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Gap Analysis between Potential and Budgeted Entertainment Tax Revenues in Local Government

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Abstract

Research aims: This study seeks to explain factors causing a significant gap between the potential and budgeted entertainment tax revenues in Wonosobo Regency Government.

Design/Methodology/Approach: This study used a qualitative research approach with a case study method. The data were obtained through in-depth interviews and document content analysis.

Research findings: This study uncovered that factors causing the gap between potential and budgeted entertainment tax revenues comprised the legislature's waiver to discuss the entertainment tax revenues budget intensively and in detail, executive opportunism behavior, and information asymmetry between the executive and the legislature. This study also found the phenomenon of incremental budgeting in determining the entertainment tax revenues budget.

Practical and Theoretical contribution/Originality: This study provides a practical contribution for stakeholders to improve local revenue budgeting policies and offers an academic contribution as a scholarly reference regarding the opportunistic behavior of agents in setting revenue budgets, especially for small-in-size tax, for public organizations.

Keywords: Agency theory; Budget gap; Entertainment tax; Local government; Indonesia

Introduction

Information asymmetry occurs between the executive (agent) and the legislature (principal) when determining the amount of local government (LG) revenue budget (Halim, 2002). In determining the amount of the revenue budget, budget slack occurs due to the potential of LG revenues not being adequately disclosed by the executive (Douglas & Wier, 2000; Halim, 2002; Halim & Abdullah, 2006; Abdullah & Nazry, 2014, 2015; Widanaputra & Mimba, 2014). In this case, slack is the difference between the planned performance target and its actual productive ability or potential (Young, 1985; Douglas & Wier, 2000). However, in general, LG revenues' potential has not been identified by LGs, so most LGs have not succeeded in optimizing locally-generated revenues (LR), especially local taxes (Halim, 2016; Firdausy, 2017). It is supported by the Minister of Home Affairs of the Republic of Indonesia, who asked every LG head to have an entrepreneurial spirit in exploring the regional potential to increase LR (Kompas, 2020).

In connection with this problem, one type of LG tax, namely the entertainment taxes (ET), still plays a small role in the LR of LGs in Indonesia, including LGs in Java¹. The small contribution of the ET on LR in regency/city LGs in Java is shown in Table 1.

Table 1 Percentage of Realization of Entertainment Taxes (ET) to City/Regency Locally-generated Revenues (LR) in Six Provinces in Java in 2017-2019²

Provinces	2017	2018	2019
	ET/LR (%)	ET/LR (%)	ET/LR (%)
Special Capital Region of Jakarta	1.72	1.92	1.88
Banten	1.21	1.59	1.74
West Java	1.25	1.63	1.71
Central Java	0.43	0.65	0.73
Special Region of Yogyakarta	1.27	1.41	1.35
East Java	0.72	0.97	1.04

Table 1 shows that the portion of the ET revenues for regencies/cities LG in Central Java Province had the lowest share among all other provinces in Java. Furthermore, the ET revenues of city/regencies LG in the Central Java Province can be described further in Table 2.

Table 2 The Portion of Entertainment Taxes (ET) Realization to City/Regency Locally-generated Revenues (LR) in Central Java Province in 2019

No	City/Regency	ET LR	No	City/Regency	ET LR	No	City/Regency	ET LR
1	Surakarta City	2.69	13	Karanganyar Regency	0.31	25	Wonogiri Regency	0.09
2	Pekalongan City	2.61	14	Salatiga City	0.31	26	Demak Regency	0.08
3	Tegal City	2.35	15	Cilacap Regency	0.24	27	Sragen Regency	0.07
4	Semarang Regency	1.67	16	Pati Regency	0.23	28	Rembang Regency	0.07
5	Semarang City	1.63	17	Kudus Regency	0.16	29	Brebes Regency	0.06
6	Sukoharjo Regency	1.46	18	Blora Regency	0.14	30	Boyolali Regency	0.05
7	Purbalingga Regency	1.34	19	Tegal Regency	0.12	31	Pekalongan Regency	0.05
8	Magelang City	1.22	20	Banjarnegara Regency	0.11	32	Purworejo Regency	0.05
9	Magelang Regency	0.94	21	Kendal Regency	0.11	33	Temanggung Regency	0.05
10	Banyumas Regency	0.84	22	Pemalang Regency	0.10	34	Jepara Regency	0.05
11	Klaten Regency	0.56	23	Grobogan Regency	0.10	35	Wonosobo Regency	0.03
12	Batang Regency	0.52	24	Kebumen Regency	0.09			

Source: The Supreme Audit Board of Republic Indonesia (BPK-RI) Audit Reports on Regency/City Financial Reports in Central Java Province 2019 (data processed)

¹ In Indonesia, local governments in Java are a barometer of financial management, including local tax management.

