



Potential State Revenues from the Natural Resources Sector and its Problems: Agricultural Sector

Book 3 of 5

Potential State Revenues from the Natural Resources Sector and its Problems

Book 3. Agricultural Sector

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Book 3 of 5

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Statement

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Foreword

Economic development requires a substantial tax base. Until now, the exploitation of natural resources, specifically revenue from nonrenewable sources such as mining, oil, and gas, serves as a major source of state revenue. At the same time, state revenues from the exploitation of relatively renewable natural sources including agriculture, plantations, forestry, and fisheries have received less attention and their revenue potential has not been maximized.

This book is one of the reports documenting the efforts made by civil society groups to (1) estimate the revenue generating potential of natural resources; (2) describe the governance in the sectors studied; and (3) identify the reasons for low revenue collections in the agriculture, plantation, forestry, and fishery and marine sectors. The report is designed to increase understanding of the sectors' potential, governance, and revenue issues so that in the future civil society can help contribute to increasing revenue collections from these four sectors.

This book is the third of five books, and is divided into two parts. First, an introduction, and second, the findings of the study.

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1. Introduction to the Sector

The vast majority of Indonesians rely on the exploitation of natural resources for their livelihoods. Based on Perkumpulan Inisiatif's study of 2014 state revenues, only 7.8% of state revenues originated from the non-oil/gas natural resource sectors, with 0.4 % generated from non-tax sources and 7.4% generated by taxes.

The forestry sector contributed 0.3%, the fishery sector contributed 0.02%, and the agriculture and plantation sectors contributed 7.5% of state revenues. In relation to the Gross Regional Domestic Product (GRDP), state revenues from non-gas/oil natural resource sectors are minimal in compared to those from other sectors, as well as in comparison to the share of land accounted for by these sectors.

The results of this study examine the amount of potential revenues (tax and non-tax) that could be generated by the agricultural sector, from either privately or state-owned enterprises with an area exceeding 25 ha. In addition, this study describes the issues that bring about losses in state revenue. This study was conducted in 7 regencies: Kendal Regency (East Java), Bojonegoro Regency (Central Java), Donggala Regency (Central Sulawesi), Balukumba Regency (South Sulawesi), Central Lombok Regency (East Nusa Tenggara), Kutai Kartanegara Regency (East Kalimantan), and Lampung Regency. The selection of these seven regencies was based on their heterogenous characteristics and the types of production in those regencies in hopes of representing Indonesia as a whole. Another reason for their selection is the presence of civil society organizations (CSOs) in the area, thereby facilitating easy access and data collection.

1.1. Condition of State Revenues and the Contribution of the Agricultural Sector

The contribution of revenues from the agriculture sector to the state can be assessed by two factors. First, is its absorption of labor and the dependency of the community on the sector, and second, is the amount of revenue generated. Data from Biro Pusat Statistik (Central Bureau of Statistics) showed that in 2015 around 37.77–38.29 million laborers worked in the agricultural sector. With a dependency ratio of 48.6 % (2015), around 56.1 – 56.9 million people depend on the agricultural sector for their livelihoods. In contrast to the population's dependency on the agricultural sector, state revenues from the agricultural (and plantation) sectors only amount to 7.5% of total state revenues in 2014 amounting to less than 1,550 trillion rupiah.

1.2. Policies to Increase State Revenue in The Agricultural Sector

Tax levies in the agricultural sector are almost non-existent. Existing regulations, governing both taxes and non-tax revenues that must be paid by actors in the agricultural sector, are scarce. In all likelihood, this is because the agricultural sector, especially food crops and horticulture, is almost entirely managed informally and by the small local households. Whereas state-owned enterprises engaged in the agricultural sector, can be counted by hand. The agriculture sector is a broad sector covering food crops, horticulture, livestock, and even plantations. But given our limited analytical scope, we have focused on crops and horticulture. The regulations that regulate the business process of the agricultural sector of food crops and horticulture include:

- Agricultural Business:
 - Law number 12 of 1992 on Plant Cultivation Systems
 - Law number 13 of 2010 on Horticulture

- Government Regulation number 18 of 2010 concerning Cultivation of Crops
- Regulation of the Minister of Agriculture of the Republic of Indonesia No. 39 / Permentan / OT.140 / 6/2010 Concerning Guidelines on the Licensing of Cultivation of Food Crops
- Regulation of the Minister of Agriculture of the Republic of Indonesia Number: 70 / Permentan / PD.100 / 6/2014 Regarding Guidance of Horticulture Cultivation Permits
- Regulation of the Minister of Agriculture of the Republic of Indonesia Number: 26 / Permentan / Hk.140 / 4/2015 Concerning Terms, Procedures and Standard Operating Procedures for Providing Technical Licensing Recommendations for Capital Investment in Agricultural Businesses
- Taxation:
 - Regulation of the Director General of Taxation Per 20/Pj / 2015 on Procedures for the Imposition of Land and Building Tax of Other Sectors
 - Government Regulation Number 12 Year 2001 Concerning Import and Or Handover of Specific Taxable Goods Which are Strategic and Exempt from the Imposition of Value-added Tax (VAT).
 - Government Regulation Number 31 Year 2007 Concerning the Fourth Amendment to Government Regulation Number 12 Year 2001 Concerning Import and Or Handover of Specific Taxable Goods Which Are Strategic and Exempt from the Imposition of Value-Added Tax (VAT).
 - Circulation Letter of the Director General of Taxation No. Se - 24 /Pj/ 2014 Concerning Implementation of the Verdict of the Supreme Court of the Republic of Indonesia No. 70p / Hum / 2013 Concerning Value Added Tax on Agricultural Goods Which Is Generated from Agricultural, Plantation and Forestry Operations as Regulated in Government Regulation Number 31 Year 2007
- Non- tax State Revenue:
 - Government Regulation No. 35 of 2016 on Types and Tariffs of Non-Tax State Revenue Applicable to the Ministry of Agriculture. Non-tax levies include:
 - a. the acquisition of agricultural products;
 - b. library services, data processing, and reproduction of maps;
 - c. dissemination and technology development services;
 - d. rights granting and licensing services;
 - e. animal and plant quarantine action services;
 - f. agricultural testing, analysis, and development services;
 - g. research services, technology transfer of research results, and agricultural development derived from cooperation with other parties; and
 - h. utilization of facilities and infrastructure.

In addition to the above charges, it is possible that there are other types of levies on the agricultural sector applied by state institutions in regional areas. Therefore, it is necessary to review the legislation in the provinces and cities and districts.

1.3. Structure of Presentation

This book examines the agricultural sector. It consists of three parts. First, an introduction; second, the exploratory findings; and third, a conclusion. Instruments used for data collection are annexed in the end of the book.

This instrument consists of five books. The first book provides a general introduction. The second to fifth books contain sectoral studies of the plantation, agricultural, forestry, and fisheries sectors.

2. Potential Losses of State Revenue from the Agricultural Sector

The contribution of revenues from the agricultural sector to the state can be assessed by two measures. One is its absorption of labor and the dependency of the community on the sector. The second is the amount of state revenue generated by the sector. Data from Biro Pusat Statistik (Central Bureau of Statistics) showed that in 2015 around 37.77–38.29 million laborers worked in the agricultural sector. With a dependency ratio of 48.6 % (2015), around 56.1 – 56.9 million people depend on the agricultural sector for their livelihoods. In contrast to the population's dependency on the agricultural sector, revenues from the agricultural and plantation sectors accounted for 7.5% of total state revenues in 2014, less than 1,550 trillion rupiah.

Revenues are the mechanism for supporting the state budget that is used for the benefit of the people. However, revenues should be raised according to principles of justice to prevent discouraging engagement in productive activities or harm to the people and enrichment of a select few in the government.

2.1. Lampung Province

The Lampung province is the southernmost province on the island of Sumatra with Bandar Lampung as its capital city. The Lampung province is bordered by the South Sumatra Province in the north, the Sunda Strait in the South, Karimata Strait in the East and Indian Ocean in the West. Lampung Province has an area of 35,288.35 km² which includes its surrounding islands. The area is divided into 16 regencies: West Lampung Regency with an area of 2,142.78 km², Tanggarmu Regency with an area of 3,020.64 km²; South Lampung Regency with an area of 700.32 km²; East Lampung Regency with an area of 5,325.03 km²; Central Lampung Regency with an area of 3,802.68 km²; North Lampung Regency with an area of 2,725.87 km²; Way Kanan Regency with an area of 3,921 km²; Tulang Bawang Regency with an area of 3,446,32 km²; Pesawaran Regency with an area of 2,243.51 km²; Pringsewu Regency with an area of 625 km²; Mesuji Regency with an area of 2,184 km²; West Tulang Bawang Regency with an area of 1,201 km²; Pesisir Barat Regency with an area of 2,907.23 km²; Bandar Lampung City with an area of 296 km²; and Metro City 61.79 km².

Lampung Province has an abundance of natural resources, ranging from natural wealth in the form of land, water from its territorial waters to the mineral content in the soil. These natural resources can be a source of Gross Regional Domestic Product (GRDP) for the local government or even the state.

The economic capability of a region is usually determined by its GRDP. GRDP is an indicator that describes a region's ability to create added value at a certain time. In general, data until 2015, showed that the largest contribution to the GRDP of Lampung Province came from the agricultural sector.

High levels of productivity can provide the basis for tax withdrawal conducted by authorized parties. Based on that argument, it is necessary to recognize the in sectors that are rarely implicated in state revenue collections either from taxes, levies, or non-tax revenues.

Tax Violations and Losses in State Revenue

The targeted revenue for Lampung Province is 2.4 trillion rupiah according to the provincial secretariat of Lampung Province 21 December 2016 www.saibumi.com. The realization of that target accounted for 50% of the initial goal or around 1.2 trillion rupiah. Data from the tax sector which became the data for local revenue is still unknown. In the years 2016-2107, Way Kanan Regency determined a target local income of 41.764 billion rupiah. Tax sources contributing to that targeted local revenue is as follows:

- Hotel
- Restaurant
- Street lighting
- Property tax
- User charges
- Dividend of regionally-owned enterprises
- Demand deposit services and interest incomes

For this discussion of tax violations, Lampung Province is represented by the Way Kanan regency. This selection was determined because of this regency's high levels of agricultural activities, and its location near the residence of the assessor.

Based on provisional figures obtained in the census of Agricultural Enumeration in 2013, the number of agricultural enterprises managed by households in Way Kanan District was 85,270.15 were managed by companies identified as legal entities and 8 were managed by non-households and corporations.

