

Efforts to Increase Local Revenue with Local Tax Revenue Innovation, a Success Study of Tegal City

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Abstract

The success of the Tegal City Government to increase local revenue (PAD) can be a benchmarking for other local governments. Therefore, this study was aimed at describing and analyzing the innovations made by the Regional Finance Agency (BKD) of Tegal City in increasing local tax revenue in 2022-2023. The analysis used Roger's approach which includes four components: relative advantage, compatibility, complexity, and trialability. As qualitative research, this study used interviews, observation, and documentation to collect data, and the interactive model for data analysis. This study found three innovations made by the BKD of Tegal City: (1) electrification of local taxes, (2) Pick-up services for land and building tax (PBB) payments, and (3) tax-aware volunteers. The three innovations were successful and well accepted by the public because of giving benefits and convenience, meeting public need, and being practical to be done, tested and observed.

Keywords: local revenue, local tax, innovation

1. Introduction

Local Revenue (PAD) is one of the important components in regional financial management in Indonesia (Andjarwati et al., 2021; Nalle et al., 2021; Rahman & Restiatun, 2023). PAD consists of various sources of revenue directly obtained by local governments, beyond the balancing funds from the central government. PAD is all regional revenue derived from regional economic sources (Bustani et al., 2022; Halim & Kusufi, 2012). Law No.1 of 2022 stipulates that the sources of PAD include local taxes, local levies, the results of the management of separated regional assets, and other legitimate revenue.

There are three reasons why PAD is very important for regions. First, PAD is the main financial source for regional development programs. Sufficient PAD helps local governments to finance various infrastructure projects and public services for people's welfare. In brief, local spending is strongly influenced by the level of PAD (Baharuddin, 2022; Fatmawati & Ria Sari, 2021). Second, PAD plays an important role in driving regional economic growth. An increase in PAD will

contribute considerably to the economic growth (Mulyani et al., 2021; Shafwah et al., 2024). With a larger source of revenue, local governments can reinvest the funds in infrastructure development, public services, and social programs to support the economic growth. Third, PAD increases local financial independence. Increased PAD will help regions to minimize dependence on transfers from the central government (Novianti & Ishak, 2022; Rivandi & Anggraini, 2022). This practice meets with Law No. 1 of 2022, which emphasizes the importance of regional autonomy in financial management.

Given the importance of PAD for the region, each local government needs to strive to increase PAD. The success of the Tegal City Government in increasing PAD is interesting to examine. The Tegal City Government received the 2023 APBD Award from the Ministry of Home Affairs in the category of the Highest Realization of Increased Local Revenue in 2022 at the City Level (Kemendagri, 2023). The Tegal City Government increased the realization of PAD in 2021 and 2022 by 15.6% and 10.4% respectively as presented in Table 1. However, 2020 saw a decrease of

6.7% as an impact of the Covid-19 pandemic. Various studies found that the Covid-19 pandemic has resulted in lower local tax revenue (Khairani & Adnan, 2023; Wahyuningsih & Atmadja, 2021; Widyowati et al., 2022).

TABLE I

REALIZATION OF LOCAL REVENUE OF TEGAL CITY GOVERNMENT IN 2020-2023

Year	Realization of PAD (Rp)	Achievement (%)	Increase (%)
2020	266,580,982,102	96.4	(6.7)
2021	308,116,840,289	97.0	15.6
2022	340,054,969,233	89.0	10.4
2023	336,842,425,515	80.8	(0.9)

Based on the type of PAD revenue, the realization of local tax revenue was the most consistent in the achievement and the increase in realization (Appendix 1). The achievement of local tax in 2020-2021 consistently reached more than 100% of the budget, and it reached 92.4% and 87.9% in 2022-2023. The realization of local tax revenue has also increased from year to year. However, it experienced a decline in 2020 because of the Covid-19 pandemic.

The success of Tegal City Government to increase local tax revenue can be a benchmarking for other regional governments. Based on the interview with one of the officials at the Regional Finance Agency (BKD) of Tegal City, the BKD made various innovations to improve services and local tax revenue such as (a) electrification of local taxes, (b) pro-active or pick-up services for land and building tax (PBB) payments, and (c) tax monitoring involving tax-aware volunteers.

