

## STRATEGIES TO IMPROVE ENTERTAINMENT TAX COMPLIANCE (Study Case at the Office of UPT Region VI Bapenda Medan City)

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### Abstract

*This study discusses strategies for improving entertainment tax compliance at UPT Region VI Bapenda Medan City, which is an important part of the Regional Original Income (PAD). This study identifies the low level of entertainment tax compliance in Indonesia, which only reached 62% nationally and 55% in Medan City in 2022. Factors influencing non-compliance include weak supervision, low taxpayer awareness, and the complexity of tax mechanisms. Using a qualitative descriptive approach, this study explores the impact of non-compliance and proposes a compliance model-based strategy that includes four levels: (1) "willing to do the right thing", (2) "try to, but don't t always succeed", (3) "don't want to comply", and (4) "have decided not to comply". The proposed strategy includes improving services, education, and strict law enforcement. The results of the study indicate that a comprehensive approach that combines persuasive, educational, and repressive elements can create a fairer and more transparent tax system, as well as encouraging taxpayers' awareness of the importance of their contribution to regional development.*

**Keywords:** Strategy, Compliance, Entertainment Tax, Compliance model

### INTRODUCTION

Taxes serve as one of the primary sources of state revenue to support national development. In the context of regional governments, entertainment tax plays a crucial role as a component of Local Own-Source Revenue (PAD). According to Pratiwi et al. (2020), the contribution of entertainment tax at the national level remains relatively low, averaging only 3-5% of the total regional tax revenue in Indonesia.

The issue of non-compliance with entertainment tax regulations in Indonesia has become a complex and systemic problem. Based on data from the Ministry of Finance (2022), the compliance rate for entertainment taxes in Indonesia is only 62%, with significant variations across regions. This low compliance rate is attributed to several factors, including weak enforcement, low taxpayer awareness, and the perceived complexity of the taxation system, which is considered burdensome for entertainment business operators.

A study by Wirawan & Suardana (2019) identified several factors influencing entertainment tax non-compliance, including taxpayers' perceptions of the taxation system, the quality of tax services, and their level of understanding of tax regulations. The research highlighted that most taxpayers still view taxes as a burden rather than a contribution to development.

This challenge is also evident at UPT Region VI of Bapenda Medan City, which faces similar issues. Data from 2022 indicates that the compliance rate for entertainment taxes in UPT Region VI was only 55%, well below the set target (Bapenda Medan City, 2022). Region VI, encompassing Medan Johor, Medan Selayang, and Medan Tuntungan sub-districts, reflects a microcosm of the broader entertainment tax issues in Indonesia. This non-compliance phenomenon poses a significant challenge to increasing tax revenue. Not only does it result in the loss of potential revenue, but it also disrupts the sustainability of public services dependent on tax funding, such as education, healthcare, and infrastructure.

Research conducted by Kurniawan et al. (2021) emphasizes that improving tax compliance cannot rely solely on a repressive approach but requires a comprehensive strategy involving education, excellent service, and the development of a transparent taxation system. Therefore, this study aims to examine the impact of non-compliance in paying entertainment taxes and to explore effective strategies for enhancing entertainment tax compliance at UPT Region VI of Bapenda Medan City.

## LITERATURE REVIEW

### Tax Compliance

Tax compliance can be defined as the process of taxpayers in reporting income and submitting costs in accordance with applicable tax regulations (Sapiei & Kasipillai, 2013). Basically, tax compliance refers to the level of taxpayers' willingness to comply with tax provisions. A person is considered non-compliant if he is unable to complete one of his tax obligations, even when the compliance is carried out due to pressure or coercion from the tax agency (Randlane, 2016).

Meanwhile, Jaffar defines non-compliance as a condition in which an individual or legal entity fails to carry out the reporting or tax payment obligations that should be carried out (Jaffar et al., 2014).

Every taxpayer, regardless of their professional profile or type of economic activity, has a set of fundamental obligations that are universal in nature in the tax system. These obligations include a series of important stages including systematic registration in the tax administration, where each taxpayer obtains a taxpayer identification number (NPWP) as a single identity. Furthermore, they are required to report accurately, comprehensively, and on time, by submitting transparent and accountable financial information. The peak of this obligation is the payment of taxes in accordance with applicable provisions, which are carried out on time and in accordance with the tax burden that is their responsibility. This principle of universality emphasizes that there are no exceptions in fulfilling tax obligations, both for individuals and corporations, which are essentially a form of

contribution from every citizen in supporting national development and the country's financial system (Randlane, 2016).

