

Cigarette Tax Contribution to Province Regional Revenue in Indonesia

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Abstract. This study aims to measure the contribution of cigarette taxes to local tax revenues, local revenue, and provincial income in Indonesia. The sample used for three years from 2017 to 2019. The average cigarette tax revenue of the provincial government in Indonesia in 2017 was Rp. 503,096,132,970, - in 2018 Rp. 437,632,350,929, - and in 2019 it was Rp. 422,296,650,710, -. The contribution of cigarette tax revenues to regional tax revenues from provincial revenues was an average of 18.43 percent in 2017, 16.44 percent in 2018 and 14.76 percent in 2019. The contribution of cigarette tax revenues to provincial original revenue from 2017 until 2019 of 14.76 percent, 13.52 percent, and 11.88 percent. Finally, the contribution of cigarette taxes to provincial regional income in Indonesia is an average of 4.60 percent in 2017, 4.21 percent in 2018 and 3.87 percent in 2019.

Keywords: Cigarette Tax, Regional Tax, Regional Original Income, Regional Income

1 Introduction

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The contribution of local revenue to the total provincial income in Indonesia according to the national average shows an increasing trend. However, this increase is still at a level that is not yet ideal, where the national average contribution of regional income to total regional income in 2013 - 2015 is in the range of 25% to less than 50%, which means it is still low (Maryono et al, 2019). . In 2013 the average contribution of original blood income to blood income was around 35 percent, while in 2014 and 2015 the contribution increased to around 40 percent. This increase should be suspected as a result of the implementation of the cigarette tax which came into effect in 2014 so that the provincial government receives additional income from local taxes, namely cigarette taxes. Fais and Surraya (2017) stated that there was no significant difference in local tax revenues in Yogyakarta before and after the implementation of the cigarette tax. Pangayow (2017) stated that in the three years 2014 – 2016 the contribution of cigarette taxes to local revenue in North Sulawesi was 9.8 percent. Prior to cigarette tax revenues, nearly 100 percent of Central Java's local taxes came from taxes related to motor vehicles. (Maryono and Nurhayati, 2016) Cigarette tax is one type of provincial tax as regulated in law number 28 of 2009 concerning regional taxes and regional levies. This cigarette tax is a new type of tax that is expected to increase local tax revenues for provincial governments throughout Indonesia. Based on the law, the object of cigarette tax is cigarette consumption and the subject is cigarette consumers. Cigarette Taxpayers are entrepreneurs/producers of cigarette factories or cigarette importers who have a license in the

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form of a Taxable Goods Entrepreneur Identification Number. The cigarette tax rate is 10 per 20 of the cigarette excise imposed by the government.

This study aims to analyze how much the provincial government receives from cigarette taxes and how much the cigarette tax contributes to local taxes, local revenue, and provincial income in Indonesia. The distribution of cigarette taxes that have been collected by the government will be distributed to provincial governments in Indonesia in proportion to the population in the province concerned. This means that a province with a large population will receive a large share of the cigarette tax and a province with a small population will also receive a small share of the cigarette tax. Based on a report from the Central Statistics Agency, 17 total population in Indonesia in 2020 is estimated at around 270 million people, with the most populous provinces being West Java, East Java, Central Java, North Sumatra, Jakarta. Meanwhile, provinces with small populations include North Kalimantan, West Papua, Gorontalo, North Maluku.

The greater the contribution of cigarette taxes to local taxes indicates that the law on local taxes and levies that provide additional types of new local taxes for provincial governments is effective. However, if the contribution of cigarette taxes to local taxes, regional original income and regional original income is relatively small, it means that the addition of new types of taxes is less effective in increasing the financial capacity of the provincial government.

2 Method

This research is a descriptive study that wants to explain how cigarette tax revenue for each province and its contribution to local tax revenue, local revenue, and local revenue is explained. The population in this study consisted of 34 provinces with 10 census meaning that all populations were sampled in the study. The data used are secondary data sourced from the Central Statistics Agency and the Directorate General of Fiscal Balance of the Ministry of Finance in the form of reports published with three years of observation from 2017 to 2019. To draw conclusions, this study uses descriptive analysis methods.

3 Results and Discussion

3.1 Cigarette Tax Growth

On average, cigarette tax revenue in the three years from 2017 to 2019 16 decreased. In 2017, the average number of cigarette taxes was 503, 16, 132,970 rupiah with the highest number in East Java Province at 2,612,928,795 rupiah and the lowest in North Kalimantan Province. In 2018 the average provincial government revenue from cigarette taxes was IDR 437,632,350,929 with the highest province in West Java and the lowest in North Kalimantan. In 2019, West Java Province received the highest cigarette tax among other provinces while North Kalimantan remained the province with the lowest cigarette tax revenue.