Innovation is a realized idea, practice, or object which is accepted as a new thing by a person or group to be adopted (Roger, 2003). Setijaningrum (2017) mentioned that innovation is an idea, practice, or object that is realized and accepted as something new by a person or group for adoption. Roger (2003) identified five main characteristics of innovation that affect the level of adoption. First, relative advantage, which is how much is the innovation better compared to existing alternatives. Second, compatibility, which refers to the degree to which the innovation conforms to the values, past experiences, and needs of potential users. Third, complexity, which is how difficult the innovation to be understood and used. Fourth, trialability, which is the ability to test innovations on a small scale prior to full adoption. Fifth, observability, which is how easily the results of the innovation to be observed by others.

Several studies were conducted to review the innovation of local tax services. Dasnoer et al. (2023)

in their study “Local Tax Service Innovation Through Smart Tax in Increasing Local Revenue in Padang City”. Smart Tax was analyzed with 5 characteristics of Evert M. Roges’ innovation and found that Smart Tax still has many shortcomings such as signal interference and only few business places have installed Smart Tax equipment. Alfian & Syahrani, (2023) in “Land and Building Rural and Urban Tax (PBB-P2) Service Innovation through Electronic Tax Payment Channel (CANTIK) at the BKD of Tabalong Regency”. PBB-P2 service innovation was analyzed with the characteristics of innovation by Evert M. Roges. It found that this innovation was potential to increase the efficiency and convenience of the public or taxpayers in paying taxes. Liswatin (2022) in “Innovation in the Management of Regional Taxes and Levies in Increasing Local Revenue in Konawe Regency”. This study found that the innovation in increasing the PAD of Konawe Regency was done by strengthening the levy system. The existence of government policies was the supporting factor for the adoption of this innovation, and low human resource quality and lack of public understanding was the inhibiting factor.

The above studies used Evert M. Roges' innovation characteristics in analyzing only one tax service innovation conducted in Padang City, Tabalong Regency, and Konawe Regency. This study will review several innovations made by the Tegal City Government using Evert M. Roges' innovation characteristics. Therefore, the novelty of this research refers to the number of local tax service innovations studied and the research site.

This study aimed to describe and analyze innovations made by BKD Tegal City in increasing local taxes in 2022-2023, which used Evert M. Rogers innovation characteristics. The results of this study are expected to be a benchmarking for other regional governments to make innovations to increase local tax revenue.

2. Methods

This study is qualitative research in which data were collected through interviews, observations, and documentation. It involved three informants at BKD Tegal City as follows:

- a. Head of Regional Revenue Planning Development, Control, and Evaluation Division
- b. Staff of Regional Revenue Planning Development, Control and Evaluation Division
- c. Head of Regional Tax and Retribution Revenue Management Sub Division

Observations were conducted by directly observing the local tax service innovations carried out by BKD Tegal City to the public. Documentation was performed by collecting and analyzing the following documents:

- a. Local regulations.
- b. Financial Statements: Notes on Financial Statements (CALK), Tegal City Financial Statements for 2021-2023, and Tegal City tax realization data for 2022-2023.
- c. Local tax innovations which were the target and realization of local tax electrification in Tegal City in 2022 and 2023, the target and realization of land and building tax in 2023, the results of the pick-up services in 2023, the schedule for the implementation of the pick-up services in 2023, the realization of restaurant and parking tax in Tegal City in 2023, and the results of the implementation of the tax-aware volunteer program in 2023.

The collected data were analyzed using the interactive model in 4 main processes: data collection, data reduction, data presentation, and conclusions or verification (Miles & Huberman, 1994; Sugiyono, 2019). Voice recordings were written in the form of conversation scripts. Interview scripts and notes from document review were reduced by codifying, then summarizing and focusing on concern issues of all respondents. The reduced data were then presented in tables, flow charts and pictures. Examples of data analysis were presented in Appendix 3. Displayed data were used to describe the object situation and draw conclusions.

3. Results and Discussion

Tegal City Government levied nine types of local taxes based on local regulations (Perda) of Tegal City. The nine types of local taxes collected in 2022-2023 consist of hotel tax, restaurant tax, entertainment tax, billboard tax, street lighting tax, parking tax, groundwater tax, land and building tax (PBB), and fees for acquisition of land and building rights (BPHTB). The collection of these taxes was based on the following regulations:

- a. Law No.1 of 2022 on Financial Relations between the Central Government and Regional Governments.
- b. Local Regulation (Perda) of Tegal City Number 5 Year 2011) on Local Taxes.
- c. Local Regulation of Tegal City Number 2 Year 2011 on Groundwater Tax.
- d. Local Regulation of Tegal City Number 1 Year 2011 on BPHTB.