### **Entertainment Tax**

Entertainment tax is a type of regional tax that plays an important role in contributing to regional original income (PAD). Mardiasmo (2018) explains that entertainment tax is a levy imposed by the region on the organization of entertainment, which is determined based on applicable regional regulations. In accordance with Law of the Republic of Indonesia No. 28 of 2009, entertainment tax is defined as a tax imposed on the organization of entertainment, where entertainment includes various types of shows, performances, games, and/or crowd events that are charged to enjoy them. Research by Nuraeni et al. (2020) revealed various challenges in the implementation of entertainment tax, namely:

1. Difficulty in identifying tax objects
2. Low taxpayer awareness
3. Administrative complexity
4. Limited tax apparatus resources

### **Compliance model**

In an effort to improve tax compliance, the compliance model uses the theory of responsive regulation, which treats taxpayers based on how well they comply (Yunus et al., 2017). This theory emphasizes the importance of persuasive and punitive elements in encouraging compliance (Yunus et al., 2017). The compliance model uses various approaches to facilitate compliance, provide education and information, and carry out prevention and enforcement to ensure that taxpayers understand and fulfill their tax obligations. The Australian National University Centre for Tax System Integrity first developed this model in collaboration with the Australian Tax Office. This model has been used in many countries, including OECD member countries. Their behavior towards taxpayer compliance reflects their motivation in fulfilling their tax obligations. Therefore, tax authorities must have the ability to properly identify taxpayer behavior so that they can make plans or strategies that can be implemented effectively and efficiently. The compliance model consists of:

1. The level of compliance "willing to do the right thing" is the most cooperative behavioral stage, where taxpayers show high awareness in carrying out tax obligations. According to Braithwaite (2017), at this level taxpayers have intrinsic motivation to comply, which is reflected in their commitment to fulfilling tax obligations. They voluntarily acknowledge the legal and moral responsibility to comply, and seek to regulate their own compliance without external pressure. To support this level of compliance, tax authorities can implement strategies that facilitate ease of compliance, such as reducing

reporting requirements and creating simple and friendly interaction mechanisms, so that taxpayers feel supported in fulfilling their tax obligations.

2. The "try to, but don't always succeed" level of compliance is a stage where taxpayers have the intention to fulfill their tax obligations, but experience obstacles due to limited skills and knowledge, which have the potential to cause them to not fully comply with applicable regulations or procedures. At this stage, the revenue agency implements strategies aimed at helping taxpayers achieve compliance, with a focus on providing service assistance to understand tax administration regulations and procedures (help to comply).

This approach is carried out through providing education and information by providing adequate communication channels, both in general and for specific groups (Hamilton, 2012). Kosonen and Ropponen's (2015) research shows that tax information provided by tax authorities can reduce errors made by taxpayers. According to several studies, public understanding of taxation is very important for taxpayer compliance, so education and information strategies through tax socialization must be implemented (Susanti et al., 2020). The "don't want to comply" compliance level is a stage where taxpayers display non-compliant behavior, either due to negligence or intentional failure to comply with tax regulations. At this level, the compliance strategy focuses on implementing a comprehensive audit (Hamilton, 2012).

3. The approaches that can be applied to address this level of non-compliance include two main strategies. First, efforts to prevent tax avoidance through a "deter by detection" approach, which includes the development of sophisticated analytical instruments to accurately identify potential non-compliance. Second, the implementation of a risk-based compliance approach (Risk Based Approach), which focuses on identifying and evaluating areas or sectors with the highest probability of non-compliance.

This strategy aims to encourage taxpayer compliance through strict monitoring mechanisms, in-depth risk analysis, and creating a deterrent effect for those who have the potential to commit tax violations.

4. The level of compliance "have decided not to comply" is the stage where taxpayers openly show an attitude of disobedience to the tax system. They are aggressive, do not care about legal consequences, and do not try to improve the existing situation.

The stages of tax law enforcement are adjusted to the type of tax and the policies of certain revenue agencies. Regulation of the Minister of Finance Number 207/PMK.07/2018 concerning Guidelines for Regional Tax Collection and Audit

regulates the process of regional tax collection in Indonesia. The regulation regulates a multi-level collection mechanism, which includes:

- a. Issuance of a Warning Letter or Warning Letter if the taxpayer does not pay off his tax debt by the due date.
- b. Issuance of a writ of execution if:
  - 1) Taxpayers do not pay off debts after receiving a warning letter
  - 2) Billing has been done immediately or all at once
  - 3) The taxpayer does not fulfill the provisions in the decision to approve installments or postpone tax payments.

With a clear and firm legal framework, taxpayers should understand the legal consequences of tax violations and be compliant and cooperative with the tax authorities.

## RESEARCH METHODS

This study uses a qualitative descriptive approach, which aims to describe and analyze the complexity of phenomena in research subjects. According to Sugiyono (2014), qualitative research has seven main functions: (1) determining the focus of research, (2) determining data sources or informants, (3) collecting data, (4) assessing data, (5) analyzing data, (6) interpreting data, and (7) drawing conclusions.

The research was conducted at UPT Region VI Bapenda Medan City using two types of data. Primary data were obtained through interviews with carefully selected sources. Meanwhile, secondary data were collected from various written sources, such as reference books, official reports, scientific journals, previous research results, and government regulatory documents.