In Way Kanan, the Blambangan Umpu, Banjit and Negara Batin districts had the highest number of households engaged in agriculture with 9,595, 9,298, and 8,321 households, respectively. On the other hand, the Bahuga district had the lowest number of households engaged agriculture with 2,205 households. Meanwhile, the largest number of agricultural companies found in one district in the Blambangan District with a total of 7 businesses. Others were located in the Pakuan Ratu, Negeri Agung, Way Tuba, Bumi Agung, and Bahuga Districts with three, two, one, and one companies, respectively. The number of businesses characterized as non-legal entities or non-household businesses was five in Negara Batin District, two in the Banjit District, and one in the Baradatu District.

Based on that argument it can be concluded that Way Kanan Regency has a high potential for agriculture which can be sampled to estimate the tax leakage for Lampung Province.

Property Tax - Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan*/PBB-P2)

Property tax (PBB) is a tax imposed on property (land or buildings) owned, controlled, or exploited. The legal basis for the imposition of PBB by the regional government is found in Law no. 28 of 2009 on Regional Taxes and Levies. The local government only collects PBB from rural and urban areas, while the PBB for plantations, forestry and mining sectors are still managed by the Directorate General of Taxation (DJP). Land in the form of fields and paddy fields for agriculture is covered by the PBB-P2 scheme.

Presently, agricultural land is defined as paddy fields, fields/gardens, and unexploited lands that are then transformed for the cultivation of food crops or horticulture. Based on the Central Bureau of Statistics' (BPS) data in 2015, the district of Way Kanan had 19.974 ha of paddy fields and 49.388 ha of fields.

If calculated on the assumption of the average value of PBB for agricultural land, the smallest amount of income that can be taken from agricultural land based on the PBB version UUPDRD no. 28 Year 2009 formula is as follows:

Area of land from agriculture: 199,740,000 m² and 493,880,000 m², with 85,270 agricultural households and agriculture businesses. If every household/individual agricultural business actor owns land, the maximum potential revenue is obtained from the average land owned, with a calculation of (199,740,000 + 493,880,000) m²/ 85,270 people = 8,134.4 m².

If it is assumed that tariffs in the Way Kanan district is 0.2, based on national averages, and the value of NJOKTP (Non-Taxable Value of Objects) is IDR 10 million, with the lowest average of NJOP (Taxable Value of Objects) at 30,000 rupiah per meter then the calculation for one SPPT (tax payment bill/owed) becomes:

$$\text{PBB P2} = 0.2 \times ((30,000 \times 8,134.00) - 10,000,000)$$

$$\text{PBB P2} = 0.2 \times (244,020,000 - 10,000,000)$$

$$\text{PBB P2} = 0.2 \times 234,020,000$$

$$\text{PBB P2} = \text{Rupiah } 46,804,000$$

Assuming that the amount of SPPT (tax payment bill/owed) is in accordance with the number of individual farmers, then the amount of tax that may be obtained is as follows:

$$0.5\% \times 46,804,000 \times 8,314 = 1,945,642,280$$

Assuming average tariffs, the maximum potential land area, and the number of SPPT (tax payment bill/owed), it is known that the number of PBB obtained equals 1,945,642,280 rupiah.

So far, based on data from the regional office of DPJ in Bengkulu and Lampung, the targeted amount of property tax paid in the Way Kanan district from the agricultural sector amounts to 3,960,143,000 (three billion Nine hundred sixty million one hundred forty three thousand rupiah) while in the realization the number obtained was 4,960,878,880 (four billion and nine hundred sixty million eight hundred seventy eight thousand eight hundred eight rupiah) However this is based on data from 2014-2015.

The two-billion-rupiah figure can still be achieved to maximize the PBB-B2 from agricultural land in the form of rice fields and fields. The three billion figure resulted from the combined results of PBB-P2 of agricultural and plantation lands is seen to not have been maximized. With an update of data and systems, this number can still be increased. Way Kanan itself has a lot of plantation land producing sugar canes to aloe vera thereby increasing the possibility of a rise in revenue.

In reality, the question is whether the presence of PBB-B2 has an effect on production in the agricultural sector, whether it meets the principles of justice, and how it affects people's welfare.

Groundwater Tax

Based on various reports, PT. Great Giant Pineapple has made a breach of groundwater taxation. 66 wells were found to have been operating without licenses, and an additional 34 wells under repair were also not licensed. This took place in 2010 and it is still unclear whether the behavior continues until 2016. Potential losses of tax revenue from these violations amounts to about 400 million rupiah.

Non-tax State Revenues (PNBP, *Penerimaan Negara Bukan Pajak*)

Thus far, indications of non-tax revenues for the agricultural sector in Lampung Province originates from the Bureau of Quarantine. In 2016, non-tax tariffs rose in accordance to the ministerial regulation number 35 2016. However, there have not been any data on the amount of non-tax revenue originating from this quarantine process. Meanwhile, data on the amount of revenue lost in this section is unknown.

Income Tax and Value-added Tax (PPH dan PPn)

On February 25, 2014, a Decision of the Supreme Court of the Republic of Indonesia Number 70P / HUM / 2013 was issued. The verdict granted the plea for judicial review from the applicant *Kamar Dagang dan Industri Indonesia* (KADIN). This ruling ordered the President of the Republic of Indonesia to revoke Article 1 paragraph (1) letter c, Article 1 paragraph (2) letter a, Article 2 paragraph (1) letter f, and Article 2 paragraph (2) letter c of the Government Regulation number 31 2007 concerning the Fourth Amendment to Government Regulation Number 12, 2001 concerning Import and or Handover of Certain Taxable Goods that are Strategic and Exempt from the Imposition of Value-added Tax. The impact of the verdict is to require an entrepreneur to report his business as a taxable actor if in up to a month in a book year the amount of gross turnover and/or gross receipts exceeds IDR 4,800,000,000.00 rupiah.

Thus far there are not any data on agricultural companies in Lampung Province that are complete, according to data held by the Central Bureau of Statistics. In 2013, there were 121 companies, but the data was not complete with their names. Based on a manual search, several companies that are estimated to have a revenue of or equal to 4.8 billion are:

- PT. Sewu Segar Nusantara
- PT. Great Giant Pineapple
- PT. Gulamadu Plantation
- PT. Gulamadu Mataram

Of those four companies, only PT. Great Giant Pineapple deals purely in horticulture. This company produces nuts, pineapples, and crop products in the form of cassava and is located in central Lampung.

PT Great Giant Pineapple

PT. Great Giant Pineapple is mainly engaged in the production of pineapples. Pineapples planted are Smooth cayenne variety (pineapple without thorns). PT Great Giant Pineapple has had a factory and started exporting in 1984. In addition to pineapple, PT Great Giant Pineapple also has businesses in bean farming and cassava cultivation.

Currently PT Great Giant Pineapple has an area of approximately 32,200 ha with an effective planting area of 25,595 ha. In 2013, PT Great Giant Pineapple employed 18,069 workers, with an additional 10,059 workers under temporary contract (PKWT).

Initially, PT Great Giant Pineapple had an area of 9,118 ha. In February 1996 PT Great Giant Pineapple was certified in ISO 9002 from Lyod Register which meant that the quality system implemented met international standards. Other quality management system certificates acquired are the SMKS Certificate (Successful Safety and Health Management System) from Sucofindo (1999), SA 8000 (Social Accountability) Certificate from Bureau Veritas Quality Assurance (2001), and ISO 14001 Certificate, 2004 version of the 2006 Environmental Management.

PT Great Giant Pineapple is located in Jalan Raya Arah Menggala KM 77 Terbanggi Besar, Central Lampung. Geographically PT Great Giant Pineapple is located at 490 South Latitude and 1050 East Longitude at an altitude of 46 m above sea level in a tropical climate.

Based various reports, there is no information showing that PT Great Giant Pineapple is delinquent in paying income and value-added taxes, although reports have stated this company's problems in the payment of groundwater taxes. PT. Great Giant Pineapple has had several unpaid wells.

In addition to the private sector, there is also a state-owned company in Lampung engaged in rice seeding, PT. SHS. No information indicates that PT. SHS is delinquent in paying income taxes or value added taxes (VAT).

Tax Evasion

The Department of Agriculture officers in Way Kanan mentioned that in the Way Kanan area, the main product is food crops. In addition to rice, Way Kanan also produces cassava. All of these businesses are run by individual farmers who are not licensed by law. There are several major farmers in Way Kanan, but they too lack a business permit. This can be seen as an occurrence of tax evasion.

Modes

Illegal Fees: Government officials that are responsible for providing government aid take the opportunity to seek payments. Illegal fees also exist in developmental programs. "Fees of acceptance" are used as a way of legalizing this practice. In these programs, farmers are encouraged to give away several tons of rice to officers in return for the implementation of these programs.

However, in general farmers consider the above practices within the limits of tolerance, arguing that officers do not receive incentives (or salary), the limit is less than 500 sekape. Exceeding this amount would be considered as illegal charges.

There are no taxes for rice aid. All provisions of assistance are directly used by farmers, not sold again. This is intended to accelerate farming activities.

2.2. West Java Province

West Java is one of the four provinces in Java island and has a capital city of Bandung. West Java is geographically located at 5°50'-7°50' South Latitude and 104°48'-108°48'. West Java has a total area of 35,377,76 km². West Java consists of several regencies/cities: Bogor with an area of 2,710.62 km², Sukabumi (4,145.70 km²), Cianjur (3,840,166.2 km²), Bandung (1,767,966.2 km²), Garut (3,074,076.2 km²), Tasikmalaya (1,214,716.2 km²), Ciamis (1,110,566.2 km²), Cirebon (984,526.2 km²), Majalengka (1,204,246.2 km²), Sumedang (1,518,336.2 km²), Indramayu (2,040 (1,623,862 km²), Bekasi (1,224,886.2 km²), West Bandung (1,305,776.2 km²), Pangandaran (1,010,006.2 km²), Bogor City (118,506.2 km²), Sukabumi City (48,256.2 km²), Bandung City (167,676.2 km²), Cirebon City (37,366.2 km²), Bekasi City (206,616.2 km²), Depok (200,296.2 km²), Cimahi City (39,276.2 km²), Tasikmalaya City (171,616.2 km²), and the city of Banjar (113.49 km²). West Java is bordered by the Java Sea in the north, the Indian Ocean in the south, the Banten Province in the west, and central Java Province in the east.