The value of local tax revenue collected continued to increase every year except in 2020 due to the Covid-19 pandemic (Table II). The types of local tax revenue that consistently increased in 2021-2023 were hotel tax, restaurant tax, billboard tax, groundwater tax, and PBB. Meanwhile, entertainment tax, street lighting tax, parking tax, and BPHTB experienced fluctuations in those years (Appendix 2).

TABLE II

REALIZATION OF LOCAL REVENUE OF TEGAL CITY GOVERNMENT IN 2020-2023

Year	Realization of Local Tax Revenue (Rp)	Achievement (%)	Increase (%)
2020	82,962,555,569	103	-7.2
2021	97,547,356,527	102	17.6
2022	109,869,836,831	92	12.6
2023	116,725,400,478	88	6.2

The increase in local tax revenue realization as presented in Table II was the result of innovations made by the Tegal City Government. The BKD made three innovations to improve services and local tax revenue: (1) electrification of local taxes, (2) pick-up services for land and building tax (PBB) payments, and (3) tax-aware volunteers.

The first innovation was local tax electrification. This is an integrated effort to change the government revenue transactions from cash into non-cash to promote serviceability, accountability and transparency of local tax management. Local tax electrification innovation has been running since 2022. BKD facilitated online tax payments with a local tax reporting and payment application to access at the link pajakdaerah.tegalkota.go.id. The tax reporting and payment application can be accessed using a smartphone. With this application, the public can report and pay real time with the available billing code, the payment process can be done through bank deposits, bank transfers, mobile / SMS banking, QRIS, and digital wallets. The following illustrates the process of using the application (Figure 1).



Figure 1: Online Tax Payment Application (Source: BKD of Tegal City)

The level of adoption of local tax electrification was influenced by five main characteristics of innovation. First, relative advantage, which is how much the innovation is considered better than the existing alternatives. Second, compatibility, which is the degree to which the innovation conforms to the values, past experiences, and needs of potential users. Third, complexity, which is how difficult the innovation is to be understood and used. Fourth,

trialability, which is the ability to test innovations on a small scale before full adoption. Fifth, observability, which is how easily the results of the innovation can be observed by others (Roger, 2003). The analysis of innovation characteristics in local tax electrification is described in Table III.

TABLE III
ANALYSIS OF INNOVATION CHARACTERISTICS OF LOCAL TAX
ELECTRONIFICATION

Characteristics	Details
Relative Advantage	The local tax electrification innovation provided benefits for the public, and convenience for online local tax payments anytime and anywhere.
Compatibility	It complied with the needs for fast, easy and safe services. People do activities with gadgets to make it easy to adopt this local tax electrification innovation.
Complexity	It is easy to use, but the elderly have difficulty in using it. However, massive adoption of technology by the younger generation made this innovation easy to adopt.
Trialability	Dissemination and trials have been conducted to the public.
Observability	There has been a manual of using the app. In addition, the application is easy to observe and easy to use by users.

The second innovation was to pick up the PBB payment with Bakueuda Sambang Kalurahan program. This innovation has been running since 2022 to facilitate the public in the process of depositing or paying taxes, especially community groups who cannot use tax payment electrification services. The implementation of this service began with forming a team and preparing the implementation schedule by BKD Tegal City followed by the deployment of officers directly to the villages based on the predetermined schedule. The tax deposit process can be done by cash, bank transfer, mobile / SMS banking, QRIS, and digital wallets. For cash payments, the implementation team cooperated with the banks in receiving tax deposit payments from taxpayers. The following illustrates the business process of this program:

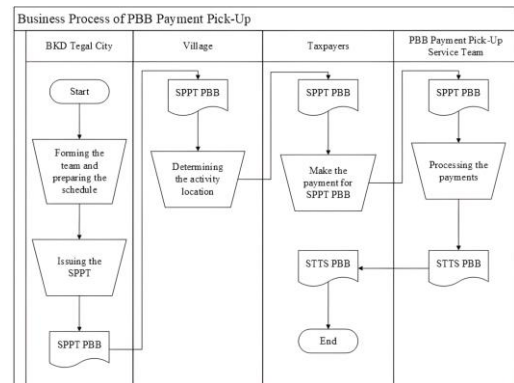


Figure 2: Implementation of PBB pro-active services

Below is a description of the five main characteristics of innovation in the PBB payment pick-up service (Table IV).