² This study did not display data for the 2020 fiscal year because at the time this study was conducted, the financial statements for the 2020 fiscal year had not yet been published.

Table 2 presents that the realization of the ET revenues in Wonosobo Regency was the lowest among cities/regencies in Central Java Province in 2019. However, it was inversely proportional to tourism activities in Wonosobo Regency, which is famous for Dieng tourism and one of the tourist destinations that should increase LR from domestic and foreign tourists. In addition, it is shown by the smallest proportion of the ET revenues to LR among other LGs in Central Java Province. The percentage of realized ET revenues to LR for 2017-2019 in the Wonosobo Regency Government is displayed in Table 3.

Table 3 Realization of Locally-generated Revenues (LR) and the Entertainment Taxes (ET) Revenues of the Wonosobo Local Government in 2017-2019

Year	Locally-generated Revenues (LR)	Entertainment Taxes (ET)	ET/LR (%)
2017	IDR309,170,757,259	IDR43,989,250	0.01
2018	IDR226,819,478,601	IDR48,269,601	0.02
2019	IDR238,371,743,591	IDR63,106,370	0.03

Source: Budget Realization Report of Wonosobo Local Government from 2017 to 2019

Table 3 reveals the minimal contribution of the ET to locally-generated revenues in Wonosobo Regency. The researchers conducted a preliminary study investigating the causes of this meager entertainment taxes contribution. First, the researchers examined the potential of ET in Wonosobo. The investigation process can be seen in the appendix. The investigation exposed that the comparison between the budgeted amount of the ET and its potential was only 6.05% (IDR45,000,000: IDR742,919,600). Thus, there was a large gap between the potential ET and the targeted budget. Then, it motivated the researchers to analyze the causes of the gap.

Several researchers have conducted studies related to the problem of optimizing LG revenues from the side of local taxes. A study on the potential of LG revenues from local taxes for optimizing LR using a qualitative approach has been carried out by Gustini (2011), and a quantitative approach has been conducted by Hendrati and Sumarsono (2012) and Wulandewi and Supadmi (2020). Furthermore, a literature review on agency relations and problems in LG, primarily executive and legislative relations, has been performed by Halim and Abdullah (2006). In explaining their research results, qualitative research conducted by Gustini (2011) and quantitative research carried out by Hendrati and Sumarsono (2012) have not utilized a theory. As such, this study differs from the analysis of Gustini (2011) and Hendrati and Sumarsono (2012) since this study used agency theory as suggested by Halim and Abdullah (2006). The literature review conducted by Halim and Abdullah (2006) uncovered opportunities to use agency theory in LGs in Indonesia, especially in the legislature (principal) and executive (agent). However, Halim and Abdullah (2006) have not used agency theory to analyze local tax management phenomena that occur in LG.

In addition, research conducted by Wulandewi and Supadmi (2020) and Hendrati and Sumarsono (2012) employed a quantitative approach. Yet, they did not show an in-depth analysis of their research objects. It is because the investigation undertaken by Wulandewi and Supadmi (2020) in analyzing the low contribution of restaurant taxes to

LR was only based on calculations sourced from secondary data and the primary data through a questionnaire instrument. The same thing was also done by Hendrati and Sumarsono's (2012) research in analyzing the gap between potential and realization and the effectiveness of parking tax by using researchers' calculations based on secondary data. Therefore, this study differs from those studies because the researchers used primary data through in-depth interviews with participants and secondary data from documents sourced from participants to ensure that the results are more accurate.

Based on the phenomenon in Wonosobo Regency, the researchers explored the factors causing a significant difference between the potential and budgeted revenue of the ET by using a qualitative approach. A qualitative approach is an appropriate approach to understanding meaning in depth to make a more substantial practical contribution. This research is also expected to provide input to LG in formulating policies for preparing local revenues budgets to increase LR in Indonesian local governments. In addition, the agency theory is expected to provide academic contributions as it can provide literary references related to the opportunistic behavior of agents, i.e., executives, in setting budget targets in public organizations.

Literature Review

Agency Theory

Agency theory deals with problems between principals and agents that reflect the integrity of the relationship between those parties in social activities (Mitnick, 1992). Agency theory also analyzes the contractual arrangement between two or more individuals, groups, or organizations (Halim & Abdullah, 2006). One of the parties (the principal) makes a contract, either implicitly or explicitly, against the other party (the agent) with the hope that the agent will act in the principal interest (Halim & Abdullah, 2006). In this respect, power delegation arises when a principal chooses individuals or groups (the agent) who work in harmony with the principal's interests (Lupia & McCubbins, 2000).