West Java has an abundance of natural resources, ranging from natural wealth in the form of land, water, and its territorial waters. These natural resources were aimed to become a source of GRDP for West Java. In 2015, exploitation of natural resources in the form of agriculture, forestry, fisheries, and plantations made the third largest contribution to the GRDP of West Java, after the processing industry sector. In the economic structure, based on data collected in 2015, agriculture accounted for 9 percent of the economy in West Java. However, it does not mean that the agriculture sector can be marginalized and shoved aside, given the livelihoods of people dependent on the sector.

Based on GRDP of current prices according to the field of business, the two business fields that made the largest contribution in the agriculture, forestry and fishery sectors are food crops and horticultural plants.

High levels of productivity can be the basis for tax collection conducted by authorized parties. Based on that argument, it is necessary to recognize the dynamics in the sectors that are rarely implicated in state revenue collection either from taxes, levies, or non-tax revenues.

Currently, West Java is experiencing an increase in revenue realization. Based on reports of PAD data from 2016-17 West Java Province (bapenda.jabarprov.go.id):

- Target: 24.49 trillion rupiah
- Actual collections: 27.69 trillion rupiah
- Leading sectors contributing to the revenue of West Java Province include:
 - Taxes on motorized vehicles
 - BBNKB (fee for motor vehicle name transfer)
 - Etc.

So far, there have been no reports of efforts to increase the revenue of the West Java province from the agricultural sector. The tendency is for the provincial government to focus on tax revenues in the strategic sectors of motorized vehicle taxes and BBNKB and they are not too concerned about other sectors.

Tax Violations

The Bogor Regency was selected to represent the agricultural sector in West Java based on a 2013 farmer survey. In this survey, Bogor Regency had the highest numbers of business actors and agricultural companies specifically in the field of horticulture. This is to determine the representation of farmers used as information analyzed by the author.

Based on the data from the 2013 Agricultural Survey, and on the interim figures from the enumeration results of the 2013 Agricultural Census, the number of agricultural enterprises in the Bogor Regency was 204,675, of which 204,468 were managed by households, 134 managed by legal entrepreneurs and as many as 73 managed by other entities. Sukamakmur, Rumpin, and Jonggol Districts had the highest numbers of agricultural households, with 2,406 households, 11,597 households, and 10,898 households, respectively. Meanwhile the Ciomas District had the fewest agricultural households with 1,130 households. The highest number of agricultural companies were located in the Gunung Sindur and Rumpin Districts, each of which had 17 companies. While the number of companies not classified as legal entities or household business were mostly found in the Tenjolaya district, with 7 units.

The purpose of this paper is to present the potential of state revenues in the agricultural sector. The Bogor Regency was selected to be the object of analysis with the considerations mentioned previously in this report.

Thus far, local revenue for the year 2016-2017 in the Bogor Regency is as follows:

- Target: IDR 2.1 trillion
- Actual collections: IDR 2.256 trillion
- Sectors producing taxation: (ordered from the largest contributors)
 - Land Tax and Acquisition of Land and Building Rights (BHTB) 500 billion rupiah
 - Property Tax (PBB): 400 billion
 - Tourism 300 billion
 - Groundwater Tax 100 billion
 - Street lighting 200 million

This is as mentioned by the Regional Secretary of Bogor Regency in the Headline which discussed the target of local revenue for 2016.

In general, the potential of the agricultural sector in contributing to regional income in Bogor Regency originates from:

1. Land Ownership
2. Ground Water
3. Connections with agrobusiness can be tied to tourism

So far, there have been no specific plans undertaken by the government to increase state revenues from the agricultural sector, much less involving food crop and horticulture businesses. Nevertheless, we cannot justify an absence of potential for the state to obtain revenues in this sector. One tool for intervention is the use of the taxpayer's parent number or through the retribution system and non-tax revenues. However, before the government applies any taxes, considerations must be weighted fairly so that farmers do not feel disadvantaged.

Property Tax - Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan/PBB-P2*)

Property tax (PBB) is a tax imposed on property (land or buildings) owned, controlled, or exploited. The legal basis for the imposition of PBB by the regional government is found in Law no. 28 of 2009 on Regional Taxes and Levies. The local government only collects PBB from rural and urban areas, while the PBB for plantations, forestry and mining sectors is managed by the Directorate General of Taxation (DJP). Land in the form of fields and paddy fields for agriculture goes into the PBB-P2 scheme.

Presently, agricultural land is defined as paddy fields, fields/gardens, and unexploited lands that are then transformed for the cultivation of food crops or horticulture. Based on data from the Central Bureau of Statistics collected in 2014, there were 56,850 ha of gardens, 6,186 of fields, 1,984 ha of uncultivated fields, and 85,755 ha of paddies.

If calculated on the assumption of the average value of PBB for agricultural lands, the smallest amount of income that could be collected from agricultural land based on the PBB version UUPDRD no. 28 Year 2009 formula is as follows:

Area of land from agriculture: 568,500,000 m² for fields, 19,840,000 m² for uncultivated fields, and 857,550,000 for paddies, with the number of agricultural households and businesses of 204,468. If every household/individual agricultural business actor owns land, the maximum potential is obtained from the average land owned, with a calculation of $(568,500,000 \text{ m}^2 + 19,840,000 \text{ m}^2 + 857,550,000 \text{ m}^2) / 204,468 \text{ people} = 7,071.5 \text{ m}^2$.

Tariffs for the Bogor regency are 0.2 and 0.1 of the NJOKTP (Non-Taxable Value of Objects) is 10 million, with the lowest average of NJOP (Taxable Value of Objects) at 60,000 rupiah per meter then the calculation for one SPPT (tax payment bill/owed) becomes:

$$\text{PBB P2} = 0,2 \times (((60,000 \times 7,071.5) - 10,000,000)$$

$$\text{PBB P2} = 0,2 \times (424,290,000 - 10,000,000)$$

$$\text{PBB P2} = 0,2 \times 414,290,000$$

$$\text{PBB P2} = 81,858,000$$

For the calculation of PBB P2 owed:

$$\text{PBB P2} = 0.5\% \times 81,858,000 = 409,290$$

Assuming that the amount of SPPT (tax payment bill/owed) is in accordance with the number of individual farmers, then the amount of tax that may be obtained is as follows:

$$204,468 \times 409,290 = 8,368,670,000.81.$$

The process of property tax collection in Bogor Regency is known to have no significant problems, based on the lack of reports on violations occurring. However, after further inquiries into taxation violations in the collection of property tax, it was found that violations were present. These violations usually stem from the collaboration between government officials and village officers that are difficult to supervise and coordinate. With the burden of officials from the office of regional revenue (Dispenda) and Regional Technical Implementation Unit (UPTD), whose

numbers are limited (1 UPTD for 4 districts, where one district consists of many villages, each having several farmers), it is reasonable that there are flaws in the collection of taxes. In addition, data for Bogor regency associated with the delineation of agricultural land, has not been updated and there are still flaws in the data. Verification of the exact violations stemming from these issues has not yet been conducted.

This notion is further strengthened by the statements of an Officer from the Office of Regional Revenues in charge of the collection of PBB-P2 (Mr. Fahru Rozi), who stated that there were violations, and admitted that generally not all who own a document of taxation pay the taxes due. Surely, the Office for Regional Revenue has tried to minimize this issue including the expansion of these offices in several districts of the Bogor regency through Regional Technical Implementation Units (UPTD). These units still work in coordination with village officers, and hereby lies the base of the issues in relation with property tax collection violations.

Thus, a question arises, is the tax in the Bogor regency just? In the Bogor regency, there is no specific relief to property tax payments for farmers. Even when the NJOP (Taxable Value of Objects) for agricultural lands are already relatively high (50,000-100,000 rupiah). This is caused by the fast development of property in the Bogor Regency. This issue can be a constraint for farmers hoping to maintain their agricultural land and agricultural activities. If tax payments are deemed to be too high when compared to income from agricultural activities, farmers will choose to sell them or change their designation to other more profitable uses. If left unchecked, conversion of land from farmland to property or other uses will accelerate, decreasing the amount of agricultural production and a decrease in the stakes of this vital sector, further threatening food security, and increasing the dependency on imported products.

Groundwater Tax

Data on the use of groundwater in the field of agriculture has not been obtained.

Non-tax Revenues

To this day, indication of non-tax revenues in West Java originate from the Bureau of Quarantine. In 2016, non-tax tariffs have experienced an increase, in accordance with the ministerial regulation no 35 2016. However, data representing the non-tax revenues from this quarantine process is still unavailable. Violations of state revenue from this process likely stemmed from fraud or human error caused by corruption.

This relates to the results of an interview with a farmer, stating that there are fees for the quarantine process in the sales of agricultural products (in this case for export). One of the issues is that the quarantine process complicates efforts to export products where fees are paid to hold up efforts to export.

Income Tax and Value-added Tax (PPn dan PPh)

Income tax and value-added tax are not included in the regional treasury, but are directed into the national treasury.

Reviews of the potential income tax and value-added tax collections in the agricultural sector begin with a discussion on the production of agricultural products. However, the review

conducted focuses on food crops and horticulture because of their high production and the influence on the community's economy. The total area of harvested area producing crops in the Bogor Regency in 2016 consists of 77,088 ha of rice paddies, 713 ha of dry rice fields, 9 ha for corn, 5,319 from yams, and 3,340 ha for sweet potatoes. Meanwhile production of horticulture amassed 19,963 quintals of green onions, 23,521 quintals of red chilis, 8,826 quintals of bird eye chilis, 2,492,962 quintals of mushrooms, 88,754 quintals of long beans, 174,617 quintals of water spinach, 512 quintals of cucumber, 25,547 quintals of napa cabbage, 81,014 quintals of eggplant, 38,284 quintals of tomatoes, 20,576 quintals of carrots, and 87,809 quintals of spinach.

Government regulation No. 31 of 2007 regarding certain strategic taxable goods exempted from value added tax, included agricultural products as one of the goods mentioned. However, a February 25, 2014 Supreme Court Decision granted a plea for judicial review from the applicant *Kamar Dagang dan Industri Nasional* (KADIN) that requires entrepreneurs who in one month reached 4.8 billion rupiah in gross revenue to register their enterprises as taxable.

Crops

The first point of discussion is about the production of food crops. In general, the cycles in crop production such as rice and cassava are as follows:

- Farmer (producer)
- Middle man/*tengkulak* (collector)
- Milling (for rice and cassava)
- Kiosks/wholesaler
- Consumer (restaurants or households)

The object selected for further analysis was rice. In the Bogor Regency, the largest crop produced was rice, and data collection is therefore more accessible and simpler.