TABLE IV
ANALYSIS OF INNOVATION CHARACTERISTICS OF PBB PAYMENT
PICK-UP SERVICE

Characteristics	Details
Relative Advantage	This innovation brought services closer to the public, making it easier for taxpayers to make PBB payments. In addition, there was no payment administration fee, which was more attractive to taxpayers.
Compatibility	It was in compliance with the needs of the public. This service was held at the village office, close to where people live. This service also facilitated taxpayers in the process of depositing or paying taxes, especially community groups who cannot use tax payment electrification services.
Complexity	It was easy to use and simple. Taxpayers simply came to the village office and made a tax deposit.
Trialability	Before conducting the pick-up service, the team conducted dissemination to the public through village officials about the implementation schedule and service process.
Observability	This service was easily utilized by the public. In addition, the implementation team and village officials also guided taxpayers in the process of running the service.

The innovation of the PBB payment pick-up service has resulted in an increase in PBB revenue. The overall PBB revenue in 2022 amounted to Rp. 16,930,539,197, an increase of Rp. 1,444,664,841 or 9.3% from the previous year. Another increase in PBB revenue was achieved in 2023 by Rp. 491,836,697 or 2.9%.

TABLE V
REALIZATION OF PBB REVENUE IN 2021-2023

Year	Realization of PBB Revenue (Rp)	Increase Over Previous Year	
		(Rp)	(%)
2022	16,930,539,197	1,444,664,841	9.3
2023	17,422,375,894	491,836,697	2.9

The third innovation was the Tax- Aware Volunteers (Wanda PD). Wanda PD was conducted to overcome obstacles in increasing local taxes in Tegal City. The obstacles were ineffective and unfocused local tax monitoring and limited tax audit personnel. One of the officials of BKD Tegal City said that there were only 37 tax officers to deal with more than 80,000 taxpayers. Therefore, BKD cooperated with two universities in Tegal City: Pancasakti University and Harapan Bersama Polytechnic. Students from both universities were involved in monitoring the potential of restaurant tax and parking tax.

This cooperation began in 2023. BKD received additional human resources in tax supervision, while the universities got a place for the student field learning, recorded as the Merdeka Learning of Campus Merdeka (MBKM) program. The students involved got an assessment equivalent to 20 credits of course conversion.

Wanda PD was carried out in line with the schedule prepared by the BKD of Tegal City. The monitoring was scheduled 3 times a week for Monday, Thursday, and Saturday. The students visited restaurants and parking lots based on a set place and schedule. Then, the team and students analyzed by calculating gross revenue and the potential underpaid income of a taxpayer. With Wanda (PD), taxpayer transactions can be seen to be compared with reports from taxpayers. The following is the detail of the five main characteristics of innovation in Wanda (PD) program.

TABLE VI
ANALYSIS OF INNOVATION CHARACTERISTICS OF TAX-AWARE VOLUNTEERS

Characteristics	Details
Relative Advantage	This innovation has benefited two stakeholders. Universities and students got a place for field learning as the implementation of the MBKM program. Meanwhile, taxpayers could use the monitored data as a source of information in reporting and depositing taxes.
Compatibility	This program met the needs of two stakeholders, and the university need for finding a field learning process. This also met with the needs of taxpayers. They could use the monitoring data for reporting and depositing taxes.

Complexity	The program was simple and easy to implement. Therefore, universities were eager to participate. There was no resistance from the monitored taxpayers.
Trialability	This program has been piloted and disseminated. The students involved received training from the BKD of Tegal City.
Observability	The program was easy to observe and carry out.

The innovation of the Tax- Aware Volunteer (Wanda PD) program resulted in an increase in restaurant and parking tax revenue. Total revenue in 2023 reached Rp. 26,697,934,818, an increase of Rp. 3,735,986,712 or 16.3% from the previous year (Table VII).

