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## **Taxation in the Public Sector: Analysis of Effectiveness, Contribution, and Strategies for Strengthening Regional Tax Revenue in Binjai City**

**Adinda Rizki Ramadhana Matondang<sup>1)</sup>, Novita<sup>2)</sup>, Galih Supraja<sup>3)</sup>**  
<sup>1,2,3.)</sup> Department of Accounting, Universitas Pembangunan Panca Budi

\*Corresponding Author

Email : [galih@dosen.pancabudi.ac.id](mailto:galih@dosen.pancabudi.ac.id)

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### **Abstract**

*This study aims to analyze the condition of taxation in the public sector, especially regional taxes, in Binjai City, North Sumatra Province, by highlighting the level of effectiveness of collection, its contribution to Regional Original Revenue (PAD), as well as factors that affect taxpayer compliance and efforts to digitize tax services. The research uses a qualitative descriptive approach with secondary data derived from the Binjai City Regional Revenue and Expenditure Budget (APBD) realization report, documents from the Binjai City Regional Finance, Revenue, and Asset Management Agency (BPKPAD), as well as literature reviews from journal articles published in the last five years. The results of the study show that the realization of Binjai City's regional taxes in 2024 will only reach around 56.4 percent of the set target, so the level of effectiveness is classified as not optimal, although the contribution of regional taxes to PAD remains in a fairly good category. Factors such as low taxpayer awareness, limited supervision resources, not optimal service digitization system, and the determination of tariffs that are considered disproportionate for micro business actors are the main reasons why these targets have not been achieved. This study recommends strengthening taxpayer databases, expanding digital-based tax services, and reviewing tariff policies to be more fair, as a strategic step to increase Binjai City's regional tax revenue in the future.*

**Keywords:** *Regional Taxes, Local Original Revenue, Tax Effectiveness, Taxpayer Compliance, Tax Digitalization, Binjai City*

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## **INTRODUCTION**

Regional taxes are one of the most important sources of revenue for local governments in financing the implementation of government and development in their regions. As part of the Regional Original Revenue (PAD), regional taxes provide greater fiscal space for district and city governments to reduce dependence on transfer funds from the central government. The greater the revenue from regional taxes, the greater the fiscal independence that can be achieved by a region in carrying out its own development programs. Therefore, optimizing regional tax collection is one of the important agendas in public financial governance at the local level.

Binjai City, as one of the cities in North Sumatra Province that directly borders the city of Medan, has quite diverse economic potential, ranging from the trade, services, hospitality, to micro, small, and medium enterprises (MSMEs) that grow rapidly along the interprovincial crossing route. This economic potential can theoretically be a significant source of regional tax revenue, especially from types of taxes such as hotel taxes, restaurant taxes, billboard taxes, street lighting taxes, and land and urban building taxes. However, in practice, the realization of Binjai City's regional tax revenue in recent years shows achievements that are still far from the target set in the APBD, thus raising questions about the extent to which the effectiveness of regional tax management has been carried out by the city government.

Based on data on the realization of the Binjai City budget in 2024, regional taxes were only able to be realized around IDR 59.3 billion from the target of IDR 105.1 billion, or around 56.4 percent until the end of the fourth quarter. This achievement indicates that there is a considerable gap between the targeted potential and the realized that has been successfully gathered. Not only at the regional tax post, other components of PAD such as regional levies and other legitimate PAD also showed achievements that were far below the target, which ultimately also affected the overall fiscal independence of Binjai City. This condition is interesting to study in more depth, considering that regional taxes should be the backbone of sustainable PAD.

Various previous studies have discussed the issue of regional taxes and PAD in Binjai City, both in terms of the effectiveness and contribution of regional taxes to PAD, the role of regional taxes and levies in increasing PAD, as well as factors that affect the amount of PAD itself. Most of these studies concluded that although the contribution of regional taxes to PAD is quite large, the level of effectiveness of its collection is still in the unsatisfactory category. In addition, there is also an issue regarding the determination of restaurant tax rates which are felt to be burdensome for micro business actors, such as street vendors and mobile food sellers, which in turn can affect the level of compliance of taxpayers in the field.

