

Fiscal Incentive Policy Implementation for Compliant Taxpayers in Optimizing Local Own-Source Revenue in North Minahasa Regency, Indonesia

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ABSTRACT

This article examines the implementation of a fiscal incentive policy for compliant taxpayers as a strategy for optimizing local own-source revenue in North Minahasa Regency, Indonesia. The study is positioned within public administration, local fiscal governance, taxpayer compliance, and policy implementation scholarship. Using a qualitative descriptive design, data were collected through interviews, documentation, and secondary data review involving regional leaders, revenue agency officials, technical tax officers, and stakeholders related to local tax administration. The findings show that the fiscal incentive policy has been developed through a systematic sequence of policy formulation, administrative and legal review, taxpayer database preparation, determination of compliance criteria, socialization, and technical execution. The policy has a positive strategic role because it shifts local tax administration from a predominantly punitive approach toward a more persuasive, service-oriented, and motivational approach. However, implementation has not yet reached optimal effectiveness. The main constraints include inadequate taxpayer data validity, uneven socialization, limited human resource capacity, insufficient operational infrastructure, weak standard operating procedures, and incomplete technical guidelines. The article argues that fiscal incentives can support voluntary compliance and PAD optimization only when they are supported by accurate data, institutional coordination, consistent communication, clear procedures, and monitoring systems. The study contributes to public administration literature by demonstrating that local revenue innovation depends not only on regulatory authority but also on administrative readiness, public trust, service quality, and behavioral compliance mechanisms.

Keywords: fiscal incentives, local own-source revenue, local tax administration, North Minahasa Regency, policy implementation, taxpayer compliance.

INTRODUCTION

Local own-source revenue, commonly known in Indonesia as *Pendapatan Asli Daerah* or PAD, is a central indicator of regional fiscal capacity. In the context of decentralization, local governments are expected to finance governance, development, and public services not only through transfers from the central government but also through their own ability to mobilize local revenue. PAD therefore has a strategic meaning beyond accounting. It reflects administrative capacity, economic potential, taxpayer trust, and the ability of government to design responsive fiscal policy.

North Minahasa Regency has several potential local tax sources, including rural and urban land and building tax (PBB-P2), hotel tax, restaurant tax, entertainment tax, non-metal mineral and rock tax, and acquisition duty on land and building rights. These sources provide an important fiscal base for supporting development programs. However, revenue potential does not automatically become realized income. The gap between potential and realization is shaped by taxpayer compliance, administrative data quality, socialization, service accessibility, and public perception of the benefits of tax payment.

The empirical context of PBB-P2 shows the urgency of the issue. In 2024, the annual PBB-P2 target reached Rp8.069 billion, yet realization up to the second quarter was only 10.67 percent, far below the ideal second-quarter progress of 40 percent. A similar pattern occurred in 2025, when the annual target reached Rp8.700 billion and second-quarter realization remained at 10.67 percent. This situation indicates that conventional tax collection strategies have not been sufficient to encourage timely payment and reduce arrears.

Taxpayer compliance is not determined only by the ability to pay. It is also influenced by motivation, knowledge, trust, incentives, administrative simplicity, and perceptions of fairness. When taxpayers see tax obligations only as a burden and do not experience appreciation for compliance, voluntary payment tends to be weak. Local tax administration has often emphasized sanctions for non-compliance, while systematic rewards for compliant taxpayers have been limited. This imbalance creates a need for a more balanced strategy that combines enforcement with recognition and service improvement.

The fiscal incentive policy for compliant taxpayers is intended to respond to this problem. It introduces a reward-based approach through possible forms such as tax discounts, relief from administrative sanctions, or differentiated facilities for taxpayers who pay on time and meet compliance criteria. This policy is not merely a financial discount. It is a behavioral and administrative instrument designed to strengthen taxpayer morale, improve relations between government and citizens, and increase local revenue performance.

From the perspective of public administration, the policy represents a shift from a coercive tax model toward a persuasive governance model. It seeks to encourage taxpayers to comply voluntarily by recognizing good behavior. The policy also expresses the idea that local government should not only collect revenue but also build a service relationship with citizens. In this sense, fiscal incentives become part of service-oriented government and responsive local fiscal management.

The regulatory environment provides a legal basis for such innovation. Indonesian law on fiscal relations between central and regional governments gives local governments authority to manage local taxes and apply reductions, relief, or exemptions under certain conditions. This means that a local fiscal incentive policy can be implemented legally, provided it is designed transparently,

based on clear criteria, and does not endanger fiscal sustainability. Legal authority, however, is only the beginning. Implementation depends on administrative readiness.