Agricultural businesses with gross revenue exceeding 4.8 billion rupiah are generally not run by individuals. Whereas in the Bogor Regency, businesses with such revenue are not generally sole producers, but rather a combination or a group of farmers.

Thus, the business found fulfilling the criteria is PT. Sang Hyang Sri (SHS)

PT. SHS

This company is engaged in the germination of rice seeds, with a production capacity of 75,000 tons. In addition to rice, the company also produces 12,000 tons of soybean seeds and hybrid corn seeds reaching a production of 3,000 tons. PT SHS also produces horticultural seeds in small quantities and has a subsidiary in animal husbandry. Unfortunately, this company, located in Bogor Regency, is only engaged in the pharmaceutical business for livestock. The company produces viral vaccines, instead of seeds. However, this does not rule out PT SHS having farmers as part of the network that supplies its production.

Full annual financial reports of PT. SHS are still being sought. It is expected that from these financial statements it will be found the transparency in tax payments.

Based on the search results on tax evasion issues, to date PT SHS has no issues relating to tax evasion.

Horticultural Crops

1. Farmer (producer)
2. Middle man/*tengkulak* (collector)
3. Packaging and Certification Services
4. Kiosks/wholesaler
5. Consumer (restaurants or households)

The object selected for further analysis was vegetables. In the Bogor Regency, the largest crop produced is vegetables, and data collection is therefore more accessible and simpler.

Agricultural businesses with a gross revenue exceeding 4.8 billion rupiah are generally not run by individuals. Whereas in the Bogor Regency, businesses with such revenue are not generally solely producers, but rather as a combination or a group of farmers.

Thus, the business found fulfilling the criteria is ADS (Agribusiness Development Station).

ADS (Agribusiness Development Station)

ADS (Agribusiness Development Station) is an institution under the coordination of the Tropical Horticulture Study Center of the Bogor Agricultural University (IPB IPH) that disseminates knowledge, technology, and innovation in the field of horticulture agribusiness in accordance with the Decree of the Head of Center for Tropical Horticulture Research Institute of Research and Community Service Bogor Agricultural University No. 005 / IT3.11.21 / TU / 2015. ADS IPB is an independent autonomous unit in carrying out its operational activities.

ADS can be seen as a cover for the businesses of organic vegetable farmers that are supervised directly under IPB:

- a) The amount of property tax paid by ADS specifically for their land is unknown, this is because in general ADS is under the auspices of IPB (IPB holds ownership of the land as well as its business rights), property tax payments are conducted under the management of IPB.
- b) ADS has certification for vegetables. ADS is a collection of farmers in the local area and farmers around Bogor that produce organic vegetables according to these certification standards. This organic certification costs 10 million rupiah, all farmers under the cover of ADS are given the right to use the certification.
- c) Processes conducted range from the production, post-harvest, until packaging. This is done to protect the price of vegetables. Some farmers often experience price fluctuations because of the lack of harvesting arrangements for production leading to an alternative to sell organic vegetables for prices that are stable.
- d) The turnover of ADS is estimated to be around 5 billion per year with assets valued at more than 1 billion rupiah (1 green house, land, 1 office and management center, jambu plantation area, etc.).
- e) ADS is an obligated taxpayer. However, ADS itself is not a legal entity and therefore has no tax identification number (NPWP). ADS is a group consisting of 20 farmers. When asked whether farmers in ADS had NPWP? Frankly, farmers in ADS generally do not have NPWP. There is no administrative requirement of NPWP for farmers and therefore are not obliged to have NPWP. This can be an indication of a violation of income tax and added-value tax laws if the farmer earns more than 4.8 million rupiah per month.

Tax Evasion

In general, farmers interviewed claim to pay property taxes. A farmer named Ramadhan Nur Iman who lives in the district of Dramaga and owns and manages a rice field of 1,000m². He described the taxes or legal levies he had been exposed to while in the agricultural business. He receives a bill for his farm and income tax on personal entrepreneurship with a turnover of less than 4.8 million (he owns a tax identification number).

Mr. Ramadhan has not been charged by the government with payments for seed or nursery for non-tax revenues, he believes the cost is covered by the shop/place of production. He said that any collection of fees made by the government takes place during certification, which does require a fee to the institution/Department of Agriculture.

During this process, the interviewee talked about the property tax being collected by the head of the neighborhood under the direction of the village apparatus. Annual notices of tax (SPT) from the village are distributed through neighborhoods and billed to each individual landowner. Mr. Ramadhan pays income taxes because of his ownership of a tax identification number (NPWP) which was required when he participated in a competition that required him to have one. He considers that there is no coercion to having an NPWP and paying income tax, and no strong sanctions when he fails to do so. This can be an indication of tax evasion of business actors who are subject to the payment of these taxes but fail to do so.

He also owned a stock keeping unit (SKU) for the production of vegetables. The production of the SKU was free of charge.

The next interviewee was a farmer by the name of Hidayat. Mr. Hidayat has been farming for 40 years and lives in Ciaruteun Ilir with his own farmland areas amounting to 6,000 m². Pak Hidayat produces rice, and organic and non-organic vegetables. He is also the chairman of a local farmers group called Gapoktan Mirasa in Ciaruteun Ilir Village.

When asked about taxes, he revealed that he only paid property tax amounting to 600 thousand rupiah per year. When he was asked about whether he is often billed by the agency for seeds or other things, he replied no. He usually even receives assistance for seeds from ADS, specifically for the development of organic vegetables. According to Pak Hidayat, there are no levies from the government, even when the local agriculture department or the district government provides assistance in the form of expire, tractors, pumps, or other forms of assistance. There were no requests for gratification payments, only a request for a proposal (even for Pak Hidayat's case, having a good relationship with these officials, and also being the chairman of Gapoktan, the proposal can be submitted afterwards). When he was asked about the tax identification number (NPWP), he revealed that didn't possess a NPWP and that most likely the farmers in his village did not have NPWPs either. The absence of requirements for them to have a NPWP, meant that they had no interest in obtaining one. In general, farmers are only required to pay property taxes and ownership of a NPWP depended on their respective awareness. This is an indication of tax evasion because Pak Hidayat's monthly revenues exceeded 4.8 million rupiah.

One person like Mr. Hidayat, can receive a net income of five to ten million rupiah per month, taxes that can be potentially obtained from that income is around 171,000 to 1,000,000 per month. If these numbers are multiplied for 1,000 farmers, then the losses in revenue from incomes taxes amount to 171,000,000-1,000,000,000 rupiah per year.

However, it should be noted that taxes must be manageable and reasonable for farmers. According to Mr. Hidayat, farmers in his village already know the market price, do not deal with middleman, and are able to deliver their own harvest and sell it in the market. Such farmers should be the target of taxes: successful agricultural business actors who already have a separate sales system to determine their price. This is to guarantee taxes will not be a burden for such targeted actors. Farmers like these can take direct profits and it is hoped that taxes will be paid from these profits.

Non-tax Revenues

All processes such as permits are not charged a fee.

Modes

Illegal Fees: Largely absent, except for 'exhaustion' money when arranging permits or letters (SKU, HGU, etc.).

Corruption:

Mode of procurement corruption are conducted by fake farmer groups submitting proposals for aid, ranging from the procurement of tractors, electric generators, fertilizer, and other agricultural assistance. In addition to the corruption committed by small farmers, or agricultural households, there are modes of corruption perpetrated by large agricultural business actors. Although this is still unconfirmed and has few indications, but this can be an example.

In addition, there are also corruption modes by state owned enterprises. Corruption was conducted through the use of business rights owned by PT. Sang Hyang Seri Regional Office 1 Sukamandi as breeder of seeds, as part of unfair actions against thousands of farmers in Subang, West Java. One of its basis is the Decree (SK) of President Director (CEO) of PT. SHS Persero which was issued on 02 October 2015, Number; 221 / SHS.01 / Kpts / X / 2015 regarding the utilization of company assets in the form of rice field business rights certificate number 02 BPN Subang Year 2009 on behalf of PT. SHS KR 1 Sukamandi covering 3,326,713 hectares (ha) with a rent system valued at IDR 10 million to tenant farmers covering an area of 2,200 ha and the remaining total area is leased to entrepreneurs at IDR 12.5 million per ha per season with payment in two stages, 50% during planting season and 50% at harvest time arrives and for Produksi Benih Sentra (PBS).

This decree was then used in performing legality by farmer rayons to organize transactions that harm farmers and the taking of their quotation letters under the pretext of paying off rent, whereas officials of PT. SHS did not require farmers to pay off rent using quotation letters. Farmers then experienced complications in retrieving their quotation letters back and were only given photocopies of their letter. As a result, farmers found it difficult to do other business related to their own farmland. This is a form of colonialization in the modern era. This pillaging of rights is detrimental to farmers and to the community, in general.

A case of PT.SHS corruption in West Java also occurred in 2012-2013. The corruption took place in the management of funds for the improvement of corporate-based food production (P3BK) in PT Sang Hyang Seri (PT SHS) (Persero) during 2011-2013 in a number of regions in Indonesia conducted by unscrupulous employees and branch heads. In West Java, the branch Head of PT. SHS Sukamandi became the main suspect. State losses due to corruption reached tens of billions of rupiah. Based on the information that was unearthed, corruption occurred because of the

improper distribution of funds for partnership program and environmental assistance (PKBL) from PT Pelindo.

2.3. Central Java Province

Central Java is an Indonesian province located in the central part of Java Island. Its capital city is Semarang. The province is bordered by the West Java province in the west, the Indian Ocean and Yogyakarta Special Region in the south, the East Java province in the east, and the Java Sea in the north. It has an area of 32,548 km², or about 28.94% of the total area of Java Island. The Central Java province also includes Nusakambangan Island in the south close to the border of West Java, and Karimun Jawa Island in the Java Sea.

The district representing Central Java in the delineation area of the survey is the Kendal Regency. The consideration for the selection of this district is because of its various agricultural businesses which are accessible to the assessor.

