP Pratama Pekalongan said, that PP No. 23/2018 had no effect on the increases of tax revenues and taxpayers total at KPP Pratama Pekalongan. The increase happened naturally and insignificant merely due to the new regulation implementation.

5. Conclusion

The effectiveness of tax revenues of MSMEs based on PP No. 23/2018 at KPP Pratama Pekalongan decreased that 10% ineffective in 2018 and 7% ineffective in 2019. On the one hand, the contribution given by this regulation at KPP Pratama Pekalongan for 19 months since it was implemented had fluctuated and categorized in very poor criterion, i.e. 10%.

Thus, it suggest KPP Pratama Pekalongan to evaluate the policies existed for supporting this regulation implementation so that service quality for taxpayers will be enhanced. It is also expected to dig the great potential of MSMEs deeper in the workplace of KPP Pratama Pekalongan and do socialization using personal approach in order to be able to touch potential taxpayers optimally.

Analysis results of effectiveness and contribution in this case are only based on written data and do not consider on the real condition. Nevertheless, they have to be considered as a reference for taking decision. The future research is expected to be able to study data deeper both written data and additional data in the field, as well as to develop the variables of this research.

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