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Strategies for increasing tax revenue in tourism sector

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Article Info

Abstract

This study examines taxpayer considerations to fulfill their obligations since law enforcement and tax administration improvement were not adequate to explain the gap between actual tax and its target. A survey was conducted to hotel, restaurant and tourist destination managers in Bandung since one-third of local taxes derived from the tourism sector. We use a probit model to clarify the influence of religious activities, trust in government institutions, public services, people's pride, pro-democratic attitude, to taxpayer morality. The study concludes that taxpayers in the tourism sector have a higher local tax morality than central tax morality and only the public services which have a consistent and significant impact on both tax moralities. The local governments and central government can develop improved strategies to increase revenue from tourism sector by providing better public service, which directly or indirectly enhances the tourism sector performance.

Introduction

For almost ten years tax realization and target in Indonesia has a rising trend. Improvement of this target is in line with the need for development funding, and the increased realization is aligned with economy capability. The problem is since 2009 there has been an increasing gap between an actual and targeted tax (Negara, 2016). Historical data shows that the ratio continues to fall until 81% in 2015 and 2016. Assuming that the determination of the targeted tax has taken into account economy capability to finance the development then it is likely the problem lies in the effort to achieve the tax realization. There are indications that the tax amnesty program launched by the government in 2016 has not been able to lead the tax realization approaching its target.

There are differences between tax compliance and tax morale though there is no doubt that they have a close relationship (Bilgin, 2014; Filippin, Fiorio, & Viviano, 2013; Zeng, 2014). Some tax compliance determining factors are the tax law system, tax law enforcement, and the nature of government spending (Rashidah & Faisal, 2015). Included in the tax law system are the complexity, ambiguity and the legal system of tax fairness (Zeng, 2014). On the other hand, the tax morale is closer to the value of the taxpayer which drives him to comply (Cummings, Martinez-Vazquez, McKee, & Torgler, 2009; Schneider, Torgler, & Schneider, 2006). In short, tax morale is an intrinsic motivation for paying taxes. Thus there is complementary nature between tax compliance and tax morale (Alasfour, Samy, & Bampton, 2016). Therefore, examine the level, and the factors that affect tax morale may help to understand the conditions of tax compliance that exist in the country (Alasfour et al., 2016; Doerrenberg & Peichl, 2013).

Factors affecting tax morale can be divided into two parts: social factors (irregular behavior based on social norms) and institutional factors. The social norm is the regularity of behavior which is based on the belief shared socially how people should behave which triggers the enforcement of conduct determined by social sanctions (Xin Li, 2010). In the context of tax payments, social factors mean people's willingness to pay taxes voluntarily according to social norms embraced by the community (Fehr & Fischbacher, 2004). The social norm is the regularity of behavior which is based on the belief shared socially how people should behave which triggers the enforcement of conduct determined by social sanctions. In the context of tax payments social factors mean people's willingness to pay taxes voluntarily according to social norms embraced by the community (Fehr & Fischbacher, 2004; Xin Li, 2010).

The religious activity consists of three elements, one of which is guilt and shame. Feelings of guilt and shame can arise in society and make it an adopted norm. Guilt arises when the individual realizes that they have been acting irresponsibly and breaking the rules or social norms which have been internalized. If the obligation to pay taxes to the government is the accepted social norm then people who choose not to pay

taxes would feel guilty (Onu, 2016; Torgler, 2010). Institutional factors related to aspects which can explain how citizens perceive how taxes are being spent. These factors include support for democracy, trust in government, and preferences for redistribution (OECD, 2013). If people believe that government professionalism can be maintained, then the community tax morale will also be maintained (Alasfour et al., 2016; Vlachos & Bitzenis, 2016).

The next institutional factor that also dominant is public services or public goods. The higher benefit of public services and public goods benefit perceived by the public, the higher society tax morale. In a country where there is fiscal decentralization, there are two types of public service that are provided by the central government and local governments. Communities may be able to distinguish which public services are provided by the central government and which are provided by the local government. The question is whether the public's knowledge of this will have an impact on their tax morale to the central government tax and local government tax. Logically, the difference in public service perceived by the public will lead to differences in tax morale as well. The public perception of particular public service may also affect the perceptions of other public services. Disappointment in receiving public services from one level of government will bring the public to lower level of tax morale. Public spending may affect tax morale of society through public goods or public services perceived by the public (Torgler, 2010; Torgler, Schneider, & Schaltegger, 2010). National pride is the positive effect that the public feels towards their country caused by national identity. If national pride public is high, then there will be a push to fulfill obligations as citizens, which means tax morale will also rise (Macintyre, 2015).