Although these studies make valuable contributions, there is still room to complement the study by including the perspective of taxpayer behavior theory, especially attribution theory, as well as the role of digitization of regional tax services that has begun to develop in various regions in Indonesia in the last five years. Recent studies show that the digitization of tax services, such as the implementation of the Electronic-Based Government System (SPBE) and online-based regional tax payment applications, can increase taxpayer compliance while facilitating supervision by tax authorities. However, the extent to which it has been implemented and has an impact on regional tax revenues in Binjai City has not been discussed comprehensively.

Based on this description, this study aims to analyze the level of effectiveness and contribution of regional taxes to the Binjai City PAD, identify internal and external factors that affect the compliance of regional taxpayers using the perspective of attribution theory, and examine opportunities to strengthen regional tax revenues through digitization of services and improvement of tariff policies. Through this approach, the research is expected to provide a more complete picture of the tax conditions in the public sector in Binjai City, as well as provide applicable recommendations for local governments in an effort to increase fiscal independence through optimizing regional tax revenues.

## **RESEARCH METHODS**

This study uses a qualitative descriptive approach that aims to systematically describe the taxation conditions in the public sector in Binjai City, especially related to regional taxes and their contribution to Regional Original Revenue. The descriptive approach was chosen because this study focuses on depicting phenomena based on available data, without conducting hypothesis testing statistically inferentially. The object of the research is regional tax management at the Regional Finance, Revenue, and Asset Management Agency (BPKPAD) of Binjai City, with the main observation period focusing on the 2024 APBD realization data and supported by previous research data and findings in the previous period.

The data used in this study is secondary data obtained from several sources, namely the report on the realization of the Regional Revenue and Expenditure Budget (APBD) of Binjai City, documents and publications from the Binjai City BPKPAD, data from the Central Statistics Agency (BPS) of Binjai City, as well as articles of national scientific journals published in the last five years that are relevant to the topic of regional taxes, Taxpayer compliance, and digitization of tax services. The selection of sources is carried out purposively by considering the relevance of the topic, the credibility of the publisher, and the novelty of the data and findings presented.

The data analysis technique used is a simple quantitative descriptive analysis to calculate the level of effectiveness and contribution of regional taxes to PAD, which is combined with content analysis of related literature to identify factors that affect taxpayer compliance and opportunities for digitization of tax services. The level of regional tax effectiveness is calculated by comparing the realization of regional tax revenues against the targets that have been set in the APBD, while the contribution level is calculated by comparing the realization of regional taxes to the total realization of PAD in the same period. The results of the calculation are then interpreted using the criteria of effectiveness and contribution that are commonly used in regional financial studies, namely the categories of very effective, effective, quite effective, less effective, and ineffective for effectiveness, and the category of very good to very poor for contributions.

Furthermore, the results of the quantitative analysis are associated with qualitative findings from a literature review regarding taxpayer compliance factors based on attribution theory and the conditions of digitization of regional tax services in Binjai City and in other areas that have similar characteristics. Through the combination of these two types of analysis, the research is expected to provide a comprehensive picture of the taxation conditions in the public sector in Binjai City, as well as formulate relevant policy recommendations that can be implemented by local governments.

## **RESULTS AND DISCUSSION**

### **Overview of Binjai City Regional Tax Revenue**

Based on the 2024 Binjai City budget realization report, the regional tax post is targeted at IDR 105,100.22 million, but until the end of the fiscal year only IDR 59,311.89 million has been realized, or equivalent to 56.4 percent of the set target. When converted into the commonly used effectiveness category, the achievement of 56.4 percent is in the ineffective to less effective category, considering that the effective category threshold is generally in the range of 90 percent and above. This condition shows that there is a difference in realization of Rp45,788.33 million that has not been successfully collected by the Binjai City government from the planned regional tax target.

When compared to other components of PAD, the achievement of regional taxes in 2024 is actually still relatively better than the achievement of regional levies, which was only realized at IDR 3,584.92 million from the target of IDR 25,381.21 million or around 14.1 percent, as well as other legitimate PAD, which only reached IDR 159.61 million from the target of IDR 52,146.65 million or around 0.3 percent. Only the posts resulting from the management of the separated regions managed to exceed the target, with an achievement of 110.3 percent. This picture shows that overall, the structure of Binjai City's PAD in 2024 is still highly dependent on

regional taxes as the largest nominal contributor, even though the level of effectiveness of the collection itself has not been optimal.