TABLE VII
REALIZATION OF RESTAURANT AND PARKING TAX REVENUE IN 2022-2023

Year	Realization of PBB Revenue (Rp)	Increase Over Previous Year	
		(Rp)	(%)
2022	22,961,948,106	6,235,766,214	37.3
2023	26,697.934,818	3,735,986,712	16.3

4. Conclusion

Tegal City Government succeeded in increasing PAD revenue in 2022, especially from local taxes. To honor this achievement, Tegal City Government received the 2023 APBD Award from the Ministry of Home Affairs in the category of Realization of the Highest Increase in Local Revenue in 2022 at the City Category. The success in increasing local tax revenue was the result of the innovations made. There were three innovations such as electrification of local taxes, PBB payment pick-up services, and tax monitoring by the tax-aware volunteers. The three innovations were successful and well accepted by the public because of giving benefits and convenience, meeting public need, and being practical to be done, tested and observed.

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Appendix 1

Realization of Local Revenue of Tegal City Government in 2020-2023

	2020			2021			2022			2023		
	Revenue Realization (Rp)	Achievement (%)	Increase (%)	Revenue Realization (Rp)	Achievement (%)	Increase (%)	Revenue Realization (Rp)	Achievement (%)	Increase (%)	Revenue Realization (Rp)	Achievement (%)	Increase (%)
Local Tax	82,962,555,569	102.6	-7.2	97,547,356,527	101.6	17.6	109,869,836,831	92.4	12.6	116,725,400,478	87.9	6.2
Local Retribution	17,715,246,719	76.9	-7.2	22,240,845,764	59.7	25.5	26,588,222,848	65.1	19.5	30,565,269,033	70.6	15.0
Results of Management of Separated Regional Wealth	10,943,046,781	98.7	27.6	13,444,261,744	101.9	22.9	14,692,565,734	100.4	9.3	16,548,556,617	92.8	12.6
Other Legitimate PAD	154,960,133,033	96.0	-8.1	174,884,376,254	102.2	12.9	188,904,343,820	91.0	8.0	173,003,199,387	77.7	-8.4
Total PAD	266,580,982,102	96.4	-6.7	308,116,840,289	97.0	15.6	340,054,969,233	89.0	10.4	336,842,425,515	80.8	-0.9

Appendix 2

Realization of Local Tax Revenue of Tegal City in 2020-2023

Jenis Pajak Daerah	2020			2021			2022			2023		
	Revenue Realization (Rp)	Achievement (%)	Increase (%)	Revenue Realization (Rp)	Achievement (%)	Increase (%)	Revenue Realization (Rp)	Achievement (%)	Increase (%)	Revenue Realization (Rp)	Achievement (%)	Increase (%)
Hotel Tax	2,461,386,428	114.0	-25.4	2,889,733,209	105.5	17.4	3,901,672,602	76.1	35.0	4,420,523,212	78.8	13.30
Restaurant Tax	14,174,483,422	108.6	-22.6	16,726,181,892	108.8	18.0	22,961,948,106	89.7	37.3	26,697,934,818	104.7	16.27
Entertainment Tax	2,053,127,423	53.3	-69.4	1,402,257,131	19.5	-31.7	5,758,697,634	61.4	310.7	5,964,911,050	42.0	3.58

Billboard Tax	5,092,586,500	108.4	-2.3	7,096,106,000	107.8	39.3	7,842,758,000	94.2	10.5	9,072,604,445	85.4	15.68
Street Lighting Tax	23,538,909,423	101.5	-1.6	23,344,282,865	102.2	-0.8	26,502,215,111	104.8	13.5	28,204,424,229	103.3	6.42
Parking Tax	1,034,912,225	108.9	-45.6	795,781,975	34.6	-23.1	1,447,313,400	61.7	81.9	1,689,833,776	40.4	16.76
Groundwater Tax	219,410,500	109.7	-16.8	282,640,100	34.9	28.8	650,003,850	45.3	130.0	1,241,518,150	80.5	91.00
Land and Building Tax (PBB)	13,912,584,697	105.0	-1.8	1,485,874,356	102.3	11.3	16,930,539,197	100.8	9.3	17,422,375,894	100.1	2.91
BPHTB	20,475,154,951	105.0	31.6	29,524,498,999	128.4	44.2	23,874,688,931	97.1	-19.1	22,011,274,904	83.2	-7.80
Total local tax	82,962,555,569	102.6	-7.2	97,547,356,527	101.6	17.6	109,869,836,831	92.4	12.6	116,725,400,478	87.9	6.2