Agency theory can be applied in public organizations (Halim & Abdullah, 2006). Further, agency relations in public organizations are divided into executive-legislative, legislative-public, executive-public, and executive-bureaucracies (Abdullah & Nazry, 2014, 2015). In this regard, since the implementation of regional autonomy for the first time in Indonesia through Law Number 22 of 1999 concerning Local Government, the opportunity for study by applying the agency perspective is wide open (Halim & Abdullah, 2006).

Moreover, the agency relationship between the executive and the legislature in public sector organizations is shown through the executive's role as an agent, while the community acts as the principal represented by the Regional House of Representatives (DPRD) (Halim, 2002). However, this condition gives rise to opportunist individuals and groups prioritizing their personal and group interests over public ones (Abdullah, 2004).

Regarding the opportunistic nature of agency theory, the assumption is the existence of information asymmetry (Eisenhardt, 1989). This information asymmetry relates to the potential revenue information in LG's area, where the information will be more widely known and controlled by the executive (Halim, 2002). Here, the executive plays a role in drafting the budget so that it has more complete information than the legislature, creating information asymmetry in the relationship between principal and agent (Dobell & Ulrich, 2002). Therefore, the proposal for the draft budget for implementing public services is adjusted to the assumptions that make it easier for the executive to provide public services (Halim & Abdullah, 2006). In this study, agency theory explains executive actions related to the gap between potential and budget on entertainment taxes in Wonosobo Regency.

Local Government Revenue Budgeting Process

The LG budgeting process begins with the preparation of a draft of the General Budget Policy (KUA) by the executive referring to the LG Working Plan (RKPD) (Government Regulation of the Republic of Indonesia, 2019). One KUA compilation contains a policy on the revenue budget preparation and the underlying assumptions for the next one-year period as the basis for preparing the Draft of LG Revenue and Expenditure Budget (RAPBD). Next, DPRD discusses the draft of the KUA submitted by the executive. Based on the agreed KUA, the executive prepares Provisional Budget Priorities and Ceilings (PPAS), which are then discussed and determined with the DPRD.

KUA and PPAS, discussed and agreed upon by the executive and DPRD, are then used as a reference for each Regional Apparatus Working Unit (SKPD) to prepare SKPD Working Plans and Budgets (RKA-SKPD). The Head of SKPD, as the budget user, prepares RKA-SKPD using a regional medium-term expenditure framework approach, integrated budgeting, and performance-based budgeting. The RKA-SKPD in the revenue section contains revenue plans related to LG affairs, organizations, groups, types, objects, and details of objects of LG revenues that the SKPD will receive in accordance with their duties, principals, and functions based on the provisions of laws and regulations (Government Regulation of the Republic of Indonesia, 2019). Furthermore, the RKA-SKPD that the head of the SKPD has prepared is submitted to the DPRD for discussion. The discussion results of the RKA-SKPD are forwarded to the Regional Financial Management Officer (PPKD) as input for preparing the draft of regional regulation on the APBD for the following year. After the draft is formed, the executive submits the regional regulation draft on the APBD, along with explanations and supporting documents, to the DPRD for approval.

Revenue Budget Gap

A gap is a difference between the planned performance target and its actual productive ability or potential (Young, 1985; Douglas & Wier, 2000). The revenue budget gap occurs because the target for revenue is decided to be lower than the real potential of an organization (Douglas & Wier, 2000; Halim, 2002; Halim & Abdullah, 2006; Abdullah & Nazry, 2014, 2015). In this case, the budget gap happens because the budget

implementer wants to set easier-to-achieve budget targets (Young, 1985; Merchant, 1985; Dunk, 1993).

Furthermore, executives tend to set budget targets for revenues lower than the potential to make it easier to achieve budget realization (Abdullah, 2004; Halim & Abdullah, 2006). This process creates a budget gap, which reflects the information asymmetry between the executive and the legislature (Halim & Abdullah, 2006). Thus, there is an under-estimated revenue budget because the agent (executive) has opportunistic behavior (self-interest) to secure his/her position so that the target is easily realized (Abdullah & Nazry, 2014, 2015).