Through a democracy, people believe that the executive is proper running because it monitored by the legislature. Likewise, the judicial body may perform its function as law enforcement which guarantees every citizen is carrying out its obligations and accept their rights. The higher the taxpayer's participation in political decision-making is the higher the confidence and tax morale. Such community participation is closely related to the determination of public services received by the public (Cummings et al., 2009; Daude & Melguizo, 2010). What has not been widely discussed in the literature is the tax morality for certain tax types and at certain government levels. Thus this research will add to the tax morality literature about certain types of taxes.

This study highlights the preferences of related-to-tourism sector company managers. From their business activities, these managers pay local taxes and central government taxes. That is, implicitly this research exploring whether there is a different level of tax morality between local taxes and central government taxes. Also, this study emphasizes the depth analysis of the predictor(s) that significantly affect the level of tax morality. This variable can form the basis for determining the tax revenue increase strategy set by the government.

Research Method

The study population was the small-medium sized businessman in the tourism sector in Bandung. They are local taxpayers as well as central government taxpayers. The tourism sector in Bandung city was selected because one-third of Bandung local tax contributed from hotel and restaurant taxes. Small-medium scale enterprises were chosen because in such business person who determines tax payments the company is the leader of the company itself. In fact, in many cases, the company is still in the form of the individual company where the owner doubles as manager. Also, the selection of small and medium-sized businesses also based on the fact that they often do not have staff who skilled enough to handle tax reporting so that relevant to taxpayer compliance (Abrie & Doussy, 2006; Kamleitner, Korunka, & Kirchler, 2012). Based on these criteria, we chose three types of business which included in the population, namely: (I) hotel, (ii) the restaurant, and (iii) tourist destination. The following table shows the sample population which selected based on cluster random sampling method.

Table 1. Population and Sample

	Population Size	Sample Size
Hotels (1,2 and 3 star hotels)	80	15
Restaurant (small and medium scale)	343	65
Tourist Attraction	11	2
Number of Population and Sample	434	82

The minimum sample size of 82 is based on the following calculations.

$$n = \frac{N}{1+Nd^2} = \frac{434}{1+434(0,10)^2} = 82 \tag{1}$$

We surveyed in the January-March 2017 period because the time is close to the tax reporting deadline. Reporting deadline for the personal income tax is the end of March, and the corporate income tax is in April. Thus this period considered relevant to selected because is close to the decision of the taxpayer to report on their income taxes.

The questionnaire was prepared based on the variables measured. The dependent variable or tax morale is measured by an index ranking according to the respondent answers. The questions are "If there is a chance, do you want to avoid taxes either partially or totally?". Respondents were given the index 1 to 4, each of which means: do not want, do not particularly want, want, and, really do not want. When the survey conducted, the question is not delivered straightforward but through an in-depth discussion about what they do and consider in paying taxes.

Other variables measured by an index of 1 to 10 according to the respondents' answers to the questions given. For example, questions that measure the "trust in government institutions" conducted by the question "How do you believe the government/parliament in carrying out its role as good as possible?". Index 1 means "no confidence" and the index of 10 means "very confident". The index range made long enough to form the semantic differential scale.

All questions were divided into two parts to the context of the central tax (or the central government) and the context of local taxes (or local government). The division is conducted to examine whether there are differences in the tendency tax morale and the factors that affect it.

We use ordered probit model because of its ability to cover ordinal scales (more than two outcomes) of dependent variables. In this study, the dependent variable is "tax morale" by the index of 1,2,3,4. Therefore, the model probit is expected to be able to capture the order of the answers given. Here are the general models of an ordered probit we used.

$$TAMO_i = \beta_0 + \beta_1 RELI_i + \beta_2 TRUST_i + \beta_3 PUBLIC_i + \beta_4 PRIDE_i + \beta_5 DEMOC + \varepsilon_i \tag{2}$$

Where TAMO measures tax morale, RELI covers religiosity; TRUST is trust in government institutions, PUBLIC the public services received by communities, PRIDE the pride of being part of the community, DEMOC is a proxy for the degree of direct democracy.

Results and Discussion

Differences in tax morale

The previous section described the measurement of tax morale and the meaning of each index. In contrast with the rest of the independent variables the higher the variable scale tax morale continued to show unfavorable conditions. Table 2 shows the distribution of respondents' answers on tax morale for central government tax and local government tax.