On average, cigarette tax revenues in 2018 decreased by 6.39 percent and Jakarta experienced the highest decline of 59.46 percent while Bengkulu experienced the highest increase of 14.60 percent. In 2019, the average cigarette tax revenue in all provinces in

Indonesia decreased by 1.41 percent, Bengkulu experienced the highest decline while Southeast Sulawesi experienced the highest increase.

Table 1. Cigarette Tax Revenue in Indonesia 2017 – 2019

No.	Provinsi	2017	2018	2019
1	Aceh	294.942.999.689	288.240.357.609	300.600.549.031
2	Sumatera Utara	844.022.870.886	820.823.479.280	795.163.307.893
3	Sumatera Barat	312.517.370.010	335.533.803.605	317.053.771.068
4	Riau	341.127.075.740	332.761.662.493	312.888.511.329
5	Jambi	268.356.524.273	190.113.524.329	196.161.039.953
6	Sumatera Selatan	467.748.270.688	455.861.239.011	389.806.104.063
7	Bengkulu	108.045.589.946	123.921.969.948	99.635.350.342
8	Lampung	634.483.067.284	523.838.239.800	496.465.566.696
9	Bangka Belitung	72.194.352.869	72.494.284.973	94.296.443.588
10	Kepulauan Riau	105.683.056.964	103.029.944.514	98.651.600.297
11	DKI Jakarta	1.559.516.918.042	632.293.885.585	610.105.644.656
12	Jawa Barat	2.483.213.129.553	2.519.085.324.712	2.479.468.228.309
13	Jawa Tengah	2.030.393.742.101	1.975.799.644.852	1.979.293.335.733
14	D.I Yogyakarta	207.191.233.352	202.105.687.185	190.255.946.878
15	Jawa Timur	2.612.928.878.795	2.170.048.515.706	1.992.207.318.173
16	Banten	581.339.643.887	576.086.398.626	566.754.256.253
17	Bali	241.787.478.547	259.637.335.606	244.087.933.600
18	Nusa Tenggara Barat	343.457.173.248	291.655.115.006	293.927.355.084
19	Nusa Tenggara Timur	305.637.397.036	292.887.491.357	279.040.585.778
20	Kalimantan Barat	307.636.131.717	293.802.474.646	262.471.430.482
21	Kalimantan Tengah	142.640.353.773	138.110.056.386	140.979.227.424
23	Kalimantan Timur	196.128.122.531	189.674.200.071	173.463.638.888
24	Kalimantan Utara	35.249.202.678	34.940.502.139	37.689.395.281
25	Sulawesi Utara	172.272.000.181	143.645.751.178	147.538.688.838
26	Sulawesi Tengah	163.942.125.381	157.835.470.309	134.616.170.499
27	Sulawesi Selatan	547.419.648.597	585.233.421.326	548.040.918.937
28	Sulawesi Tenggara	146.416.328.633	112.960.339.843	160.313.401.077
29	Gorontalo		66.617.065.478	67.519.776.705
30	Sulawesi Barat	88.033.418.310	85.950.208.275	89.451.105.711
31	Maluku	105.041.580.631	102.453.489.829	92.582.916.918
32	Maluku Utara	72.787.469.936	65.610.925.315	68.161.171.507
33	Papua Barat	72.111.009.249	63.143.060.612	62.946.094.754
34	Papua	234.812.090.510	235.672.711.041	214.152.687.680
	Rata-rata	503.096.132.970	437.632.350.929	422.296.650.710

3.2 Contribution of Cigarette Tax to Local Tax

Additional sources of income for the provincial government in the form of cigarette taxes regulated in law number 28 of 2009 concerning regional taxes and regional levies are expected to provide additional provincial income so as to increase its financial capacity. To measure the effectiveness of the law, it is necessary to study how the cigarette tax revenue received by the provincial government and how much of its contribution, especially to the total local tax revenue. The larger the share of cigarette taxes in local taxes means the role of cigarette taxes for the provincial government is large, on the other hand, if the portion of cigarette taxes in local taxes is low, it means that the role of cigarette taxes is also low.