Entertainment Taxes

Entertainment taxes (ET) are taxes on the self-assessment of entertainment (Government Regulation of the Republic of Indonesia, 2009; Wonosobo Regional Regulation, 2018). Entertainment is defined as all kinds of spectacles, shows, games, and/or crowds enjoyed for free. In this case, entities or individuals who enjoy entertainment are subject to the ET (Government Regulation of the Republic of Indonesia, 2009). Furthermore, entertainment taxpayers are entities or individuals who provide entertainment. Meanwhile, the ET object is an entertainment service for which a fee is collected (Government Regulation of the Republic of Indonesia, 2009). The number of revenues entertainment providers receive is then used as the basis for imposing ET. The following Table 5 provides information on the rates and objects of ET in Wonosobo Regency.

Table 5 Objects of Entertainment Taxes and Their Rates in Wonosobo Regency

No	Objects of Entertainment Taxes	Rates (%)
1	Movie watching	10
2	Beauty pageants, bodybuilding, and the like	10
3	Performing arts, music, dance, and/or fashion	20
4	Nightclubs, discos, karaoke, and the like	40
5	Cultural arts exhibitions and the like	10
6	Acrobatics, circus, magic, and the like	20
7	Horse racing	15
8	Bowling and billiard games	15
9	Steam bath and sauna/spa	25
10	Sports matches	15

Source: Wonosobo Regency (2018)

Research Method

Research Design

This study used a qualitative approach with a case study method. The qualitative approach is the most suitable research approach to explain the "why" questions to

understand the problem and the "how" questions that describe the process or behavior (Hennink et al., 2011). This study aimed to answer why there was a significant difference between the potential and amount of budgeted ET revenues in LG of Wonosobo. In addition, this study also identified factors causing a substantial gap between the potential and the budgeted ET. Therefore, a qualitative research approach was deemed appropriate for this study.

Informants

The informants of this study were parties involved in determining the amount of budgeted ET revenues. Thus, the sampling method employed to select informants was purposive and snowball sampling. The Table 6 informs the respondents involved in this study.

Table 6 List of Informants

Code	Office	Position	Duration of Interview
KSPt	BPPKAD Wonosobo*	Head of Subdivision of Tax Determination and Local Government Revenue Control	30:01
KSPn	BPPKAD Wonosobo	Head of Subdivision of Local Government Revenue Management	37:33
KP	BPPKAD Wonosobo	Head of Division of Regional Tax Management dan Local Government Revenue	1:05:47
KA	BPPKAD Wonosobo	Head of Division of Budget	22:15
KB	BPPKAD Wonosobo	Head of BPPKAD	49:53
JP	BPPKAD Wonosobo	Implementing Collector (Southern Region Coordinator)	1:34:47
KRE	BAPPEDA Wonosobo**	Head of Division of Planning, Controlling, Evaluating, Research and Development	41:30
AI	Inspektorate Office of Wonosobo	Auditor	2:00:34
SI	Inspektorate Office of Wonosobo	Secretary	53:31
DP	House of Representative of Wonosobo	Member of Local Parliament at Commission B Regional Economic Affairs	51:43

* BPKAD is the Regional Revenue, Finance, and Asset Management Agency.

**BAPPEDA is the Regional Development and Planning Agency.

Data Collection

The data used were sourced from primary data obtained through in-depth interviews with informants and secondary data in the form of supporting documents. The researchers conducted face-to-face interviews with informants. Interview questions were in the form of semi-structured questions that aimed to enable informants to provide their opinions, ideas, and views on the interview process. Interview questions were also related to the informants' involvement in preparing the ET revenues budget.

In addition, the research questions asked were related to what factors caused the gap between potential and budget.

This study also used secondary data obtained directly from informants and official LG websites. The secondary data obtained included ET capacity data, revenue budget data, regional tax roadmaps, General Budget and Priority Policy documents and Temporary Budget Ceilings for 2018 and 2019, and detailed data on expenditures for sub-activities of the Regional Financial Management Agency.

Data Analysis

The primary data collected were then analyzed by several procedures. In the first step, the researchers collected data from various sources of information for review. During data collection and presentation, the researchers performed data analysis. Activities carried out included transcribing the results of in-depth interviews, scanning materials, sorting data, and organizing data into categories or subthemes. In the second step, the researchers focused on reading the data as a whole and then built a general idea reflecting the overall meaning of the data from the information obtained. Third, the researchers performed the coding process of all data to describe the information. In the coding process, the researchers compiled several themes or categories that became part of the study's main results. In the last step, the researchers interpreted the data by decoding the research results.

For secondary data, the researchers employed content analysis techniques to examine the ET capacity data, ET potential data, ET revenues budget data, laws and regulations, Wonosobo Regency regional tax reform roadmap, KUA-PPAS 2018 and 2019, and detailed expenditure data of Regional Financial Management Agency sub-activities.