Based on the temporary figures of the Agricultural Census of 2013, the number of agricultural enterprises in Kendal regency consists of 109,627 managed by households, 31 managed by agricultural enterprises incorporated as legal entities and 29 are managed by non-households and non-legal entities. The Patean, Sukorejo, and Singorojo Districts have highest number of agricultural households, with 10,313 households, 9,635 households, and 8,954 households, respectively. Meanwhile the Kaliwungu district has the smallest number of agricultural households with 1,661 households. The largest number of agricultural businesses in one district was located in the Limbangan district with a total of 6 businesses, while on the other hand, the five other districts had only one agricultural business that are the districts of Pageruyung, Rowosari, Cepiring, Patebon, and the city of Kendal. Agricultural businesses that were non-household or non-legal entities were mostly located in Kaliwungu and Cepiring, with each having 7 such businesses. Meanwhile, businesses classified as such were found the least in the Sukorejo and Weleri Districts, each having one unit.

Tax Violations and Losses in State Revenue

Property Tax - Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan/ PBB-P2*)

Property tax (PBB) is a tax imposed on property (land or buildings) owned, controlled, or exploited. The legal basis for the imposition of PBB by the regional government is found in Law No. 28 of 2009 on Regional Taxes and Levies. The local government only collects PBB from rural and urban areas, while PBB from the plantation, forestry and mining sectors is managed by the Directorate General of Taxation (DJP). Land in the form of fields and paddy fields for agriculture goes into the PBB-P2 scheme.

The data obtained on property tax in the Kendal Regency only included actual revenue collections. The latest data compiled in 2013 by the Central Bureau of Statistics (BPS), showed that in the Kendal Regency the amount of property tax collected was 26,538,246,000 rupiah. In 2015, based on data from the property tax services unit of Kendal regency, the amount collected decreased to 23,944,744,278. Actual collections of these taxes were 77% of the initial goal.

Based on the report of *Radar Pekalongan* by the Regional Asset Revenue Management Office of Kendal, Tavip Purnomo, it is reported that the collection of property taxes has stalled. The due

date of all PBB in Kendal was in the month of September, but actual collections only amounted to 27% of projections. One issue is in the collection process, the billing officer has no incentive to engage in billing (lack of gratification), and many landowners who are not residents of Kendal make it difficult to collect their respective taxes owed to the regency. Highest realization achieved was 80%, thus creating an assumption that the violations of property tax amount to a 20% loss of the targeted number set.

Most of the contributors to the property tax are local farmers. There have been no indications of significant problems with their payments and, in general, they pay their due after receiving their revenues from their crop production.

So far, based on the Central Bureau of Statistics data, Kendal regency is divided into several types of land consisting of areas of paddy field at 259.64 km² and moor area of 213.13 km².

Income Tax and Value-Added Tax (PPH dan PPn)

Government regulation No. 31 of 2007 regarding certain strategic taxable goods exempted from value added tax included agricultural products. However, on February 25, 2014, a Supreme Court Decision granted a plea for judicial review from the applicant *Kamar Dagang dan Industri Nasional* (KADIN) that requires entrepreneurs who in one month reach 4.8 billion rupiah in gross revenue to register their enterprises as taxable.

The following is a list of companies estimated to have a monthly gross receipt of 4.8 billion:

1. PT. SHS

This company is engaged in the germination of rice seeds, with a production capacity of 75,000 tons. In addition to rice, company also produces 12,000 tons of soybean seeds and hybrid corn seeds reach a production of 3,000 tons. PT SHS also produces horticultural seeds small quantities and has a subsidiary in animal husbandry.

PT. SHS is in the working area of the Central Java Province, regional office II. PT.SHS Central Java so far has no problems with their payment of income tax or VAT. However, it has had problems with corruption.

2. Plantera Fruit

Agro Tourism Ngebruk Patean Fruit Farm in Kendal Central Java, also known as Plantera Fruit Paradise. As in Mekar Sari, visitors to Ngewuk Patean Agro Tourism can tour the farm using vehicles that have been provided and to see various kinds of tropical fruit trees grown in this orchard. Visitors are also allowed to pick fruit grown in the orchard.

Fruit cultivated in Agro Wisata Ngebruk Patean ranges from montong durian, lokih itoh, dragon fruit (Red Dragon), Srikaya Grand anona, rambutan Binjai & Ropiah and rose apple Citra. Agro Wisata Ngebruk Patean is managed by PT. Cengkeh Zanzibar whose main product is cloves. In 2000 PT. Clove Zanzibar developed its business by cultivating various tropical fruits.

Based on an interview with the Department of Agriculture of Kendal, Plantera Fruit is not known to have paid local tourism taxes. In this case, there is a possibility that plantera fruit needs to be

audited. An annual report is also required to find out whether Plantera Fruit is indeed paying their taxes.

Tax Evasion

Property Tax: Landowners owe property tax. Therefore, farmers who borrow land for agricultural activities are not subject to these taxes. However, this can be an indication of tax evasion, the billing system in the field in Kendal Regency is still weak, farmers who do not want to pay taxes can give the reason that the land used is wholly or partly rented.

Income Tax and Value-added Tax:

PPh dan PPn: The number of farming business run by local individuals is not large, in addition, the amount of land exploited is limited. Whereas the largest contribution to production originates from large companies in the Singorojo district such as PT. Djomblang, Plantera Fruit, and others.

1. PT. Djomblang:

PT Djomblang is a subsidiary of PT. Cengkeh Zanzibar with its main production being dragon fruit, lengkeng, rambutan and srikaya. This company owns cultivation rights (HGU), therefore probably paying for permits and property taxes but with unknown amounts. Tax revenues of the state tend to be small, for example for the permit of one ha of land given cultivation rights (HGU), is 150.000 rupiah for 25 years. Unknown turnover.

This company has 70 employees (8 staff, 17 security, and 45 field workers). The assumption is, with its ownership of cultivation rights, there are other permits that it submits (but the knowledge of such fees is still unknown). Area of land owned reaches 212 ha. Based on the calculation of fruit sales, results estimated turnover of this company is: 1.4 billion rupiah per year from fruits. The amount is less than the 4.8 billion limit of agricultural companies that are obliged to pay PPh and PPn.

2. Red Onion Farmers:

The next interview held was with an onion farmer who was also the head of a local farmers group. In one year, an onion farmer harvests crops one to two times. Local farmers can only plant seeds in accordance with their limited landholdings. The cost of renting land for one planting season can reach IDR 12,000,000 per ha. The production cost of onion farming for 1 ha is IDR 45,000,000 - IDR 155,000,000 including seeds. One hectare of land needs around 1.5 tons of shallot seeds with prices ranging from IDR 35,000– 45,000/kg. One hectare of land produces 10 tons of Red Onion with an average selling price of 13,000/kg depending on the fluctuation of market prices. 65 hectares of land is exploited where one hectare is managed by three farmers who take 1/8 share of total revenues. From the above information it can be calculated the net yields received by onion farmers are: $((13,000 \times 10,000 \times 65) - (145,000,000 \times 65)) : (8 \times 65 \times 3) = (\text{mines})$. This amount is less than 4.8 million per month, so these onion farmers are not obligated to pay taxes.

The red onion farmers, managed by entrepreneurs from Brebes, immediately sell their product to the central market in Jakarta. Sales of onions managed by local farmers are accommodated by middlemen. Indications of tax evasion are not expected by the producers, since their profit is relatively small. Tax evasion on the part of distributors and sellers is more likely because it is

more likely that they have revenues exceeding 4.8 million month and are therefore subject to taxation.

Modes of Corruption

One of the forms of corruption conducted by PT. Djomblang is by planting in areas outside of the areas permitted by their HGU or cultivation rights. This starts from the markup of the number of crops planted, allowing for planting in non-HGU permitted land. Most of the workers employed come from outside the region, and their numbers are not proportional to the vast area of land exploited. This causes labor to be intensive, but with low wages. In response, local people have tried to find work outside of this region in hopes of better pay.

The case of corruption in PT.SHS in Central Java occurred in 2012-2013, however the mode of corruption can last until several years later if a restructuring is not applied. The corruption that took place is in the management of funds to improve of corporate-based food production (P3BK) conducted by unscrupulous employees and heads of branch. In Central Java, the Branch Head of PT. SHS Pati and Employee of PT SHS Pati became the main suspect. State losses due to corruption reached tens of billions of rupiah. Based on the information that was unearthed, corruption occurred from the improper distribution of funds for the partnership program and environmental assistance (PKBL) received from PT Pelindo.

2.4. East Java Province

East Java is a province located in the eastern part of Java Island, Indonesia. Its capital is in Surabaya, with an area of 47,922 km², and a population of 44,176,759 inhabitants. East Java has the largest area among the 6 provinces in Java Island, and has the second largest population in Indonesia after West Java. East Java is bordered by the Java Sea in the north, the Bali Strait in the east, the Indian Ocean in the south, and Central Java Province in the west. East Java also includes Madura Island, Bawean Island, Kangean Island, and a number of small islands in the Java Sea (Masalembu Islands), and the Indian Ocean (Sempu Island and Nusa Barung). East Java is known as the center of Eastern Indonesia, and has a high economic significance, which contributes 14.85% of the national Gross Domestic Product.

The Tuban Regency was chosen as the object of further analysis and to represent the East Java, this selection considered the vast areas of agriculture located in Tuban.

Based on temporary data from the 2013 Agricultural Census, the number of agricultural enterprises in Tuban regency consists of 200,022 managed by households, as many as 38 managed by agricultural companies incorporated as legal entities and 21 are managed by non-households and non-corporations. Soko, Semanding, and Kerek have the highest numbers of agricultural households with 16,964 households, 16,564 households and 14,487 households, respectively. Meanwhile, Tuban sub-district is the region with the smallest number of household farming businesses, with 3,688 households. The largest number of agricultural companies in one district was in Bancar district, with 5 companies, with the smallest number located in the in Montong, Jenu, Kerek, and Tambakboyo Districts with each having one business. No agricultural companies were found in the Districts of Kenduruan, Parengan, Grabagan, Widang, and Semanding. While businesses classed as non-household and non-legal entities were mostly found in the Plumpang District with 14 units found.

Tax Violations and Losses in State Revenue

Property Tax - Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan/ PBB-P2*)

Property tax (PBB) is a tax imposed on property (land or buildings) owned, controlled, or exploited. The legal basis for the imposition of PBB by the regional government is found in Law no. 28 of 2009 on Regional Taxes and Levies. The local government only collects PBB from rural and urban areas, while the PBB from plantations, forestry, and mining sectors is managed by the Directorate General of Taxation (DJP). Land in the form of fields and paddy fields for agriculture goes into the PBB-P2 scheme.