In the three years of observing the contribution of cigarette taxes to provincial local taxes in Indonesia, there is a downward trend, meaning that the portion of cigarette tax received is lower than the local tax as a whole. In 2017, the average contribution of cigarette taxes to provincial regional taxes in Indonesia was 18.43 percent with the highest value in East Nusa Tenggara Province and the lowest contribution in DKI Jakarta Province. In 2018 the contribution of cigarette taxes to provincial local taxes was an average of 16.44 percent with the highest value in East Nusa Tenggara and the lowest in Jakarta. In 2019, the contribution of cigarette taxes to local taxes remained the highest in East Nusa Tenggara and the lowest in Jakarta with an average value of 14.85 percent.

The data on the contribution of cigarette taxes to local taxes above shows how big the role of cigarette taxes is for provincial governments in Indonesia in administering government to improve people's welfare. The main contribution of cigarettes to local taxes is currently under the motor vehicle tax, motor vehicle transfer fees, motor vehicle fuel taxes, and its contribution is greater than the surface water tax which provides the lowest contribution to local taxes. Unlike other provincial taxes where local governments have to do the collection themselves, in the case of cigarette taxes, the provincial government does not have to collect it themselves but is collected by the central government and the results are submitted to the provincial government. In addition to different collection methods, the use of funds originating from cigarette taxes is also regulated at least 50 percent is used to finance activities regulated by law.

Table 2. Cigarette Tax Contribution to Local Tax

No	Provinsi	2017	2018	2019
1	Aceh	22,42%	22,02%	21,33%
2	Sumatera Utara	17,50%	15,73%	15,72%
3	Sumatera Barat	19,21%	18,66%	16,93%
4	Riau	12,38%	10,82%	10,47%
5	Jambi	20,39%	13,83%	11,88%
6	Sumatera Selatan	16,50%	14,26%	12,09%
7	Bengkulu	18,08%	18,24%	16,01%
8	Lampung	25,88%	20,32%	18,89%
9	Bangka Belitung	11,48%	9,21%	12,39%
10	Kepulauan Riau	10,78%	9,37%	8,35%
11	DKI Jakarta	4,27%	1,68%	1,51%

12	Jawa Barat	15,07%	13,88%	12,63%
13	Jawa Tengah	19,20%	17,17%	16,56%
14	D.I Yogyakarta	13,08%	11,77%	10,73%
15	Jawa Timur	18,21%	14,41%	12,83%
16	Banten	10,59%	9,55%	8,43%
17	Bali	8,42%	8,04%	7,05%
18	Nusa Tenggara Barat	29,09%	22,97%	20,92%
19	Nusa Tenggara Timur	37,54%	33,81%	30,72%
20	Kalimantan Barat	18,53%	15,31%	13,40%
21	Kalimantan Tengah	13,07%	10,19%	9,80%
23	Kalimantan Timur	5,59%	4,02%	3,48%
24	Kalimantan Utara	11,51%	9,00%	9,03%
25	Sulawesi Utara	17,51%	13,65%	14,05%
26	Sulawesi Tengah	20,74%	18,89%	15,02%
27	Sulawesi Selatan	16,89%	16,90%	14,77%
28	Sulawesi Tenggara	23,85%	16,40%	18,55%
29	Gorontalo	0,00%	19,01%	17,43%
30	Sulawesi Barat	33,88%	31,57%	30,69%
31	Maluku	31,92%	28,15%	25,64%
32	Maluku Utara	30,18%	24,51%	21,13%
33	Papua Barat	23,52%	18,34%	17,03%
34	Papua	31,03%	30,69%	14,71%
	Rata-rata	18,43%	16,44%	14,85%

(Directorate General of Balance, Ministry of Finance)

3.3 Contribution of Cigarette Tax to Regional Original Income

Provincial income consists of local taxes, regional levies, regional companies and other legitimate local revenue. The following describes the contribution of cigarette tax to local revenue in Indonesia from 2017 to 2019. In 2017 the contribution of cigarette tax to provincial income in Indonesia was an average of 14.5 percent with the highest contribution in West Sulawesi and the lowest in Jakarta. In 2018 the average contribution of cigarette taxes to local revenue in Indonesia was 13.7 percent with the highest value in West Sulawesi and the lowest in DKI Jakarta. In 2019 the contribution of cigarette taxes to local original income was on average 11.88 percent and the position of the provinces with the highest and lowest cigarette tax contributions to local revenue did not change, namely West Sulawesi and Jakarta.

The contribution of cigarette taxes to local revenue in the last three years is quite high when compared to other components of local revenue. Maryono et al. (2019) found that the contribution of regional retribution to provincial original revenue and separated regional wealth was only more than 1 percent, while other legitimate regional original income

contributed about 11 percent of regional original income. By looking at the comparison of the contribution of cigarette tax to local revenue and comparing it with other components of local revenue, it can be concluded that cigarette tax revenue for the provincial government is very significant. This explanation can also be used as the basis that Law Number 28 of 2009 concerning Regional Taxes and Regional Levies is effective in improving the financial capacity of provinces in Indonesia.