The central issue addressed in this article is the gap between policy design and operational implementation. The policy has been conceptually accepted as important for strengthening compliance and increasing PAD, but field implementation is still influenced by weak data validity, uneven socialization, limited human resources, insufficient supporting infrastructure, and unclear operational procedures. These constraints show that the effectiveness of fiscal incentives depends not only on the amount of incentive offered but also on the governance system that manages the incentive.

The case is important because it illustrates a common challenge in local fiscal innovation. Many regional policies are formally supported by regulations and leadership commitment, yet their results are shaped by technical details: who verifies taxpayer data, how compliance criteria are determined, how information reaches the public, how officers explain the policy, how applications are processed, and how outcomes are monitored. Without these operational elements, a promising policy can remain only partially effective.

This article therefore aims to analyze the implementation process of fiscal incentives for compliant taxpayers, identify the major inhibiting factors, and propose an integrated strengthening strategy for PAD optimization.

THEORETICAL FRAMEWORK

Public policy can be understood as a purposive course of action adopted by government actors to address a public problem (Anderson, 2014). In the context of local taxation, public policy is not merely a regulation on payment obligations. It is a governmental response to fiscal needs, taxpayer behavior, and public service demands. A fiscal incentive for compliant taxpayers is therefore a policy instrument directed toward changing behavior and improving revenue performance.

Public policy implementation is the stage in which policy intentions are translated into administrative action. Edward III argues that implementation effectiveness is shaped by communication, resources, disposition, and bureaucratic structure (Edward III, 1980). These variables are highly relevant in the case of fiscal incentives. Communication determines whether taxpayers understand the incentive. Resources determine whether officers, data systems, and facilities are sufficient. Disposition reflects the commitment of implementers. Bureaucratic structure refers to procedures, role division, and SOPs that guide execution.

Grindle emphasizes that implementation is affected by both the content of policy and the context of implementation (Grindle, 1980). Policy content includes the benefits offered, the degree of change expected, the position of decision making, and the resources committed. Policy context includes institutional characteristics, power relations, compliance, and responsiveness. In fiscal incentive policy, the content promises taxpayer appreciation and possible revenue improvement, while the context includes taxpayer trust, agency capacity, data quality, and local socio-economic conditions.

Van Meter and Van Horn also identify standards and objectives, resources, interorganizational communication, implementer disposition, organizational characteristics, and socio-economic environment as determinants of performance (Van Meter & Van Horn, 1975). This model helps explain why a tax incentive policy requires precise standards for taxpayer compliance. If the criteria are unclear, officers may interpret the policy differently and taxpayers may question

fairness. Clear objectives and measurable standards are crucial for preventing arbitrary implementation.

In public administration, the policy is closely related to the management process. Management involves planning, organizing, actuating, and controlling organizational resources to achieve objectives effectively and efficiently (Terry, 2011). Planning is seen in the formulation of incentive types and taxpayer criteria. Organizing is reflected in the distribution of roles between the secretariat, tax divisions, data units, and field officers. Actuating occurs in socialization and service delivery. Controlling is reflected in verification, reporting, monitoring, and evaluation.

Good governance theory provides another foundation. Governance principles include participation, transparency, accountability, responsiveness, effectiveness, and rule of law (UNDP, 1997). A fiscal incentive policy must be transparent because taxpayers need to know who qualifies and why. It must be accountable because incentives affect revenue. It must be responsive because policy must answer the real compliance problem. It must be lawful because relief or reduction of local tax obligations must be based on legal authority and documented procedures.

Tax compliance theory distinguishes between enforced compliance and voluntary compliance. Enforced compliance relies on inspection, penalties, and fear of sanctions, while voluntary compliance is influenced by trust, tax morale, simplicity, perceived fairness, and the quality of government service (Alm, 2019). Fiscal incentives are designed to strengthen voluntary compliance by rewarding taxpayers who show discipline. This approach does not eliminate enforcement; rather, it complements sanctions with positive reinforcement.

Behavioral public policy also helps explain the value of incentives. Behavioral insights suggest that public responses are shaped by framing, salience, trust, social norms, and perceived benefits (Hallsworth, 2017). A taxpayer who receives clear information about discounts or penalty relief may respond differently from a taxpayer who only receives a warning letter. Incentives can make the benefits of compliance more visible and immediate, thereby increasing motivation for timely payment.

Frey and Torgler argue that tax morale is shaped by the relationship between citizens and government (Frey & Torgler, 2007). When taxpayers believe that government treats them fairly and appreciates compliance, they are more likely to participate voluntarily. In this context, an incentive policy has symbolic value. It signals that government recognizes good behavior and does not treat all taxpayers only as potential violators. This symbolic effect can strengthen public trust if implementation is fair and transparent.