These findings are in line with the results of a previous study that analyzed the effectiveness and contribution of regional taxes to the Binjai City PAD in the 2019-2023 period, which also concluded that the level of effectiveness of regional taxes is in the less effective category, even though its contribution to the PAD is in the very good category. The consistency of these findings over several years indicates that the problem of low effectiveness of regional tax collection in Binjai City is structural and repetitive, not just annual fluctuations that are temporary, so it requires more systematic attention and improvement steps from the local government.

### **Contribution of Regional Taxes to Regional Original Revenue**

In terms of contributions, even though the realization of Binjai City's regional taxes in 2024 has not reached the target, the realization value of IDR 59,311.89 million remains the component with the largest nominal value compared to regional levies and other legitimate PAD. This shows that proportionally, regional taxes are still the main backbone of Binjai City's PAD, with the estimated contribution in the range of more than 90 percent of the total PAD realization in that year, considering that the other two components of PAD only contribute a relatively small value.

The high contribution of regional taxes to PAD is in line with research findings regarding the role of regional taxes and regional levies in increasing the PAD of Binjai City, which states that regional taxes and regional levies are the main sources of PAD, so that the greater the revenue from these two posts, the greater the PAD that can be collected by the regions. However, the dominance of regional taxes in the PAD structure also carries the implication that any decrease in the achievement of regional tax realization, as will happen in 2024, will have a significant impact on the total PAD as a whole, so that the success of regional tax collection becomes the main determinant for the fiscal independence of Binjai City.

In addition, the results of the study on the factors that affect the PAD of Binjai City in the 2012-2021 period also show that the regional tax variable has a significant influence on the amount of PAD, in addition to the variables of government spending and the number of population. These findings strengthen the argument that efforts to increase regional tax revenue, either through improving the collection system, expanding the tax base, and increasing taxpayer compliance, will have a significant and direct impact on improving the overall PAD of Binjai City.

### **Regional Taxpayer Compliance Factors in the Perspective of Attribution Theory**

The suboptimal realization of regional taxes in Binjai City cannot be separated from the taxpayer compliance factor, which in the perspective of attribution theory can be explained through two groups of factors, namely internal factors and external factors. Internal factors include the level of taxpayer awareness of the importance of paying regional taxes as a contribution to urban development, while external factors include the quality of services provided by tax officers, clarity of procedures, and the application of sanctions against non-compliant taxpayers.

In terms of external factors, one of the important findings of the study on restaurant taxes in Binjai City is that there are complaints from micro business actors, such as street vendors and mobile food sellers, against the determination of restaurant tax rates that are felt to be disproportionate to the scale of their business. The determination of relatively equal rates between large entrepreneurs and small traders is considered to cause a perception of injustice, which can ultimately reduce the motivation of small business actors to fulfill their tax obligations voluntarily. Within the framework of attribution theory, this kind of perception of injustice is included in external factors that can form a negative attitude of taxpayers towards the regional tax system as a whole.

Meanwhile, in terms of internal factors, low tax literacy among small business actors is also one of the causes of low compliance, as found in various studies on regional tax compliance in other cities with economic characteristics similar to Binjai City. Lack of understanding of regional tax obligations, registration procedures, and the benefits of the taxes paid can cause taxpayers to delay or even ignore their obligations, especially if they are not accompanied by active socialization from BPKPAD. Research on the influence of service quality and understanding of tax regulations on taxpayer compliance confirms that these two factors, both internal and external, need to be improved simultaneously in order to have a significant impact on taxpayers' overall compliance (Pujilestari et al., 2021).

Thus, it can be understood that the low effectiveness of Binjai City's regional taxes is not only caused by administrative factors, but also influenced by the dynamics of the relationship between taxpayers and tax authorities which are formed by the perception of tariff fairness, service quality, and the level of taxpayers' understanding of their obligations. Improvements in these aspects are expected to encourage the formation of more voluntary compliance, which will ultimately have a positive impact on increasing the realization of regional tax revenue.

### **Opportunities for Digitization of Regional Tax Services in Binjai City**

One of the strategies that can be taken by the Binjai City government to increase the effectiveness of regional tax collection is through the digitization of tax services. Based on the experience of several other regions in Indonesia, the implementation of digital-based regional tax payment systems, such as QR code-based payment systems and android-based regional tax applications, has been proven to be able to increase taxpayer compliance, reduce the time needed to pay taxes, and ultimately help encourage an increase in PAD in these areas. This experience shows that digitalization not only has an impact on the aspect of administrative convenience, but also on the psychological aspect of taxpayers who feel that the payment process has become simpler and more transparent.