Table 2. Dependent Variables Frequencies

TAMO-Central Gov Tax			TAMO-Local Gov Tax		
Dep. Value	Count	Percent	Dep. Value	Count	Percent
1	7	6.86	1	18	17.65
2	16	15.69	2	46	45.10
3	72	70.59	3	38	37.25

Table 2 provides an overview that respondents are more likely to respond positively to local taxes than central government taxes. The similarity of respondents' answers to tax morale of local taxes and central government taxes is that they do not have a score of 4. It means that respondents tend not to choose the extreme answer that is "really want to avoid tax". Thus, the selection of a score of 1-4 for the tax morale variable is effective. The courtesy of the Indonesians may make them hesitate to be candid about "wanting to avoid taxes". In other words, in addition to score one, it can be said that there is a desire to avoid taxes. Furthermore, diversity in respondents' answers was tested using the mean difference test as follows.

Table 3. Test for Equal Dependent Variable Means

	Central Gov TAMO	LocalGov TAMO
Mean	2.77451	2.196078
Variance	0.453601	0.515628
t	-9.18326 ***	

Note : ***, significant at 0.01 level

Table 3 shows the differences in tax morality between local taxes and central government taxes. It is an interesting finding because since 2000 Indonesia has been in the era of regional autonomy. This difference will have a different problem handling.

Description of independent variables

Once we perceive the difference of tax morality between local tax and central government tax then next we test whether there is a difference between the predictors in both levels of the tax. The average value of the five predictors, which has a scale of 1-10, is shown in the following table.

Table 4. Descriptive Independent Variable

In the context of the central government-Indonesian citizen					
	RELI	PRIDE	PUBLIC	TRUST	DEMOC
Mean	5.91	5.62	7.19	6.44	5.61
Maximum	8.00	8.00	10.00	9.00	8.00
Minimum	4.00	4.00	5.00	4.00	4.00
In the context of the local government-Bandung citizen					
	RELI	PRIDE	PUBLIC	TRUST	DEMOC
Mean	5.92	5.46	7.18	6.00	5.60
Maximum	8.00	9.00	10.00	8.00	8.00
Minimum	4.00	2.00	5.00	4.00	4.00

The lowest score is pro-democratic attitude, followed by people's pride in their nationality and then religious activity. The next one is the trust on government institution and the highest in the public service received and perceived by the community. It appears that there is no significant difference in scores for both taxes, local taxes, and central government taxes. That is, people perceive nothing different to religiosity, the pride of society to nationality, public service, belief in government institutions and attitude to democracy, but on the other hand, they have different tax morality between local taxes and central government taxes.

Factors affecting tax morale

Once we know that there is a tax morale difference between local taxes and central government taxes than the next step, using the probit model, we explore how predictor variables affect tax morale. The following table denotes the estimation of tax morale probit model on both tax levels.

Decentralization is a transfer of authority from central government to local authorities to manage its local affairs based on the initiatives and aspirations of its people within the framework of the unitary Republic of Indonesia. The Bandung local government, which receives most of the authority from the central government, will then provide services corresponding to the authority obtained. Taxpayers in the tourism sector would easily be able to identify any tax, whether it is a central tax or local tax. Likewise, they can distinguish any city government services arising from the delegation from part of the authority.

Table 5 provides information on the variables that affect tax morale for central government tax. All variables have negative influences on the tax morale by the research hypothesis. The first variable is public religiosity. It is difficult to measure a person's religiosity only by what is observed. However, this study measures some tangible activities as a proxy of one's religiosity. We use frequency of a person going to a mosque, church, temple or monastery as the main indicator. This measure is simpler than that of previous researchers that one's religiosity can be subdivided into guilt and shame as well as duty and fear. For

Indonesians, this value can be proxied from their frequency of worship. Unfortunately, the influence of religiosity on tax morale is insignificant which means we cannot take a conclusion about the relationship between the frequency of worship with tax morale, for the type of central government tax.

Table 5. Ordered Probit For Central Government Tax Morale

Y= Tax Morale for Central Gov Tax		
Variable	Coefficient	z-Statistic
RELI	-0.052	-1.232
TRUST	-0.381	-2.101**
PUBLIC	-0.383	-2.776**
PRIDE	-0.112	-0.511
DEMOC	-0.127	-1.692
Limit Points		
LIMIT_2:C(6)	-7.934	-5.551***
LIMIT_3:C(7)	-6.380	-4.512***

Note: *** and ** indciate significant at 0.01 and 0.05 level

Table 6. Ordered Probit For Local Government Tax Morale

Y= Tax Morale for Local Gov Tax		
Variable	Coefficient	z-Statistic
RELI	-0.080	-1.299
TRUST	-0.199	-1.665
PUBLIC	-0.586	-3.255***
PRIDE	-0.0364	-0.522
DEMOC	-0.2789	-2.189**
Limit Points		
LIMIT_2:C(6)	-9.577	-4.353***
LIMIT_3:C(7)	-8.562	-3.453***
LIMIT_4:C(8)	-5.781	-3.145***