Local fiscal governance theory emphasizes that regional revenue optimization requires both revenue instruments and administrative capability (Bird & Vaillancourt, 1998). A tax incentive policy may increase compliance, but it may also reduce short-term tax liability if not carefully designed. Therefore, local government must ensure that the policy increases net revenue through better compliance, faster payment, reduced arrears, and improved taxpayer relationships. This requires reliable data and monitoring.

Service quality theory is relevant because taxpayers interact with the revenue agency through administrative services. Parasuraman, Zeithaml, and Berry identify reliability, responsiveness, assurance, empathy, and tangibles as dimensions of service quality (Parasuraman et al., 2014). Reliability is reflected in accurate taxpayer records. Responsiveness appears in fast and clear service. Assurance is created when officers understand the rules. Empathy appears when officers explain procedures in accessible language. Tangibles include offices, devices, data systems, and communication media.

Information system and data governance perspectives are also necessary. A policy that depends on identifying compliant taxpayers requires accurate, current, and integrated data. Laudon and Laudon state that information systems support decision making by collecting, processing, storing, and distributing information (Laudon & Laudon, 2019). In tax administration, data validity determines whether incentives are targeted correctly. Weak data can lead to wrong beneficiaries, delayed service, and reduced public trust.

Institutional capacity theory emphasizes that public organizations need skills, systems, resources, leadership, and routines to perform effectively (Morgan, 2006). Fiscal incentives require more than policy approval. The revenue agency must have trained officers, standardized workflows, clear authority, sufficient budget, and mechanisms for correction. Without institutional capacity, a policy can be supported in principle but inconsistent in practice.

The literature on policy instruments shows that incentives and sanctions should be designed as a coherent compliance system (Vedung, 1998). Sanctions discourage non-compliance, while incentives encourage preferred behavior. In local taxation, the combination of reward and punishment is important because relying solely on sanctions may create resistance, while relying solely on incentives may weaken enforcement. A balanced approach can promote fairness and compliance.

The theoretical framework therefore integrates policy implementation theory, public management, good governance, tax compliance, behavioral insights, service quality, information systems, and institutional capacity. These perspectives lead to one central proposition: fiscal incentive policy can support PAD optimization only when it is implemented through accurate data, clear rules, capable officers, consistent communication, and accountable monitoring.

METHOD

This article is based on a qualitative descriptive study conducted at the Regional Revenue Agency of North Minahasa Regency. A qualitative approach is appropriate because the main objective is to understand the implementation process, perceptions of policy actors, administrative constraints, and institutional dynamics surrounding fiscal incentives for compliant taxpayers. The study does not seek to test statistical relationships, but to interpret how policy is translated into practice.

The locus of analysis is local tax administration, especially the implementation of fiscal incentives related to taxpayer compliance and PAD optimization. The study focuses on how the policy is formulated, prepared, socialized, executed, and evaluated. It also examines how taxpayer responses, officer capacity, data systems, SOPs, and institutional coordination shape implementation performance.

Data were obtained through interviews, documentation, and secondary data review. Informants included regional leadership, officials of the revenue agency, secretariat actors, heads of relevant tax fields, technical officers, data and billing personnel, and stakeholders who understand local tax administration. Documents included local revenue data, policy planning materials, administrative references, and relevant regulatory documents.

Data analysis followed the interactive model of Miles, Huberman, and Saldana, which consists of data condensation, data display, and conclusion drawing (Miles et al., 2014). Interview and document materials were condensed into themes such as policy formulation, taxpayer database preparation, compliance criteria, socialization, technical implementation, taxpayer response,

human resources, data validity, SOPs, and monitoring. The themes were then displayed through narrative analysis, tables, and visual models.

Validity was strengthened through triangulation. Source triangulation was conducted by comparing the views of different informant categories. Method triangulation was conducted by comparing interview findings with documents and secondary data. The article reorganizes the empirical material into a journal-style manuscript while preserving the substantive meaning of the study and avoiding personal or thesis-identifying references in the article body. See table 1.

Table 1. Research informants involved in the study.