## RESULTS AND DISCUSSION

### Impact of Entertainment Taxpayer Non-Compliance

Taxpayer non-compliance in paying entertainment tax can have negative impacts, including:

1. Financial Losses for UPT Region VI Bapenda Medan City

Taxpayer non-compliance in paying entertainment tax has significant financial consequences for UPT Region VI Bapenda Medan City. The decline in revenue due to inaccurate entertainment tax payments not only impacts the short-term financial aspect, but also has broader strategic implications for the agency's ability to carry out regional development programs and activities.

When entertainment tax revenues are not in line with projections, UPT Region VI Bapenda faces serious challenges in allocating budgets for various development initiatives. Reduced revenue sources can result in:

- a. Infrastructure project delays
- b. Restrictions on public service programs
- c. Reduction of investment in the development of public facilities
- d. Obstacles to innovation in local government services

## 2. Injustice for Compliant Taxpayers

Tax non-compliance has complex psychological and social impacts among compliant taxpayers. Taxpayers who consistently fulfill their tax obligations may experience:

- a. Disproportionate economic burden
- b. Decreased motivation to continue to comply
- c. Perception of unfairness in the tax system
- d. Potential apathy towards tax obligations

## 3. Disruption to the Tax System

Non-compliance in paying entertainment tax has systemic impacts that go beyond mere financial issues, namely:

- a. Weakening the credibility of the tax system
- b. Reducing public trust in government institutions
- c. Creating a bad precedent for other taxpayers
- d. Triggering systematic tax avoidance behavior

## Strategies to Improve Entertainment Tax Compliance

The strategy to improve entertainment tax compliance carried out by UPT Region VI Bapenda Medan City is a comprehensive effort to encourage taxpayer awareness and compliance through a systematic and gradual approach. In the context of the compliance model, this strategy includes four main levels of interrelated tax compliance approaches.

1. At the first level, namely willing to do the right thing, is the most synergistic level of behavior, where taxpayers are very enthusiastic about fulfilling their tax obligations. At this level, the tax authorities use the most effective compliance strategy, which is described in the principles of compliance strategy: making compliance easy with the best service (easy to comply) and minimizing compliance costs. The compliance strategy of UPT Region VI is to focus on quality services and the development of the Regional Tax Management and Governance Information System (SIMP4D) application, which aims to foster internal awareness to comply voluntarily. Quality services are carried out by adopting the best practices of public services, creating a conducive environment for tax compliance, and facilitating ease in fulfilling tax obligations. One of the services provided by UPT Region VI Bapenda Medan is to ensure regular, consistent, and timely services according to established standards. The SIMP4D application was developed to help Taxpayers report and pay their tax obligations online, starting from data management, registration, and payment of regional taxes in the City of Medan.
2. At the second level, called try to, but don't always succeed, it means the level at which taxpayers try to fulfill their tax obligations, but due to inability or

ignorance they do something that is not in accordance with the regulations or procedures. At this level, UPT Region VI Bapenda Medan City can provide assistance and facilitation to taxpayers who have limited knowledge and skills. This strategy is implemented through increasing technological efficiency, developing human resources, and a series of educational activities such as seminars, training, and tax socialization aimed at reducing tax errors and increasing taxpayers' understanding of their tax obligations .

3. The third level is don't want to comply (taxpayers who are not willing to comply) more precisely, the level at which taxpayers indicate that they intentionally or unintentionally violate tax regulations. UPT Region VI Bapenda Medan City developed a tax avoidance prevention strategy with a risk-based approach, identifying areas with the highest potential for non-compliance.
4. Fourth, the top pyramid of the compliance model shows the behavior of taxpayers who have decided not to comply with tax regulations (have decided not to comply), which is the level at which taxpayers show a desire not to participate in the tax system. This behavior requires firm action to implement legal regulations with the full force of the law. Enforcement actions are carried out by imposing strict sanctions on entertainment tax violators who do not comply with their obligations. This includes fines, penalties, or other legal actions in accordance with applicable regulations. Agencies can also implement strict law enforcement based on the Regulation of the Minister of Finance Number 207/PMK.07/2018, which includes the mechanism for issuing warning letters, warning letters, and forced letters.

## CONCLUSION

To enhance entertainment tax compliance, a systematic compliance model approach can be implemented. The strategy begins with providing high-quality services and developing information technology systems to encourage cooperation among taxpayers. This is followed by offering education and facilitation for those with limited knowledge of taxation. For taxpayers unwilling to comply, authorities can adopt a risk-based approach to identify areas with the highest potential for non-compliance. Meanwhile, for those who outright refuse to fulfill their tax obligations, strict legal enforcement can be applied through the issuance of warning letters, notices, and ultimately, enforcement orders.

The primary goal of this strategy is not merely to collect taxes but to establish a sustainable, fair, and transparent taxation ecosystem. This approach aims to increase taxpayers' awareness of the importance of their contributions to regional development through the fulfillment of their tax obligations.

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