Note: *** and ** indicate significant at 0.01 and 0.05 level

The second variable to affect tax morale is trust in government institutions. This variable is linked to several indicators such as corruption in government institutions revealed and known by the public (Alasfour et al., 2016; Bouckaert & van de Walle, 2003; Vlachos & Bitzenis, 2016). The data in table 4 states that the trust in government institution is moderate with an index of 6, perceived by respondents either to the central government or local government. The number of corruption cases involving the government does have a dual meaning. The first meaning, many government apparatus is corrupt, and therefore people do not believe in a government institution. Secondly, the government is seriously implementing the anti-corruption agenda and therefore trust in government is high. Back to table 5 and table 6, trust in central government has a significant influence, but not to local governments. Possibly, this is relevant to the existence of a corruption eradication commission that reveals many corruption cases on a national scale. If we believe that the tax morale is behind the tax compliance, then public confidence in the government becomes one of the concerning aspects and become the basis for tax realization policy (Doerrenberg & Peichl, 2013; Luttmer & Singhal, 2014; Sá, Martins, & Gomes, 2014). Unfortunately, we find no significant relationship between trust in government and tax morale on the local government level.

The third variable and perhaps the most important variable in this study is the public service received by the taxpayers. From the statistics in table 4, we find that this variable has the highest index, both for services provided by the central government or by the local government. Interestingly, public services have a significant effect on tax morality, for both levels of government service. Services and public goods impacting the tourism sector development within an area is provided by the central and local governments. Usually, the central government provides indirect services, whereas, local governments provide direct and indirect services. When viewed from the tourism sector development some services have an impact on the supply side and other have an impact on the tourism market. The integrated tourism industry consists of travel organization,

transportation, accommodation, food and beverage, handicraft, tourism assets in the destination, leisure tours and support services (UNEP-WTO, 2005).

Central and local governments can provide direct services throughout the business line, or, may also provide indirect services. Improving the quality of human resources in the tourism sector is an example of direct service, whereas, airport improvements, railway stations, and bus terminals, or even highway congestion control are examples of indirect services affecting the tourism sector. Also, there are more government services that impact tourism marketing that may be perceived by tourism actors quite hard to undertake. Related to this, some government activities are tourism exhibition, tourism-sector gathering, and direct promotion at home and abroad. Interestingly, lately, the press became an effective medium in conducting tourism marketing. However, the news that the press do is related to the creativity of local governments in developing the tourism sector in the region. The more creative the local government to package the tourism sector, the more news issued the more intensive tourism marketing. All of them are forms of government services that are consecutive to the development of tourism sector.

People's pride of being a citizen is the fourth variable expected to affect taxpayers' morale in the tourism sector. In many other countries, people's pride is influential, and some do not affect, on the tax morality. In fact, the urban population is made up of various ethnicities, so the proud being citizen becomes a very important issue that can support development (Xin Li, 2010). Unfortunately, this variable is the lowest index among other variables. Also, people's pride does not have a significant effect on tax morality.

The last variable which hypothesized to influence tax morale is the pro-democratic attitude of the community. The pro-democratic attitude index for the two levels of government is not much different, as illustrated in Table 4. However, its effect on tax morality is different. Against the morality of the central tax, the influence is not significant while toward regional tax, it is significant. Although somewhat difficult to explain, this possibility is related to the effectiveness of executive, legislative and judicial work at the local level, which is more easily observed by local communities and appraised higher than the national level.

Conclusion

Bandung is a model of a city whose tax revenues are formed primarily by the tourism sector. This city's tourism type is based on creative industries particularly from fashion and culinary. In fact, the tax realization of this sector is still below its potential. This study reveals what lies behind taxpayer compliance, specifically is tax morality, which underlies the tax revenue of the tourism sector. This study also measures the level of taxpayers' morality for central government tax and local taxes. The probit model clarifies the influence of religious activities, trust in government institutions, public services, people's pride, pro-democratic attitude, to taxpayer morality. The influence of each predictor turns out to be different in explaining the morality of local taxes and central taxes. There is only one variable that significantly affects both, i.e. public service. Thus, the tax revenue increase strategy might begin with increasing the public service related to the type of tourism available, in this case, is creative industry-based tourism.

Local governments must creatively cooperate with the central government and private parties in maximizing their role of providing public service to taxpayers in the tourism sector. Taxpayers will benefit if local governments can invite the private sector in marketing the tourism sector. Likewise, the tourism sector will benefit if local governments can engage the central government to share the role of providing the necessary public services. Increasing the number and quality improvement of urban infrastructure, which can be met together by the central government and local governments is a public service that indirectly impacts the tourism sector. Improving the investment climate, improving the quality of human resources, or improving the network of actors in the tourism sector are some other strategies that can directly improve the development of tourism sector that can be pursued by the local government.

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