Validity Test

To test the data validity, the researchers used peer debriefing, triangulation, and member-checking techniques. In compiling interview questions, the researchers conducted questions and answers with fellow researchers (peer debriefing) to increase the accuracy of the research results (Cresswell, 2014). The researchers also used technical triangulation and source triangulation to ensure data validity. Source triangulation was done by comparing the results of interviews between respondents. Meanwhile, technical triangulation was carried out using different data collection techniques, i.e., in-depth interviews and document content analysis. In addition, the researchers conducted member checking to ensure data accuracy by conveying a description of the interview results to the informant. If the informant agreed with the results, the informant was asked to sign the consent form.

Result and Discussion

Results

Based on the interview data and document content analysis, the causes of the gap between the potential and budget of the ET revenues are explained in the following paragraphs.

Limited Time in the Budget Discussion Process

The legislature did not discuss the executive's proposed ET revenues budget in detail. The discussion was only carried out briefly and at a glance. It was because the legislature focused more on budget discussions on the LG expenditure side to "safeguard" the aspirations of their constituents.

"The discussion on the revenue budget (entertainment taxes) is not that detailed, Sir. Not as detailed as that because the time allocation for budget discussions is more focused on fulfilling main legislative ideas. Thus, the allocation of discussion time is more on the local government expenditure side. In terms of revenues, yes, yes,.... some are not much. As for the entertainment taxes, it seems relatively short, Sir (frowning)." (KP)

In addition, the time for discussing the total revenues budget was scheduled for only one and a half hours by the Consultative Body, so the discussion of the ET revenues budget was only conducted in general terms. The limited time has made the legislature focus more on discussing strategic matters and put aside the discussion of the ET revenues. In other words, the ET revenues budget was briefly discussed and was not detailed due to the small contribution of the ET to meet LG expenditures.

"Yes, due to time constraints on budget discussions, we (the legislature) discuss more strategic revenues-related issues. As for LG revenues, we are still focusing on BUMD (LG-owned enterprise), Sir." (DP)

"Sometimes, from those (i.e., DPRD) thoughts, you can directly...del (delete immediately) how large amount and values are there. Thus, it is beyond our expectations (executives) like that, Sir. From the DPRD side, asking... from the revenues side, can it be increased or not. Then, we (the regional tax sector) calculate how much potential we can increase even though from the entertainment taxes, we can only fulfill that; so, because the contribution is small, it is usually not discussed in detail, Sir." (KP)

In the target-setting process, the ET revenues budget was determined based on the previous year's ET realization data. Thus, this study revealed an incremental budgeting phenomenon in preparing the ET revenue budget because the determination of the ET revenues budget was based on last year's realization.

"In terms of the entertainment taxes, we have to look at the realization of the previous few years and analyze its progress... see the improvement in the past few years. Then, the potential can still be seen from the progress of the realization to see the projection of entertainment taxes revenues in the coming year." (KA)

"In the discussion... the legislature also compares it with last year's realization, right. With comparisons to last year, seeing ooh... this is already realistic. It needs to be compared to last year's realization in the process of discussing the budget." (KP)

The Executive Has More Information Than the Legislature.

In preparing the ET revenues budget, the legislature and executive needed relevant information to determine the ET budget. However, the executive had an advantage in terms of having more information than the legislature since the executive held operational control in the field. The executive had information that included data on the realization from the previous year, data of the payers, and data on the tax's capacity, while the information that the legislature had was only data on the realization of the tax from the previous year.

".. the information starts with the assumption based on last year's realization as a reference. Secondly, we will see whether there is an addition of the taxpayer or even a reduction. From there, we determine the revenue capacity of the entertainment taxes." (KP).

However, the information used by the executive had not taken into account the potential amount of the ET revenues because it had not considered the probability of occupancy of existing ET objects. It happened because the executive had never surveyed to analyze the possibility of occupancy of ET objects. The following is an excerpt from an interview with the local tax coordinator.

"So as for the potential figures for the entertainment taxes, I do not know yet, Sir." (DP)

"Yes, Sir, actually... for the probability of the potential number of entertainment visitors per day, we have not calculated it. Yes, just calculate the installed capacity, Sir." (JP)

".. if you look at the proliferation of karaoke houses, it should be (smiles a little) the probability of visiting karaoke entertainment per day, yes, many people enjoy it... whether they are residents of Wonosobo or outside Wonosobo, we do not know because we have never been surveyed there." (KSpt)

Thus, in determining the ET revenues budget, the legislature did not know whether the ET revenues budget was set too low or not than the actual potential or capacity.

Executive Provides Information to Legislative Selectively.