No.	Informant category	Role in policy implementation	Information obtained
1	Regional leadership	Policy direction and fiscal consideration	Legal basis, policy objectives, fiscal sustainability, strategic direction
2	Head of revenue agency	Main institutional implementer	Implementation design, coordination, revenue target, tax administration strategy
3	Agency secretary	Administrative coordinator	Internal coordination, budgeting, documentation, support system
4	Tax division officials	Technical managers	Taxpayer criteria, PBB-P2 administration, verification, service flow
5	Data and billing officers	Operational actors	Data validity, arrears, taxpayer records, field constraints
6	Socialization/service officers	Communication actors	Public outreach, taxpayer response, service challenges
7	Related stakeholders	Contextual observers	Public perception, compliance motivation, policy acceptability

RESULTS AND DISCUSSION

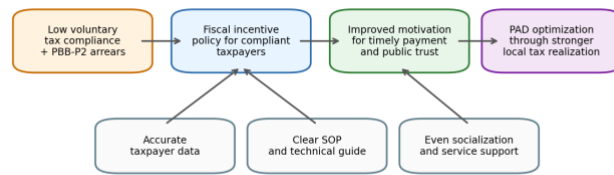
The findings show that the implementation of fiscal incentives for compliant taxpayers has moved through a relatively systematic administrative sequence. The process began with policy formulation and the recognition that low tax compliance cannot be addressed only through sanctions. Officials viewed the incentive policy as a strategic instrument to motivate voluntary payment and strengthen the relationship between the local government and taxpayers.

At the formulation stage, the policy was framed as a careful intervention rather than a spontaneous discount. Regional decision makers emphasized that incentives must be gradual, measurable, and data-based so that they do not create wrong targeting or weaken fiscal sustainability. This indicates a policy awareness that local revenue innovation must balance taxpayer motivation with regional budget health.

The second finding concerns administrative and legal preparation. The revenue agency recognized that incentives need a legal and procedural foundation. Administrative review was needed to determine the type of incentive, taxpayer eligibility, potential fiscal impact, and

accountability mechanism. This stage reflects a positive governance orientation, but also shows that the policy was still developing its operational foundation. See figure 1.

Policy Logic of Fiscal Incentives for Local Own-Source Revenue Optimization



The incentive mechanism can improve compliance only when data, procedures, communication, and service capacity are aligned.

Figure 1. Policy logic of fiscal incentives for PAD optimization

The third finding is that taxpayer database preparation is the core of implementation. The policy depends on identifying which taxpayers are compliant and which taxpayers remain in arrears. Data synchronization is therefore not merely a technical activity; it is the foundation of fairness. If the data are incomplete or outdated, the incentive may be given to the wrong taxpayer or denied to taxpayers who are actually eligible.

The fourth finding relates to the determination of compliance criteria. Compliance must be defined in a measurable way: timely payment, absence of arrears, consistency of records, and fulfillment of administrative requirements. The study indicates that such criteria were recognized, but they still required clearer written guidance. Without transparent criteria, taxpayers may not understand how to qualify and officers may interpret eligibility differently.

The fifth finding concerns socialization. The policy was planned to be communicated through several channels, including village government networks, direct meetings, public announcements, letters, social media, and community forums. This multi-channel design is a strength because taxpayers are socially and geographically diverse. However, actual understanding remained uneven. Some taxpayers still perceived tax as a burden and did not fully understand the benefits of compliance.

The sixth finding is that technical execution remains the weakest stage. Field implementation requires officers who can explain the policy, verify taxpayer status, process incentive requests, and provide clear service. The agency has committed implementers, but implementation is constrained by human resource capacity, limited infrastructure, and the absence of detailed SOPs. As a result, operational consistency remains a major challenge.

Overall, implementation can be described as normatively and administratively initiated but not yet fully mature. The policy has a clear strategic intention and receives institutional support. Nevertheless, its effectiveness depends on strengthening the operational chain that connects data, criteria, communication, service, and monitoring. See table 2.

Table 2. Implementation stages of fiscal incentive policy

Stage	Observed practice	Positive indication	Remaining weakness
Policy formulation	The policy was designed as a reward mechanism for compliant taxpayers and as an instrument to improve PAD.	Leadership commitment and legal awareness were present.	The policy still needed detailed technical translation.

Stage	Observed practice	Positive indication	Remaining weakness
Administrative/legal review	The agency considered fiscal capacity, legality, targeting, and accountability before execution.	The policy was not treated as a spontaneous discount.	Operational provisions were not yet fully standardized.
Taxpayer database preparation	Taxpayer data were prepared and synchronized to identify eligible taxpayers.	The agency recognized data as the basis for fairness.	Data validity and updating remained insufficient.
Compliance criteria	Criteria for compliant taxpayers were discussed to avoid wrong targeting.	The policy tried to distinguish compliant and non-compliant taxpayers.	Criteria required clearer documentation and public explanation.
Socialization	Information was planned through villages, direct meetings, letters, social media, and community forums.	Multiple communication channels were considered.	Coverage and public understanding were uneven.
Technical execution	Officers prepared service mechanisms for applying incentives and responding to taxpayers.	Implementation began to move from concept to service practice.	SOPs and technical guidelines remained weak.