In the context of Binjai City, the implementation of an Electronic-Based Government System (SPBE) that is integrated with the regional tax management system can be the first step to build a more accurate and up-to-date taxpayer database. An accurate database will make it easier for BPKPAD to identify unexplored tax potentials, monitor taxpayer compliance periodically, and design tax intensification and extensification strategies that are more targeted. However, as found in a study on the challenges of SPBE implementation in various regions, the success of digitalization is highly dependent on the readiness of information technology

infrastructure, the capacity of human resources of the apparatus, and adequate budget support (Kencono et al., 2024).

In addition, the digitization of regional tax services also needs to be accompanied by efforts to increase digital literacy among taxpayers, especially micro and small business actors who dominate the economic structure of Binjai City. Without adequate assistance, digitalization has the potential to create new gaps, where taxpayers who are less familiar with digital technology find it increasingly difficult to fulfill their obligations. Therefore, the regional tax digitalization strategy in Binjai City should be designed gradually, while still providing conventional payment channels for taxpayers who are not yet digitally ready, while in parallel increasing education and assistance in the use of digital systems to the public.

### **Implications for Strengthening Public Sector Taxation in Binjai City**

Based on all the findings above, it can be concluded that strengthening taxation in the public sector in Binjai City requires a multidimensional approach, which not only focuses on the aspect of setting targets and administrative supervision, but also pays attention to aspects of taxpayer behavior and the use of information technology. First, in terms of setting targets, the Binjai City government needs to evaluate the mechanism for preparing regional tax targets, so that the targets set truly reflect the real potential that can be collected, so that the level of effectiveness produced can better represent the actual performance of collection.

Second, in terms of taxpayer compliance, improving service quality, reviewing tariff policies that are considered disproportionate for micro business actors, and increasing tax socialization and education to the public are steps that can encourage the formation of voluntary compliance. In the long run, voluntary compliance formed from awareness and trust in the tax system will be more sustainable than compliance that is solely driven by fear of sanctions.

Third, in terms of technology utilization, the digitization of regional tax services that is designed in an inclusive and gradual manner can be an important instrument in supporting transparency, efficiency, and expansion of the tax base in Binjai City. These three aspects, namely improving target governance and supervision, increasing compliance through behavioral approaches, and digitizing services, need to be carried out in an integrated and sustainable manner, so that regional taxes can truly function as the main instrument in strengthening fiscal independence and the quality of public services in Binjai City in the future.

## **CONCLUSION**

This research shows that regional taxes are still the main component in the structure of the Binjai City Regional Original Revenue, with a nominal contribution that is much larger than regional levies and other legitimate PADs. However, the level of effectiveness of Binjai City's regional tax collection in 2024, which only reaches around 56.4 percent of the target, shows that there is still a considerable gap between the planned potential and the realized that has been successfully collected, a condition that is also consistent with research findings in previous periods.

Based on the perspective of attribution theory, the factors that affect the low compliance of regional taxpayers in Binjai City can be grouped into internal factors, such as low tax awareness and literacy among small business actors, as well as external factors, such as the quality of tax services that still need to be improved and restaurant tax rate policies that are felt

to be disproportionate for micro-scale traders. In addition, opportunities to digitize regional tax services through the Electronic-Based Government System and digital-based payment applications offer great potential to increase the effectiveness of collection, as long as it is accompanied by adequate infrastructure readiness, apparatus capacity, and digital literacy.

As a recommendation, the Binjai City government through BPKPAD is advised to evaluate the mechanism for setting regional tax targets to be more realistic, strengthen taxpayer databases through inclusive and gradual digitalization, increase tax socialization and education to taxpayers, especially micro and small business actors, and review tax rate policies that have the potential to cause perceptions of injustice. The next research is suggested to conduct an empirical study with primary data from taxpayers in Binjai City, in order to examine more deeply the influence of each compliance factor on the realization of regional tax revenue, as well as evaluate the impact of the implementation of digitalization of tax services after it is fully implemented by the local government.

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