In the ET revenues budgeting process, the executive had an information advantage over the legislature. The executive provided information to the legislature only in the form of revenue information that it considered realizable. The reason the executive provided information selectively to the legislature was due to the consideration of the difficulties faced by the executive in realizing the tax potential in the field. The executive also provided information to the legislature based on the executive's subjective judgment on its ability to realize revenue in the field. Based on subjective considerations, the executive did not explore the potential for revenues beyond their capacities. If the

potential revenue were used as the amount of budgeted revenue, the budget would be allegedly unable to be achieved.

This fact provided a favorable situation for executives, making it easier to carry out their duties and functions. This condition then caused the legislature, as a community representation, to have limited knowledge about the availability of resources managed by the executive. As a result, the legislature would follow the rhythm of the executive.

"In discussing the revenue budget, we will present the details, but it is not that detailed, Sir. Thus, the information provided is in accordance with our ability to realize it in the field. Therefore, we do not necessarily have a budget or plan beyond our capabilities because the target may not be achieved later." (KP)

"... Yes, it is not vulgar, Sir. Executives do not show potential or capacity figures directly. Thus, there is actually information that we cannot find at the root regarding the entertainment taxes budget." (DP)

Legislative Understanding of the Nature of the Entertainment Taxes

The legislatures did not demand detailed data on the potential of the ET to the executive because they understood that many ET objects could not be predicted due to their incidental, not continuous, and not regularly held. On the other hand, the legislature also understood that the determination of the taxes revenues budget should ideally be based on any potential taxes that can be explored.

"Personally, I myself have never demanded the potential for the entertainment taxes, Sir ... After all, in the tax, there are tax objects whose implementation is difficult to predict. Thus, the target setting should be in accordance with the existing potential that can be explored in the Wonosobo Regency territory, Sir." (DP)

"...if there are difficulties for the executive, there will be understanding to the executive because of the conditional factors in the field, right." (DP)

Discussion

Based on the main actors, the causes of the gap between potential and budgeted entertainment tax revenues can be grouped into factors caused by the executive and legislative.

From the executive side, the findings of this study align with agency theory, suggesting that the executive, as the holder of operational control in the field, tends to prioritize its interests (opportunism) because it has more accurate information than the legislature. In the context of this research, the executive's opportunistic behavior was shown by the mode of distorting the information provided to the legislature in the discussion process of determining the amount of the taxes revenues budgeted. The executive also offered information to the legislature, making it easier for the executive to carry out its obligations. This finding is consistent with the results of previous studies (see Dunk, 1993; Eisenhardt, 1989; Halim, 2002; Halim & Abdullah, 2006; Merchant, 1985; Young,

1985). This study also found an incremental budgeting phenomenon in the ET revenues budgeting process since the budget amount was determined based on the realization of revenues from previous years. In this regard, executives proposed a budget target for the ET that was much lower than its potential to be easily achieved. Thus, the performance of the executive would look good.

From the legislative side, in the ET budgeting process, the legislature neglected to discuss the ET revenues budget in detail and thoroughly on each tax object because of the small portion of the ET and the limited time in the budget discussion process. This phenomenon can be explained by the theory of rationality, in addition to the agency theory, which the researchers expected can be used as an underpinning theory at the beginning. The theory of rationality explains that rational behavior is an action that gives the best results that can be achieved from the perspective of attaining goals by observing existing limitations. In the context of this study, the rational behavior of the legislature was displayed by not discussing the ET revenues budget in detail and in-depth because of the small portion of the taxes revenues, which was considered not to affect the funding of LG expenditure. In addition, in a situation of limited time and incomplete information during budget preparation, the legislature paid more attention to discussing significant revenues. It indicates that legislative action to deliberately ignore the discussion of small ET revenues in the budget discussion process was seen as rational or had the highest consequences to fulfill the main objectives of the legislature. As such, this finding provides a new understanding not found in previous research (see Halim, 2002; Halim & Abdullah, 2006). It is probably due to the different types of revenue studied, where this study focused on the type of revenue with a small amount, while previous research emphasized the type of revenue with a large amount.

The legislature's reluctance not to demand information on the potential and capacity of the taxes revenues from the executive then exacerbated the gap in the ET revenues budget. Thus, in this study, the executive's opportunistic behavior and the legislature's reluctance were the leading causes of a significant gap between the potential and the determination of the ET budget.

Figure 1 draws the relationship of the factors causing the gap between the potential and amount of budgeted ET revenues in the Wonosobo Local Government.