The PBB-P2 realization gap reinforces the need for policy innovation. The problem is not merely a gap between annual target and quarterly realization; it is a signal of delayed compliance behavior. Incentives can address this gap by encouraging taxpayers to pay earlier, but only when taxpayers understand the benefit and trust the process. See figure 2, table 3, and table 4.

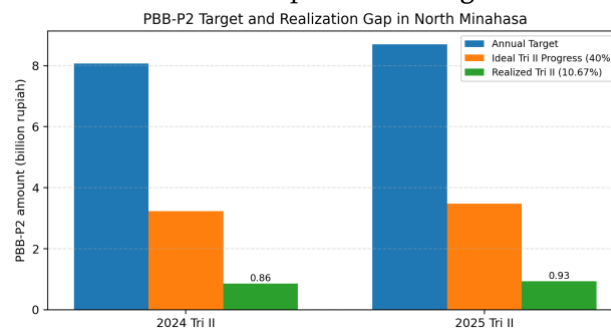


Figure 2. PBB-P2 target and second-quarter realization gap.

Table 3. Effectiveness profile of fiscal incentive implementation

Dimension	Current contribution	Observed limitation	Interpretation
Policy relevance	The policy responds to low compliance and arrears.	Public understanding is not yet evenly formed.	High relevance, partial acceptance.
Targeting accuracy	The use of taxpayer data supports fair targeting.	Data validity is not fully reliable.	Moderately effective but vulnerable.

Dimension	Current contribution	Observed limitation	Interpretation
Communication	Socialization channels have been identified.	Message transmission is uneven and not always understood.	Weak-to-moderate effectiveness.
Service orientation	The approach is more persuasive and appreciative.	Officer capacity and facilities limit consistency.	Positive direction, limited maturity.
PAD contribution	The policy can motivate earlier payment and reduce arrears.	Revenue impact is not yet fully measurable.	Potentially strategic but not yet optimal.

Table 4. Main constraints affecting implementation

Constraint	Empirical meaning	Risk for implementation	Required response
Taxpayer data validity	Records require synchronization and updating before incentives are granted.	Wrong targeting, public complaint, unfairness.	Develop regular data cleansing and verification protocol.
Uneven socialization	Not all taxpayers receive or understand policy information.	Low uptake and misunderstanding of eligibility.	Use village-level communication, digital media, and simple public guides.
Human resource capacity	Officers need stronger technical, digital, and communication competence.	Slow service, inconsistent interpretation, dependency on few staff.	Provide practical training and role distribution.
SOP and technical guidelines	Operational rules are not yet sufficiently detailed.	Multitafsir and inconsistency in service delivery.	Prepare written SOP, eligibility checklist, and workflow map.
Budget and infrastructure	Facilities and operational support are limited.	Weak outreach, slow data processing, limited monitoring.	Allocate resources for data systems, field service, and communication tools.
Monitoring and evaluation	Outcome measurement is still developing.	Policy may continue without evidence of net benefit.	Track compliance rate, arrears reduction, payment timing, and revenue effect.

The findings can be interpreted through Edward III's implementation framework. Communication is the first variable, and it remains a major challenge. Although socialization has been planned through multiple channels, the transmission of policy information has not produced uniform taxpayer understanding. Implementation theory suggests that unclear or uneven communication may distort policy meaning and reduce compliance (Edward III, 1980). In this case, the incentive will not work if taxpayers do not know that it exists, do not understand eligibility, or distrust the process.

The second variable is resources. The findings show that data, human resources, budget, and facilities strongly influence implementation. Taxpayer data are especially important because they determine targeting accuracy. Grindle argues that administrative capacity is essential for policy

implementation (Grindle, 1980). In North Minahasa, the policy cannot be fully effective until taxpayer records are current, integrated, and regularly validated.

The third variable is disposition. Officers and leaders generally show positive commitment to the policy. They understand that incentives can improve taxpayer motivation and support PAD optimization. However, positive disposition does not automatically produce effective implementation. Commitment must be supported by skills, tools, and procedures. Otherwise, officers may support the policy conceptually but struggle in execution.

The fourth variable is bureaucratic structure. The revenue agency has a formal organizational structure with divisions responsible for tax administration, data, billing, and services. Yet structure must be operationalized through SOPs. The absence of detailed SOPs creates the risk of inconsistent interpretation across officers. In policy implementation, unclear bureaucracy can become a bottleneck even when policy goals are widely accepted (Edward III, 1980).