As reported, taxed objects in Tuban reached 676,526, with its potential reaching IDR 28,104,660,029. This number increased by 28 percent from the previous year's property tax projection of IDR 21,926,242,080. Until October 2016, there were 9 villages that have paid off their property tax for 2017. The districts that have paid-off property tax, among others are the districts or villages of Bulumeduro, Bancar, Sumber, Merakurak, Kebonharjo and Sidomulyo, Jatirogo, Kendalrejo, Soko Kowang, Prunggahan Wetan, Semanding, Ngadipuro, Tegalrejo, and Widang according to data from the Head of BPPKAD Administrations of Tuban, Syamsul.

Actual collections of 2016 property tax revenue exceeded one hundred percent of the original target. In 2016, property tax revenues realized reached IDR 24.8 billion, exceeding its initial target of IDR 21.4 billion. This target is obtained from 676,555 taxed objects based on data from the Regent of Tuban, Fathul Huda. He stated and hoped that in the future property tax could become one of the mainstay sources of local revenue in the Tuban Regency. In return, the management and implementation of property tax must be balanced by services that are beneficial towards the needs of the people.

However, with such high achievements, it turns out the Tuban Regency has not been able to handle all the potential property tax revenues collected and indications of violations and losses are still present. This is revealed based on the evaluation of the intensification team, local revenue in Tuban Regency received from the central government showed that there is still the potential for increasing revenues and projections need to be adjusted, such as the tax object selling value that is still far from market value. The sale value of tax objects that are far from the ideal market value can be an indication of tax leakage and losses the in Tuban Regency. One way to overcome this is through regulation. Tuban Regency has issued regional regulations (Perda) of Tuban Regency No 4 of 2012 on Property Tax (PBB-P2) which was established on 27 April 2012 and implemented on 1 January 2013. The ideal selling value of taxed objects comes from calculations that are in this regulation.

Agricultural land based on the Central Bureau of Statistics (BPS) of Tuban Regency is divided by paddy field farming, huma agriculture land, farm field and unexploited agricultural land areas of 55,739 ha, 69,638 ha, 175 ha and 0 ha respectively. Based on the above information it can be concluded that there are potential property tax revenues yet to be tilled, from this argument there is certainly an indication of tax leakage in the agricultural area as well. Only, the amount is unknown.

Income Tax and Value-added Tax

Government regulation No. 31 of 2007 regarding certain strategic taxable goods exempted agricultural goods from the value added tax. On February 25, 2014, a Supreme Court Decision granted a plea for judicial review from the applicant *Kamar Dagang dan Industri Nasional* (KADIN) that requires entrepreneurs who in one month reached 4.8 billion rupiah in gross revenue to register their enterprises as taxable. Thus far, there is no information on companies meeting these criteria.

Non-tax Revenues

All licensing of one-door agriculture companies is conducted in the One Door Integrated Permit (PTSP) of Tuban Regency, so the Department of Agriculture only addresses situations related to business quality. All services are free of charge, so non-tax revenues from permits are absent. Agricultural enterprises, which are generally rice mills, are not subject to levies for licensing as well, as per the Regent Regulation.

Tax Evasion

Based on the results of field investigations, there are agricultural businesses with a land area of 25 ha and above and with workers exceeding 10 people. A nursery and planting business with an area of 1.5 ha of land, with a total of 15 workers, started in 1995. However, this business named Agro Raya has no legal entity, business license, or NPWP. With nursery capitals of IDR 40,000,000, current monthly income reaches IDR 100,000,000.

From this information, the business' gross income is calculated at approximately 1.2 billion per year, still less than 4.8 billion per year, and therefore not subject to taxation. However, it may be subject to taxation based on the individual's income. More data is needed on other business actors. In addition, there are rice farmers earning 100 million per month. These farmers do not have a tax identification number (NPWP), therefore indicating tax evasion.

Calculation:

Net income stood at 1.2 billion annually; 1.2 billion of which is deducted from non-taxable income of IDR 26,325,000, the result is IDR 1,173,675,000. The next step is to calculate the tax liability, which is $5\% \times \text{IDR } 50,000,000.00 + 15\% \times (200,000,000) + 25\% \times (250,000,000) + 30\% \times (1,173,675,000 - 200,000,000 - 250,000,000 - 50,000,000) = 297,102,500$ rupiah.

Thus, in one year, this person would be required to pay a tax of 297,102,500 rupiah. The money is one sample of lost state income. In Tuban, farmers like this are not many. However, seeing the amount of tax lost, there should be government efforts to check for NPWP ownership for large agricultural business actors who have become subject to these taxes.

Modes of Corruption

Indications of Corruption: Rice entrepreneurs usually try to stockpile rice stocks to make prices rise. Further research needs to be conducted on its practice, and the disadvantages it has for the community.

2.5. West Nusa Tenggara Province

West Nusa Tenggara is a province located in the Lesser Sunda cluster. This province is commonly abbreviated as NTB and consists of 10 districts/cities. The province of West Nusa Tenggara

consists of 2 large islands of Lombok and Sumbawa and is surrounded by 280 small islands. The total area of NTB province is 49,312.19 km² consisting of land area of 20,153,15 km² (40.87%) and sea area of 29,159,04 km² (59.13%) with a 2,333 km coastline. Sumbawa Island has an area of 15,414.5 km² (23.51%).

The East Lombok Regency was selected to represent the NTB province, largely because of its diverse and leading history of agricultural activity (and at one time becoming the leader in Indonesia), specifically in the Sembalun District. This district has been a leader in the production of horticulture in the form of garlic during the era of President Soeharto. Until now, the Sembalun District possessed very high potential to be developed as an agro-industry region because of its many agricultural products such as carrots, potatoes, strawberries, onions, and garlic. The southern region of East Lombok regency produce tobacco and is also the largest tobacco producer in West Nusa Tenggara.

Tax Violations and Losses

Property Tax - Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan/ PBB-P2*)

Property tax (PBB) is a tax imposed on property (land or buildings) owned, controlled, or exploited. The legal basis for the imposition of PBB by the regional government is found in Law No. 28 of 2009 on Regional Taxes and Levies. The local government only collects PBB from rural and urban areas, while the PBB of plantations, forestry and mining sectors are still managed by the Directorate General of Taxation (DJP). Land in the form of fields and paddy fields for agriculture goes into the PBB-P2 scheme.

Based on the presentation of the Secretary of Revenue, Management of Finances and Assets in East Lombok, Iswa Rahmadi, until now, actual collections of regional tax in East Lombok has not reached its target. With a target of IDR 45,804 billion, collections have only reached 75 percent of the target, approximately IDR 34,459 billion. In Lombok Timur, revenue from property tax is among the lowest, achieving only 50 percent of its target. The target for property tax in 2017 was IDR 12.85 billion, with only IDR 6,485 billion having been realized. So far restructuring of property tax collections has not occurred.

In reality, agricultural land in East Lombok Regency is quite large. Agricultural land based on the Central Bureau of Statistics show that East Lombok Regency is divided based on wetland farming land, and non-rice field farming with 47,763 ha, and 94,365 ha, respectively. However, this does not guarantee a large amount of tax revenue, especially in East Lombok, where the infrastructure for billing has yet to be updated.

Additional Information:

- Agricultural lands receive an exemption for being able to modify documents relating to tax policies, therefore being able to minimize taxes owed.
- Based on property tax regulations for East Lombok, there is no groundwater extraction tax. This also applies to all districts in NTB.

Income tax and Value-added Income (PPH dan PPn)

Government regulation No. 31 of 2007 regarding certain strategic taxable goods exempted agricultural products from the value added tax. On February 25, 2014, a Supreme Court Decision granted a plea for judicial review from the applicant *Kamar Dagang dan Industri Nasional* (KADIN) hereby requiring entrepreneurs who in one month earn 4.8 billion rupiah in gross revenue to register their enterprises as taxable

Farming (food crops and horticulture) plantation companies so far are not present in NTB. The local government continues to promote production with the hope that large-scale private sectors would be willing to invest in agricultural processing, but this has thus far failed. In Lombok for example, with agricultural production such as corn available, it was expected that an animal feed factory was built, but thus far has not succeeded. The same is true for corn, as investors are not entering the area. In Dompu (Sumbawa Island) there is now progress with the existence of a sugar factory that sources sugar cane from local farmers. Post-harvest management companies have bought raw ingredients from NTB.

So far, several companies have entered Sembalun (East Lombok), but have not yet started production. They have developed a partnership and provided guidance to farmer groups but do not conduct their own production. PT. Indofood which focuses on potatoes in Sembalun, partnered with farmer groups by providing seeds and fertilizer, but in general buys the produce of farmers. There have not been processing operations, as raw ingredients are transported out of the island. There are several technical implementation units (UPTs) in NTB Provincial PP Offices that conduct production activities and contribute either in providing non-tax revenues or local revenue in the form of donations from third parties.

In general, there is an absence of companies with a net income of 4.8 billion in NTB. Revenues in the form of income tax and VAT imposed on farmers are almost non-existent. Income tax and VAT are only imposed on the managers of food management industries.

Non-tax Revenue (PNBP)

There are PNBPs originating from certifications granted by the central government. The government provides funds in the amount of IDR 200 million. UPTD conducts certification, then after UPTD produces 10 tons of seeds, it will be distributed to farmers. Further distribution takes place as 5 tons generated by UPTD from sales is submitted to the central government in the form of money. The proceeds are all handed over to the central government, not to the farmers. In addition, when the UPTD has sold the seed to the breeder, then the rest of the money must be handed over to the central government. If not sold, the goods must exist. The amount is based on Government Regulation 35/2016 on non-tax revenue.

There is a seeding mechanism and certification scheme for horticulture. However, for now, horticulture and certification of horticulture have not yet generated non-tax revenue.

Horticultural seeds are managed in the Parent Seed Center (BBI). Its development empowers small farmers and entrepreneurs in the field of horticulture. There is a certification of horticulture such as in food agriculture, but it is still not maximized. The horticultural crops developed by the hatchery are garlic, onion, chili, and fruits. It is in the Seed Hall in Narmada Sembalun Regency headed by Mrs. Arlita. For certification of horticultural crops there is Mr. Wardi at the Food Crop Certification Center (BSTP), located in Narmada next to BBI.

Development of horticultural seeds is not massive like food crops. However, the progress is good because of its potential in East Lombok.

The sole source of non-tax revenue in East Lombok Regency comes from the sale of certified seeds for food crops. In 2017, the department of agriculture had a target of 1.2 billion rupiah for non-tax revenues from the planting of certified seeds. The projected revenue would originate from seed breeders who would be trained to fulfill certain requirements.