Conclusion

Based on the research results and discussion as explained in the previous section, it can be concluded that two main factors caused the gap between the potential and the total entertainment tax budget in the Wonosobo Regency Government. These factors comprised legislative waiver to discuss the ET revenues in detail during the budgeting process and the executive's opportunistic behavior. The legislative waiver was triggered due to time constraints in the budget deliberation process, the small contribution of the taxes, and the nature of the taxes. This phenomenon can be explained under rationality

theory. Meanwhile, the executive's opportunistic behavior was caused by the desire to achieve performance targets quickly. This fact fits as described in the agency theory.

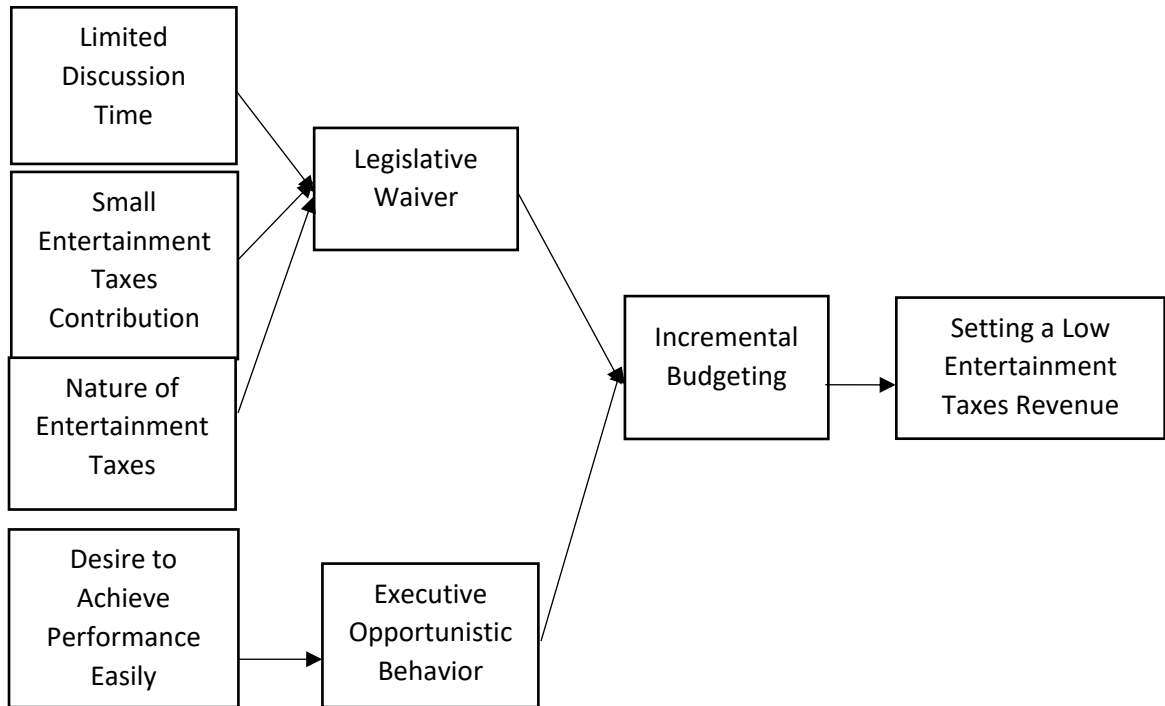


Figure 1 Factors Causing Gap between Potential and Amount of Budgeted Entertainment Tax Revenue

Further, this study provides three main implications. First, both the executive and the legislature must devote sufficient time to discussing the budget. With enough time for discussion, the legislature can discuss every revenue budget proposed by the executive in detail and thoroughly. A detailed and deep discussion of the revenue budget should prevent inefficiencies and ineffectiveness in managing the revenue budget. Second, this study found information asymmetry in budgeting between the executive and the legislature. Based on these findings, the legislature must take the initiative to demand all information, including potential revenues that can be extracted from the executive. Third, the executive must be committed to proposing a revenue budget according to the potential that can be explored.

On the academic side, this study adds to the understanding of the causes of budgetary slack, with explanations within the framework of rationality theory, aside from the agency theory often found in previous studies. Nevertheless, the limitation of this study is that this study did not involve informants who were entertainment taxpayers. It happened because we had difficulty making observations in the field. After all, this research was carried out during the COVID-19 pandemic.

Appendix

The Investigation Process on the Potential Entertainment Taxes in Wonosobo Local Government

One object of the entertainment taxes is karaoke entertainment. In 2018, the Regional Revenue, Finance, and Asset Management Agency (BPPKAD) of LF of Wonosobo tried calculating thirteen entertainment houses' karaoke tax revenue capacity in one year. The calculation of karaoke revenue capacity at thirteen entertainment houses was based on karaoke businesses registered in the Wonosobo Karaoke Entrepreneurs Association (Asparaw). In this case, the BPPKAD of Wonosobo only calculated the installed capacity of karaoke entertainment tax and has not estimated the potential tax revenue of karaoke entertainment.