From a management perspective, the policy reflects planning and organizing but still needs stronger actuating and controlling. Planning appears in the formulation of policy objectives and the consideration of fiscal capacity. Organizing appears in internal coordination. Actuating is still constrained by uneven socialization and service limitations. Controlling is still developing because monitoring indicators for compliance, arrears reduction, and PAD impact are not yet fully institutionalized.

The policy also has a behavioral dimension. It attempts to shift taxpayer motivation from fear of sanctions to recognition of compliance. Frey and Torgler explain that tax morale is strengthened when taxpayers perceive government as fair and respectful (Frey & Torgler, 2007). This is why incentives can be powerful: they create a visible signal that the government values compliant behavior. However, the signal will be weakened if eligibility is unclear or service is inconsistent.

Public trust is therefore central. Taxpayers will respond positively only when they believe that the policy is fair, transparent, and accessible. If the public perceives that incentives are given selectively or that information is difficult to obtain, the policy may generate cynicism rather than compliance. Good governance principles require transparent criteria, accountable procedures, and responsiveness to citizen questions (UNDP, 1997).

The revenue effect of incentives must also be carefully understood. A tax discount can reduce nominal liability in the short term, but it can increase revenue in the medium term if it accelerates payment, reduces arrears, broadens compliance, and builds tax morale. Bird and Vaillancourt emphasize that local revenue optimization requires administrative capacity, not only tax authority (Bird & Vaillancourt, 1998). The fiscal value of incentives should therefore be measured by net improvement in payment behavior and revenue realization.

The PBB-P2 realization gap demonstrates why the policy matters. When second-quarter realization remains at 10.67 percent against an ideal 40 percent progress, the problem is not only technical collection. It reflects weak taxpayer motivation, administrative constraints, and possibly limited public trust. The incentive policy can become a corrective instrument if it encourages earlier payment and reduces the accumulation of arrears.

Data governance is the most important technical condition. The policy requires a reliable database of taxpayers, payment history, arrears, property objects, and eligibility status. Information system theory shows that decision quality depends on data quality (Laudon & Laudon, 2019). If data are inaccurate, the policy cannot be fair. Therefore, data validation should be treated as a governance reform, not as a routine clerical task.

Human resource capacity is another determinant. Officers need to understand tax regulation, incentive rules, digital data systems, public communication, and service ethics. Morgan defines capacity as the combination of abilities, systems, and relationships that enable performance (Morgan, 2006). This means that capacity building should not only train individuals but also strengthen organizational workflows and coordination.

Socialization must also be redesigned. Information should be simple, repeated, and locally accessible. Many taxpayers may not read formal notices or understand technical terms. Behavioral insights suggest that messages should be salient, clear, and action-oriented (Hallsworth, 2017). The agency can prepare simple FAQs, eligibility examples, payment deadlines, and benefit explanations through village channels and digital platforms. See figure 3.

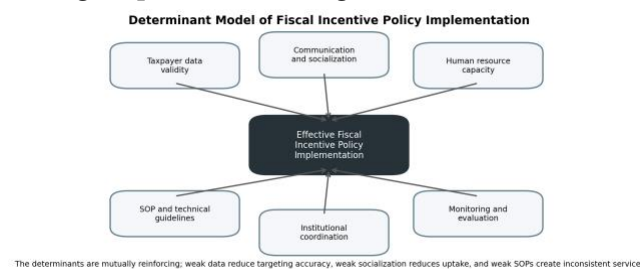


Figure 3. Determinant model of fiscal incentive policy implementation.

The absence of detailed SOPs should be addressed urgently. SOPs are not merely administrative documents; they protect fairness and consistency. A good SOP should specify eligibility criteria, required documents, verification steps, responsible officers, service time standards, complaint mechanisms, data update procedures, and reporting formats. This will help prevent discretionary implementation and reduce confusion among taxpayers.

The discussion matrix presented in this article links findings with theoretical implications. It shows that the problem is not located in one isolated factor. Weak data affects targeting. Weak communication affects public understanding. Weak SOPs affect consistency. Weak capacity affects service. Weak monitoring affects learning. Therefore, the solution must be integrated rather than fragmented.

In broader terms, the fiscal incentive policy represents a form of local fiscal innovation. It has the potential to create a more positive relationship between government and taxpayers. However, innovation requires institutionalization. A policy becomes institutionalized when it is supported by written rules, stable routines, trained personnel, reliable data, and periodic evaluation. North Minahasa has initiated the policy foundation, but it needs stronger operational maturity.

The practical implication is that PAD optimization should not be reduced to raising targets or intensifying billing. It must include taxpayer education, service quality, incentive mechanisms, enforcement consistency, and data modernization. A region can increase revenue more sustainably when taxpayers understand obligations, experience fair service, and see that compliance is appreciated.