One part of the Department of Agriculture that creates certified superior seeds is the Technical Implementation Unit, BBI (Parent Seed Center) Rice Farming. BBI managed 32 hectares of land in Narmada to produce certified superior seeds. Certification was implemented with labels on the seed packaging. There were white and purple labels. Purple labels were used for production. Through the process of captive management, white seeds could be produced from purple labeled seeds. Seeds with white labels were produced from breeding in the research and development labs.

Seed breeders cannot sell seeds indiscriminately, the breeder can only sell the seeds with purple labels. Seeds with purple labeling are sold in 2 kg packs and can be purchased at BBI or seed showrooms. The target seed sales are now about IDR 1.2 billion from the allocated regional budget of 400 million. Specifically, for the Lombok Timur regency, until 2016, there are no longer any programs for the provision of seeds from the central government thereby no more deposits of non-tax revenues to the central government.

Tax Evasion

Agricultural and plantation permits are no longer administered by the Department of Agriculture. All permits are now administered through NTB's Provincial Investment and Licensing Service Department (DKPMPT), while the Department of Agriculture only provides technical recommendations. Value-added tax for agricultural products is administered by the tax office without any coordination from the Department of Agriculture.

There is no separate data on property tax for the agricultural sector. The tax office does not coordinate with the Department of Agriculture of NTB, although there may be coordination with the district government.

Farmers began planting Atlantic potatoes in partnership with PT. Indofood around 2006 or 2007. To participate in this partnership, farmers must register as members of the Horsela Farmer Group (Hortikultura Sembalun Lawang) at a fee of IDR 100,000. In essence, the company communicates with the Horsela Farmers Group and individual farmers communicate with Horsela Group's management.

The form of the partnership is as follows: farmers receive seeds, fertilizers, and medicines from the company. These materials are at first indebted and are afterwards, are paid-off at harvest. Seeds are known to be imported from Scotland and Australia. Farmers also provide land for planting potatoes and the labor to cultivate the product. This partnership was found to be quite helpful because it provided the capital to grow potatoes. This partnership is interesting because PT. Indofood is obligated to buy the produce. One quintal of seeds produces 13 quintals of potatoes. This ratio is what determines whether the harvest is profitable. However, in reality, the results may vary. What needs to be emphasized is that the success of planting potatoes is 70

percent, but it is very dependent on seed quality. If the seeds are of bad quality, no amount of fertilizer or medication can produce a good harvest.

Details of the cost for planting one quintal of potato seeds in the partnership scheme:

- capital for seeds: IDR 1,350,000.
- one quintal of fertilizer: IDR 250,000.
- Bokashi: IDR 70,000.
- Medication: IDR 800,000.
- Soil processing: IDR 200,000.
- Revenue from one ton: IDR 5,000,000.

In terms of income, excluding labor provided for planting and leasing of land, in the three months of planting to harvest the income of farmers only reached IDR 4.5 million or around IDR 1.5 million/month. Expenditures on medicine are getting larger because of rising prices, as are the price of seeds, while the selling price of potatoes to the company has increased relatively little. Therefore, farmers have chosen to switch to growing vegetables, which have also been introduced by the Horsela farmer group.

Seed breeding has already started. Farmers have already had installations built for captive breeding, but are still limited to producing *G nol*. *G nol* is still prohibited for planting. This term originated from the research lab where its use is still experimental in greenhouses before it can be allowed to be planted in rice fields.

The partnership with Indofood only takes place for the provision of seeds and the resale of the product. Farmers are paid after harvest. Simply put, Indofood acts as the market and the company provides seeds so that the harvest of all the potatoes are in accordance existing criteria. Prices are usually determined beforehand, and are evaluated every two years. Under normal circumstances this partnership can be quite profitable because seeds are difficult to obtain, and subsidized fertilizers can be used.

Farmers have also moved into the production of vegetables because they are considered to be profitable. This is because of the market's willingness to absorb these vegetable products. Although prices fluctuate, most consider planting vegetables to be beneficial, because of the high demand. In addition, the capital needed to produce vegetables is relatively small, around 200,000 to 300,000 rupiah, thus there is little risk. Vegetables from Sembalun are distributed by collectors to the Mandalika Terminal (Mandalika Market) in Bertais-Mataram City, Paok Motong (East Lombok) and even to Sumbawa Island. So, in addition to some vegetables from Java, vegetables from Sembalun support the needs of residents in Lombok Island and Sumbawa Island. Production of vegetables only requires a small area of about 1 to 2 acres (5 beds). Farmers do not plant more than that, because the demand that can be absorbed by the market is limited.

In general, there are no indications of tax payments from vegetable farmers and their middlemen. Since producers only generate an income of 1.5 million rupiah per month, then the producer is not a taxpayer. So is the case with middlemen, although there is no data on their income.

Modes of Corruption

Corruption: These indications of potential corruption must be analyzed thoroughly. In general, government subsidies and the procurement of production facilities such as fertilizer are vulnerable to corruption in procurement. Farmers take the advantage of potato production for use in corn production or other agricultural products. However, it is difficult to find the evidence because no system is harmed by such activities, and thus it cannot be defined as generally accepted corruption.

Other modes include the mismanagement of cultivation rights where the owner of the rights loans out land that was permitted to them. Ideally, the owners of such rights are required to manage lands personally.

Illegal Fees: No indications of such practices have been found.

2.6. East Kalimantan Province

Administratively, the East Kalimantan province is bordered by the North Kalimantan Province in the north, with several sections bordered by the Makassar Strait and Sulawesi Sea, and the South Kalimantan Province in the South. East Kalimantan has a land area of 127,267.52 km² and sea area of 25,656 km². Geographically it is located between 113°44' and 119°00' East Longitude and between 2°33' and 2°25' South Latitude.

Kutai Kartanegara was selected to represent this province because of its large area of agricultural activity.

Based on data from the Agricultural Census of 2013, agricultural businesses in this regency consisted of 56,093 agricultural households, 22 businesses that are identified as legal entities, and 5 businesses classified as non-household and non-legal entities. Samboja and Tenggarong Seberang had the largest number of household agricultural businesses with, 5,749 and 5,289, respectively. Meanwhile the Sanga-sanga District had the lowest numbers with 704 agricultural households. The Tenggarong district had the largest amount of companies with 10, and the Muara Kaman district not far behind with 8 companies. Meanwhile, businesses identified as non-household and non-legal entity, were mostly found in the Kembang Janggut District with five, followed by Sebulu and Sanga-sanga with two and one, respectively.

Tax Violations and Losses in Revenue

Property Tax - Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan/ PBB-P2*)

Property tax (PBB) is a tax imposed on property (land or buildings) owned, controlled, or exploited. The legal basis for the imposition of PBB by the regional government is found in Law No. 28 of 2009 on Regional Taxes and Levies. The local government only collects PBB from rural and urban areas, while the PBB of plantations, forestry and mining sectors are still managed by the Directorate General of Taxation (DJP). Land in the form of fields and paddy fields for agriculture goes into the PBB-P2 scheme.

Through August 2016, revenues = 834,625,595 million rupiah while projected revenues equaled 1,750 billion rupiah, meaning that the revenues received by the Kukar regency only amounted to

40% of the targeted number according to data from the Secretariat of the Department of Regional Revenues, Kukar Regency.

Until now, the main issue with the management of property tax in Kabupaten Kukar was participation in management. The regional secretariat of Kukar regency has called for the nine technical implementation units in various districts of Kukar to be more proactive in carrying out their duties. With this in mind, officials who achieve the property tax billing targets are incentivized. Both programs will start in mid-2017.

In the middle of the year, early steps to calibrate the data and NJOP (Taxable Value of Objects) determinations based on SK Regent NO 144/SK-PUP/2017 were applied to establish tax notifications for property tax. In total, 33,562 notification sheets were printed.

The process of printing out these tax return sheets was coupled with other steps. The delivery of these notifications was conducted by technical implementation units, assisted by members of the officials from each district, village, and neighborhood. Afterwards, the entering of property tax deposits was conducted through Kaltim banks of each district, or through the Department of Regional Revenue of Kukar Regency. Finally, there was monitoring, evaluation, and reporting to the government.

The main issue hampering the achievement of revenue targets is the availability of data. Data concerning property tax must be updated, including data collection on land delineations (borders, extent, amount owed in taxes). Such updates should include the evaluation of the data's validity. The validity of data will increase the accuracy of the amount of taxes that are owed and paid to every village district or city. This assumes that, if until now there is no valid data, a lot of potential taxpayers may not be aware and tax leaks may occur.

Based on the Central Bureau of Statistics data, Kutai Kartanegara consists of land classified as paddy fields, and dry fields with each having an area of 34,002 and 4,000 ha, respectively. Based on information from the UPTD of agriculture, there are actually 22,800 hectares of functional land with a projection of 42,000 hectares of wetland and 10,000 hectares of dry land. Not all of these lands have tax referral notifications assigned to them. Updated information would significantly assist the effort in the collection of taxes from agricultural lands.

Income Tax and Value-added Tax (PPh dan PPn)

Until now, the presence of agricultural business with 4.8 billion rupiah in net income operating in Kukar or in East Kalimantan has not been known. Previously, there was PT Perusda, PT Pertani, and PT SHS. However, all that remains now is PT. SHS.

Non-tax Revenue

Non-tax revenues in Kukar are largely obtained from the seed hatchery process. In Kukar, the villages that have become examples of hatcheries and farming are the Karang Tunggal Village and Separi Village in the Tenggarong Seberang District. These two villages are home to two breeders known to be experienced in the field of seed hatchery. In Karang Tunggal desa there resides Mr. Tugio, and in the Separi village there is Mr. Basari.

In general, all calculations relating to the business of seed hatchery use the price of seed from the breeding agency (BPSD)

- *Pure/ready to plant Seed* = IDR 9,000/kg

These seeds are the first offspring of the developed rice varieties. This seed is the purest of the developed varieties.

- *Unpure Seeds* = IDR 7,000/kg

Unpure seed of the developed varieties

A one-hectare rice field produces 3 tons of seeds. All proceeds from sales by the Department of Agriculture enter into local incomes (non-tax revenue). The amount of revenue from seed production can be quite large. If the average farmer breeder has one hectare of paddy field, then the amount he can produce is 3 tons, if the ratio of the basic and wet seed is at 50:50, then for one hectare the potential income becomes:

$$9,000 \times 1,500 = 13,500,000 + 7,000 \times 1,500 = 10,500,000 = 24,000,000$$

If the government receives twenty percent of the profits from farmers, non-tax revenue from one breeder, during a good harvest, can amount to over 4.8 million.