Although cigarette tax revenues make an adequate contribution to the provincial government in Indonesia, it does not mean that it does not cause problems. Cigarettes on the one hand have contributed to the economy in Indonesia but also have a negative impact, especially on health. To minimize the risk of the negative effects of cigarettes, the government has issued Regulation of the Minister of Health of the Republic of Indonesia number 40 of 2016 concerning technical guidelines for the use of cigarette taxes for funding public health services used for the following activities: a. reduction of risk factors for non-communicable diseases; b. reduction of risk factors for infectious diseases including immunization; c. increased health promotion; d. improvement of family health; e. improved nutrition; f. improvement of environmental health; g. improvement of occupational health and sports; h. increasing control over the consumption of cigarettes and other tobacco products; and i. health services in first-level health facilities. For this purpose, a minimum of 75 percent of the allocation has to be reached. With this provision, it is hoped that its implementation can run effectively so that the negative impact of smoking can actually be minimized.

Table 3. Cigarette Tax Contribution to Regional Original Income

No	Provinsi	2017	2018	2019
1	Aceh	12,96%	12,22%	11,14%
2	Sumatera Utara	15,96%	14,56%	13,80%
3	Sumatera Barat	14,64%	14,75%	13,62%
4	Riau	10,15%	9,14%	8,79%
5	Jambi	16,98%	11,48%	11,88%
6	Sumatera Selatan	15,43%	12,92%	11,18%
7	Bengkulu	13,43%	14,21%	12,05%
8	Lampung	23,07%	18,29%	16,45%
9	Bangka Belitung	10,17%	8,52%	11,41%
10	Kepulauan Riau	9,65%	8,44%	7,59%
11	DKI Jakarta	3,55%	1,46%	1,33%
12	Jawa Barat	13,73%	12,82%	11,67%
13	Jawa Tengah	16,18%	14,41%	13,71%
14	D.I Yogyakarta	11,19%	9,90%	9,13%
15	Jawa Timur	15,08%	11,71%	10,31%
16	Banten	10,10%	9,10%	8,07%
17	Bali	7,11%	6,98%	6,07%
18	Nusa Tenggara Barat	20,39%	17,57%	16,26%
19	Nusa Tenggara Timur	29,18%	26,74%	22,16%
20	Kalimantan Barat	15,81%	13,39%	11,41%

21	Kalimantan Tengah	10,63%	8,54%	7,94%
23	Kalimantan Timur	4,27%	3,27%	2,65%
24	Kalimantan Utara	7,30%	6,09%	5,75%
25	Sulawesi Utara	15,02%	11,46%	11,47%
26	Sulawesi Tengah	17,11%	15,53%	12,34%
27	Sulawesi Selatan	14,88%	14,82%	13,24%
28	Sulawesi Tenggara	18,16%	12,50%	14,21%
29	Gorontalo	0,00%	17,33%	15,58%
30	Sulawesi Barat	29,65%	28,51%	25,91%
31	Maluku	24,38%	22,00%	19,18%
32	Maluku Utara	22,23%	18,31%	15,73%
33	Papua Barat	15,44%	13,75%	13,01%
34	Papua	23,12%	25,49%	7,10%
	Rata-rata	14,76%	13,52%	11,88%

(Directorate General of Balance, Ministry of Finance)

4 Conclusions and Recommendations

- The amount of cigarette tax received by the provincial government in Indonesia is proportional to the total population of each province. On average, cigarette tax revenue in 2017 was IDR 503,096,132,970 rupiah, in 2018 it was IDR 437,632,350,929 rupiah and in 2019 it was IDR 422,296,650,710 rupiah.
- The contribution of cigarette taxes to provincial regional tax revenues in Indonesia was an average of 18.43 percent in 2017, 16.44 percent in 2018, and 14.85 percent in 2019.
- The contribution of cigarette taxes to provincial original revenues in Indonesia during 2017-2019 was 14.76 percent, 13.52 percent, and 11.88 percent, respectively.
- Law number 28 of 2009 concerning regional taxes and regional levies has proven to be effective in improving the financial capacity of provinces in Indonesia
- To reduce the negative impact on the circulation of cigarettes for public health, it has been regulated in a regulation by the Minister of Health concerning technical guidelines for the use of cigarette taxes.

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