The model proposed in Figure 3 synthesizes the determinant factors. It shows that effective implementation is shaped by taxpayer data validity, communication and socialization, human resource capacity, SOPs and technical guidelines, institutional coordination, and monitoring and evaluation. These determinants interact. For example, better socialization without valid data may increase questions that cannot be answered. Better SOPs without trained staff may remain unused. Better monitoring without transparent communication may not build trust.

Thus, the main argument of the article is that fiscal incentives are promising but conditional. They can support taxpayer compliance and PAD optimization if they are implemented as part of a broader governance system. The incentive must be more than a discount. It must become an instrument for administrative discipline, taxpayer engagement, and institutional learning. See table 5.

Table 5. Discussion matrix linking findings, theory, and implications

Finding	Interpretive theory	Meaning for North Minahasa	Strengthening direction
Implementation is systematic but not fully mature.	Policy implementation model (Edward III, 1980)	Communication, resources, disposition, and structure are not equally strong.	Strengthen all variables together, not separately.
Data validity is a central bottleneck.	Information system theory (Laudon & Laudon, 2019)	Eligibility and fairness depend on accurate taxpayer records.	Build integrated data governance and routine validation.
Socialization is not evenly understood.	Behavioral public policy (Hallsworth, 2017)	Taxpayers need clear, salient, and trusted messages.	Use simple language and repeated community-level communication.
Officers are committed but technically constrained.	Institutional capacity (Morgan, 2006)	Positive disposition is not enough without skills and resources.	Provide practical training and operational support.
SOPs are not yet detailed.	Bureaucratic structure (Edward III, 1980)	Implementation may vary across officers and locations.	Create standardized workflow and eligibility checklist.
Incentives can improve compliance but impact must be measured.	Tax morale and fiscal governance (Frey & Torgler, 2007; Bird & Vaillancourt, 1998)	Reward mechanisms must produce net fiscal and trust benefits.	Evaluate payment timing, arrears reduction, and PAD realization.

Proposed Strengthening Strategy

Based on the findings and discussion, an integrated strengthening strategy is proposed. The first pillar is taxpayer data governance. The revenue agency should conduct systematic data cleansing, synchronization, and verification of taxpayer records. This includes payment history, arrears, object data, taxpayer identity, and eligibility status. Data validation should be conducted before incentive implementation and updated periodically.

The second pillar is SOP and technical guideline refinement. The agency should prepare operational documents that explain eligibility criteria, service flow, verification requirements, approval authority, documentation, reporting, and complaint handling. These documents should be written in clear language and used consistently by all units involved in the policy.

The third pillar is human resource capacity building. Officers should receive training in local tax regulation, fiscal incentive mechanisms, data processing, digital administration, taxpayer communication, and service ethics. Training should use real cases from PBB-P2 administration so that officers can directly connect theory with daily practice.

The fourth pillar is an integrated communication strategy. Socialization should combine formal and informal channels. Formal channels include official letters, announcements, service

counters, and government websites. Informal and community channels include village meetings, religious/community forums, social media, local leaders, and public information boards. Messages should explain what the incentive is, who qualifies, how to access it, and why timely payment matters for public services.

The fifth pillar is monitoring and evaluation. The agency should track indicators such as taxpayer participation, number of eligible taxpayers, payment timing, arrears reduction, PBB-P2 realization, taxpayer complaints, and cost-benefit effects. Evaluation should be conducted periodically so that the policy can be refined rather than repeated without evidence.

The sixth pillar is public transparency and trust building. Aggregate results should be communicated to the public in simple form. The agency can report how many taxpayers used the incentive, how payment timing improved, how arrears decreased, and how PAD supports development. This will connect tax compliance with visible public value. See table 6.

Table 6. Integrated strengthening strategy for fiscal incentive effectiveness

Pillar	Main action	Responsible actors	Expected output	Expected outcome
Data governance	Clean, update, and integrate taxpayer records regularly.	Revenue agency, technical tax fields, village/subdistrict partners.	Verified taxpayer database and eligibility list.	Fair targeting and reduced dispute.
SOP refinement	Prepare workflow, criteria, forms, service standards, and appeal mechanisms.	Agency leadership and legal/technical teams.	Operational manual for fiscal incentives.	Consistent service and accountability.
Capacity building	Train officers in tax data, communication, digital tools, and service ethics.	Revenue agency and training partners.	More competent implementers.	Faster and more reliable implementation.
Communication strategy	Use direct meetings, village networks, social media, letters, and simple FAQs.	Revenue agency, village governments, public relations team.	Clear public understanding of incentives.	Higher policy uptake and trust.
Monitoring system	Track compliance rate, payment timing, arrears, revenue impact, and complaints.	Planning, evaluation, and tax divisions.	Evidence-based evaluation dashboard.	Policy refinement and PAD optimization.
Public trust building	Publish transparent criteria and report aggregate results to the public.	Revenue agency and regional government.	Accountable public information.	Stronger voluntary compliance culture.