Appendix 3

Data Analysis Process (a data analysis process was presented as an example / illustration)

Coding of Interviewees:

No	ID	Position of Interviewees:
1	P	Interviewer
2	KBPD	Head of Development Planning, Control and Evaluation of Regional Revenue Division
3	SBPD	Staff of Development Planning, Control and Evaluation of Regional Revenue Division
4	SKBPRD	Sub Head of Regional Tax and Retribution Revenue Management Division

Transcripts of Interview Results on Local Tax Electronification:

Code of Answers	No. of Questions	Sub-theme	ID	Details	Code	Conclusion
2.I.1- P	1	Relative Advantage	P	Does the local tax electronification innovation provide convenience and benefits to the public?		
2.I.1- KBPD			KBPD	We have no direct financial transactions because everything uses non-cash, so this innovation provides benefits to the public as it will promote public trust and help people to deposit or pay local taxes easily.	I.1-1	The innovation of regional tax electronification provides benefits to the public because this innovation enables online local tax payments to be made anywhere. In addition, online payments or using a cellphone can prevent irresponsible abuse such as extortion.
2.I.1- SBPD			SBPD	This innovation makes it easier for the public to pay local taxes by just using their gadget.		

2.1.1- SKBPRD			SKBPRD	There is convenience as people do not depend on cash, so they can pay taxes wherever and whenever. You don't have visit the office because you can do it with your cellphone. It also facilitates supervision because if you use cash, there can be extortion or irresponsible misuse.		
2.1.2- P	2	Compatibility	P	Has the local tax electronification innovation met with the needs of the public?		
2.1.2- KBPD			KBPD	It meets with the public needs because local tax payments are digital-based. There is currently a QRIS trend so that electronification has built online tax payments.	I.1-2	The innovation of regional tax electronification complies with the public need although not all people are familiar with it. This innovation catches up with the digital era development. Thus, people can get used to paying local taxes digitally.
2.1.2- SBPD			SBPD	Not all people are familiar with electronification. In fact, some prefer the traditional way. Even though electronification is now available, some people take longer time to adapt to electronification. Over time Tegal City residents get used to electronification because it saves time, money and energy.		
2.1.2- SKBPRD			SKBPRD	It is appropriate because people use cellphones for online payment tools such as m-banking, QRIS, etc. With the electronification of local taxes, local tax payments can be made online using cellphones.		
2.1.3-P	3	Complexity	P	Is the local tax electronification innovation complicated?		
2.1.3- KBPD			KBPD	There is no complexity because this innovation helps people to make online local tax payments	I.1-3	The innovation of regional tax electronification is actually simple and applicable because it follows the development of the digital era. However, not all people or taxpayers are familiar with online local tax payment. They do not get
2.1.3- SBPD			SBPD	Not all people are familiar with electronic technology, QRIS usage cannot be fully utilized because it still relies on regional banks to pay local taxes.		

2.I.3-SKBPRD			SKBPRD	Some taxpayers do not get used to non-cash payments for tax payments.		used to non-cash tax payments.
2.I.4-P	4	Trialability	P	Has the innovation of local tax electrification ever been tested or publicly tested?		
2.I.4- KBPD			KBPD	We have disseminated about electronic local tax payments, and cash transactions are no longer used.	I.1-4	The innovation of local tax electrification has previously been tested by the public. It obviously gave benefits to the public. Dissemination has been done to make sure that people are aware of non-cash regional tax payments.
2.I.4- SBPD			SBPD	Directly because it follows an application collaborated with a third party, the Bakeuda system is connected to the bank, so the bank that collaborates with e-commerce and the public can make direct payments.		
2.I.4-SKBPRD			SKBPRD	It has been publicly tested and it gives good output.		
2.I.5-P	5	Observability	P	Are the innovations in local tax electrification easy to observe or implement?		
2.I.5- KBPD			KBPD	It is easy to do because local tax payments are made online so the payments can be done anywhere with a cellphone.	I.1-5	The innovation of local tax electrification is easy to observe and carry out. People can make online local tax payments anywhere.
2.I.5- SBPD			SBPD	It can be observed because payments can be made using a cellphone that is used for many purposes.		
2.I.5-SKBPRD			SKBPRD	It is easy to use because people do not need to pay taxes manually. People can check the taxes with their cellphone.		