In addition, free seeds are given to farmers to plant. If the results are good and enough, the Department of Agriculture will take it. However, if the crops are unsatisfactory, the yields can be taken and sold by the farmers themselves.

Tax Evasion

In the Kukar Regency, businesses, or farmers in the form of legal entities are very scarce, while those having a tax identification number (NPWP) are also rare. On top of that, farmers who do possess a NPWP, have little understanding of its use and importance and consequently neglect to pay taxes. On the other hand, indications of tax evasion are present with several farmers having incomes exceeding 4.8 million rupiah per month and therefore subject to taxation.

Local regulations in relation with retribution is contained in the Kukar regency regional regulation No 18. 2011 on Business Service Levies, but specific regulations for the agricultural sector are not yet present.

Agriculture in the Kukar Regency is well developed as indicated by its surplus and 40% contribution to the province's food crops. Unfortunately, these indications of well-incomed farmers have yet translated to an increase of local revenues from income tax, with the scarcity of NPWP ownership indicating of tax evasion.

Generally, farmers pay property tax and possess annual certificates of tariffs imposed. These farmers are also generally transmigrants who receive land from the government. Second generation farmers now inherit land from their parents with an average inheritance of up to one hectare of land. These second-generation farmers also receive documents of tax, where an average farmer can own up to three tax return sheets (SPT) with an average bill of 20,000 rupiah.

However, the collection of taxes needs to be balanced with issues that are faced by farmers. Issues faced by farmers in the Kukar regency include:

- Decrease in Agricultural Households.

In Kukar regency, the vast amount of crop production is generally run by large scale farmers and not by household farmers. Competition with mining and plantation industries have also led to a reduction in agricultural households, with farmers losing land or electing to work in those industries.

- Lack of Water Resources

Land in the Kukar Regency is scarcely irrigated. Distribution of water for agricultural purposes often conflicts with the needs of mining industries.

- High production cost caused by high labor costs

The high inflation rate in Kukar Regency is caused by the large production of mining. The high rate of inflation translates to a high living costs and therefore high labor costs.

These issues should implicate the taxation of the agricultural industry in Kukar. Taxes implied should not burden the production of agriculture because of its large contributions in the area. Such as in the Sembalun District of NTB, farmers should receive tax assistance.

Modes of Corruption

Corruption:

There are no specific forms of corruption conducted by farmers with the potential exception of small-scale mark-ups in prices.

2.7. South Sulawesi Province

South Sulawesi province has a capital city of Makassar and is located between 0°12' - 8° South Latitude and 116°48' - 122°36' East Longitude. This province is bordered by province of West Sulawesi in the North and Bone Bay and Southeast Sulawesi Province in the East. The western and eastern borders are the Makassar Strait and Flores Sea, respectively. The total area of South Sulawesi Province is 46,083,94 km² covering 21 regencies and 3 cities.

The North Luwu district is the largest district in the province with an area of 7,365.51 km² or 15.98 percent of the total area of Sulawesi. Meanwhile, the number legal entity and non-household non-legal entity agricultural businesses in Bantaeng regency is two and two, respectively. Legal entity agricultural businesses in the Bantaeng Regency are located in the Pa'jukukang District and Bantaeng District. While both non-household non-legal entity agricultural businesses were in the Eremerasa District.

Based on temporary data from the 2013 Agricultural Census, agricultural businesses in the Bantaeng District consisted of 29,790 agricultural households, one legal entity business, and seven non-household non-legal entity businesses.

The Regency of Bantaeng was chosen because it is one of the leading agricultural regencies in South Sulawesi and even in Indonesia. This regency boasts that its agricultural sector as a leading source of local revenue.

Tax Violations and Losses in Revenue

Property Tax - Rural and Urban Areas (*Pajak Bumi dan Bangunan Perdesaan dan Perkotaan/PBB-P2*)

Property tax (PBB) is a tax imposed on property (land or buildings) owned, controlled, or exploited. The legal basis for the imposition of PBB by the regional government is found in Law No. 28 of 2009 on Regional Taxes and Levies. The local government only collects PBB from rural and urban areas, while the PBB of plantations, forestry, and mining sectors are still managed by the Directorate General of Taxation (DJP). Land in the form of fields and paddy fields for agriculture goes into the PBB-P2 scheme.

The projected revenue for property tax in the year 2015-2016 was 2.12 billion rupiah. Actual collections of revenues exceeded the targeted amount, with 2.86 billion rupiah collected. The number of tax return documents printed was 199,006 sheets.

Income tax and Value-added Tax (PPH dan PPn)

So far, large companies in South Sulawesi include companies from China that are in partnership with Bantaeng Regency. However, their status is not permanent are therefore calculations of income and value-added taxes are still unknown.

Non-tax revenue (PNBP)

The Department of Agriculture of the Bantaeng district, based on its vision and mission, has targeted Bantaeng's development as a center for seeds. The government of Bantaeng Regency produces seeds on an area of 300 ha, through Technical Implementation Units (UPTB) that handles two seed breeding types, Empari 6 and Empari 4. This rice seed is distributed to farmer groups in Bantaeng. According to Mr. Herman, the yearly production of seeds by UPTD has not met the demand of farmers. Therefore, UPTD should increase the area used for seed production by 50 to 100 ha. This seeding program was forged to empower the farmers that it partnered with. This hatchery does not receive non-tax revenues from farmers in Bantaeng Regency. This is based on the district's policy to strengthen the region's economy with agricultural activity. The understanding is that the absence of payments (taxes, non-tax revenues, and levies) is expected to encourage farmers to be more willing to develop their agricultural activities.

2.8. Central Sulawesi Province

The largest province in Sulawesi island is Central Sulawesi with a land area of 68,033 km² and a sea area of 189,480 km², located to the west of Maluku islands and to the south of Philippines. Administratively this province is divided into nine regencies and one the city: the districts of Donggala, Parigi Moutong, Poso, Morowali, Tojo Unauna, Banggai, Banggai Tolitoli archipelago, Buol and Sigi, and the city of Palu. According to the 2007 population census, the population of Central Sulawesi regency is 2,875,000 people.

Agricultural businesses located in the donggala regency consist of 51 legal entities and 4 non-household non-legal entity businesses. The district of Balasung Tanjung had the largest number

of agricultural businesses with 14 businesses. Meanwhile, the Districts of Pinembani, Labuanm Sindue, and Sindue Tobata had no agricultural businesses. The largest number of non-household non-legal entities businesses were found in the District of Damsol with a total of two, followed by the Banawa and South Banawa districts with one each, respectively.

Based on temporary data from the 2013 Agricultural Census, agricultural businesses in the District of Donggala consisted of 47,880 agricultural households, 51 business identified as legal entities, and 4 non-household non-legal entity businesses.

The districts of Damsol, Sojol, and South Banawa had the highest number of agricultural households with 6,036, 5,194, and 4,992 households, respectively. Meanwhile the district of Pinembani had the fewest agricultural households with only 1,414.

Tax Evasion

An interview was conducted with Mr. Nurdin, an owner of large areas of land. The land he owns is used to produce cloves. From these lands he obtains an income of IDR 70-80 million per year. He explained the issues in the clove business stemming from the presence of middlemen. He employs workers to work in his lands who are given a 5,000,000-rupiah wage. Meanwhile, taxes paid to village officials and the local government amounted to 30,000 rupiah.

Modes of Corruption

If corruption is identified as state losses, then the inefficiency of program implementation is also a form of state loss.

The farmers in Samalili Village complained about seeds that were not given clear designation, such as those stored in village offices and distributed to the farmers. This is because farmers were not given counseling about the given seeds. Farmers can handle the labor of planting seeds, but without further counseling on their market, the distribution of these seed is wasted.

These unutilized seeds are an indication that funds are given to programs that are not properly implemented. This misimplementation of funds and programs can be considered as corruption.

2.9. Conclusion of Findings

Based on the findings of field investigations using various instruments, it can be concluded that the largest contribution of revenues from the agricultural sector is from the property tax. Thus far, the data needed to calculate property tax revenues, such as the area of land contained in tax return documents, have not been obtained. This data is vital and is therefore the main obstacle of calculating property tax revenues.

Without this data, calculations of losses in potential revenue are difficult. Adaptation to this issue can be to use a snow-balling sampling of farmers with inquiries about the payment of PBB-P2 along with its payment system. As a result, some volunteered to answer, however, some did not. This may be due to communication constraints and obstacles from farmers who try to hide certain information because they feel insecure. Generally, farmers who do pay property taxes concede that it is not much of a burden.

Calculations for income and value-added taxes require modifications. An audit is needed to compare tax audit data from every company with potential and target data from the central tax

offices. This input will be used to change the instrument. Non-tax revenues from licensing or certification from the Ministry of Agriculture have had no indications of specific fees. In the field, it was found that licensing related to business permits (Business License) was not a type of permit that refers directly to agricultural production activities. In addition, it turns out that there is also certification, this finding can change the instrument. The certification held by the Ministry of Agriculture so far (based on interview results) is land certification and certification of seeding. For both there are revenues that are deposited into the country.

Land certification is used to improve the quality of agricultural products. In general, this certification carries out several tests involving the Department of Agriculture, and actors in the form of surveyors and auditors. In all likelihood, there are fees to do so, the exact amount is unknown, however, this certainly does not go into regional or state incomes.

Non-tax revenues are obtained from seed breeding businesses. Several regions (as mentioned in interviews of almost every region) breed and sell seeds. The revenues are directly deposited to the Ministry of Agriculture through local departments. Seed breeding efforts usually work with local farmers, who have the resources and fulfill specific requirements, seed companies, and local agricultural technical implementation units.

Tax evasion still occurs, generally by farmers. These farmers avoid payment of income tax and do not hold a tax identification number. Property tax, on the other hand, is collected more effectively by tax collectors. Tax evasion occurs because of the lack of data on the total number of tax return forms.

There are certain types of illegal payments which often occur in the community. The type of illegal levy is "exhaustion" money. Usually this is done between apparatus and permit applicant. Meanwhile corruption takes place when agricultural business actors take part in procurement activities. In this case, the scale could range from individual or corporate actors, as is the case of interviews with farmers residing in Bogor district. In addition to the procurement corruption, there are also attempts to manipulate prices which is another form of corruption.