Based on the calculation of the installed capacity of the karaoke carried out by the Wonosobo Regency BPPKAD at thirteen cafes, the researchers made further efforts to calculate the potential entertainment tax on thirteen karaoke houses. First, the researchers performed an entertainment occupancy probability analysis. For this matter, the researchers conducted an in-depth interview with the coordinator of the tax collector, who stated that the most crowded entertainment visits were on weekends. The following is an excerpt from an interview with a local tax collector:

"It was before the weekend that 80% of the visitors came in. However, on a normal day, it is possible that out of the ten rooms, only three or four rooms a day or half of them can be filled by visitors who enter the entertainment venue, Sir. If it is crowded when usually from there (karaoke entertainment entrepreneur), the answer is Saturday and Sunday. On weekdays, there are 30-40% visitors, maybe 50% at most."

Based on in-depth interviews with the coordinator of local tax collectors, the researchers concluded that the probability of occupancy of karaoke entertainment on Monday to Thursday was 30-40%, Friday was 80%, and Saturday and Sunday were 100%.

Second, the researchers calculated the number of visiting days for each day (Monday-Sunday) in a year. The researchers then divided the number of days of entertainment visits in one year based on the assumption of BPPKAD calculations, which was 330 days, with the number of days in one week being seven days. The premise of 330 days was based on the calculation of entertainment capacity carried out by BPPKAD, which was for 11 months in a year. Then, the researchers obtained the number of visiting days for each day (Monday-Sunday) of 47 days in a year (330 days/seven days). In this regard, there were only 11 months since there was one month (Ramadhan month) that the karaoke house must be closed.

Finally, the researchers calculated the potential entertainment tax revenue by multiplying the occupancy capacity, occupancy probability, number of days of the visit, and entertainment tax rate in a year. The following is an analysis of the potential karaoke entertainment tax per karaoke house in Wonosobo.

Table A The Capacity and Potential of the 2018 Entertainment Tax in Wonosobo Regency

Karaoke House	Installed Capacity (IDR)	Potential of Entertainment Tax (IDR)*			
		Monday (30%)	Tuesday-Thursday (40%)	Friday (80%)	Saturday-Sunday (100%)
Café A	121,440,000	5,188,800	20,755,200	13,836,800	34,592,000
Café B	63,360,000	2,707,200	10,828,800	7,219,200	18,048,000
Café C	63,360,000	2,707,200	10,828,800	7,219,200	18,048,000
Café D	73,920,000	3,158,400	12,633,600	8,422,400	21,056,000
Café E	29,040,000	1,240,800	4,963,200	3,308,800	8,272,000
Café F	168,300,000	7,191,000	28,764,000	19,176,000	47,940,000
Café G	155,760,000	6,655,200	26,620,800	17,747,200	44,368,000
Café H	105,600,000	4,512,000	18,048,000	12,032,000	30,080,000
Café I	147,840,000	6,316,800	25,267,200	16,844,800	42,112,000
Café J	128,700,000	4,230,000	16,920,000	11,280,000	28,200,000
Café K	73,920,000	3,158,400	12,633,600	8,422,400	21,056,000
Café L	105,600,000	4,512,000	18,048,000	12,032,000	30,080,000
Café M	5,940,000	253,800	1,015,200	676,800	1,692,000
Total	1,213,080,000		742,919,600		

*Potential = capacity x probability of occupancy x number of visiting days/330 x 40% tax rate

Source: BPPKAD of Wonosobo Year 2018 (data processed)

Regarding the capacity calculation carried out, the BPPKAD of Wonosobo has surveyed to explore information related to the monthly turnover of business actors in one year, IDR1,213,080,000 in 2018. Based on the monthly turnover in one year, BPPKAD imposes a tax rate of 40 % of karaoke revenue according to the Wonosobo Regency Regional Regulation Number 10 of 2018 concerning Regional Taxes. Based on BPPKAD's calculation of the entertainment tax capacity in one year, the researchers then calculated the potential for entertainment tax. The results showed a significant difference between the potential of entertainment tax data and the targeted budget. Table A describes that the 2018 potential entertainment tax revenue for 13 entertainment houses amounted to IDR742,919,600, but the Wonosobo Local Government in 2019 only budgeted IDR45,000,000, less than 10% of its potential.

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