The strategy should be implemented as a cycle of improvement. Data verification produces a reliable eligibility base. Clear SOPs transform policy into predictable service. Trained officers translate rules into public-facing action. Communication increases taxpayer awareness. Monitoring

generates evidence. Public transparency converts evidence into trust. When repeated, this cycle can gradually transform the fiscal incentive from an experimental policy into an institutionalized compliance mechanism.

Practical Implications for Local Revenue Governance

The practical implication of this study is that PAD optimization should be managed as an integrated public administration reform. Local revenue agencies often focus on annual revenue targets, yet target pressure alone does not automatically create compliance. Taxpayers need clear information, accessible payment mechanisms, credible data, and a sense that government treats compliant behavior fairly. Therefore, the fiscal incentive policy should be placed within a broader modernization agenda for local tax administration.

First, the agency needs to transform taxpayer data into a strategic asset. Data should not only be stored for billing purposes but also analyzed to identify patterns of compliance, arrears, payment timing, taxpayer segments, and areas requiring socialization. A simple segmentation can distinguish consistently compliant taxpayers, late but active taxpayers, long-term arrears, and taxpayers requiring data correction. Each segment requires a different communication and service strategy.

Second, the incentive policy should be accompanied by taxpayer education. Many taxpayers may not distinguish between tax obligation, administrative sanction, relief, discount, and incentive. If terms are not explained clearly, the policy may be misunderstood as a general tax reduction rather than a reward for compliance. Education should explain that incentives are linked to responsible citizenship and that PAD supports infrastructure, public services, and local development.

Third, implementation should create a balance between fairness and fiscal prudence. The incentive must be attractive enough to change behavior but not so broad that it weakens revenue. This balance can be achieved by applying time-bound incentives, eligibility criteria, graduated benefits, and periodic review. For example, incentives can be stronger for early payment and more limited for late payment. This will encourage taxpayers to adjust behavior before arrears accumulate.

Fourth, the policy should strengthen the service identity of the revenue agency. A taxpayer who visits an office or receives a message from an officer should experience the government as clear, respectful, and reliable. This matters because service experience shapes tax morale. When the public encounters complicated procedures, unclear explanations, or inconsistent information, even a financially attractive incentive may not produce trust. Service quality is therefore part of revenue strategy.

Fifth, monitoring should not be limited to financial realization. It should also measure behavioral and administrative indicators. These include the number of taxpayers informed, number of taxpayers using incentives, average payment date, arrears reduction, number of data corrections, number of complaints, and officer response time. Such indicators allow the agency to learn whether the policy improves compliance behavior or only shifts revenue temporarily.

Sixth, the policy can become a model for other local taxes beyond PBB-P2 if it is implemented carefully. Restaurant tax, hotel tax, entertainment tax, and other regional taxes have different taxpayer characteristics, but the logic of rewarding compliance can still apply. However, expansion should be based on evaluation. A pilot implementation in PBB-P2 should first prove that the system can target taxpayers fairly, communicate clearly, and generate measurable benefits.

Seventh, the regional government should connect incentive policy with public accountability. Taxpayers are more likely to comply when they can see that PAD contributes to

visible development outcomes. Public communication should not only announce incentives but also show how local tax revenue supports roads, education, health, sanitation, public facilities, and administrative services. This connection between payment and benefit is important for strengthening long-term tax morale.

Eighth, coordination with village and subdistrict governments can make implementation more effective. Many taxpayers are closer to local community structures than to the revenue agency office. Village officials, neighborhood leaders, and community forums can help explain policy information, validate taxpayer data, and encourage payment discipline. However, this coordination must be guided by clear roles so that information remains consistent and accountability is maintained.

In addition, institutionalization requires leadership continuity. A fiscal incentive policy should not depend only on a temporary initiative or a single fiscal year campaign. It should be embedded in planning documents, budget support, organizational performance indicators, and staff job descriptions. When the policy is connected to routine planning and evaluation, future leadership changes will not easily interrupt the learning process. This continuity is important because taxpayer behavior changes gradually. Trust, discipline, and willingness to pay are built through repeated experiences of fair service and consistent rules.

Finally, the policy should be institutionalized through annual learning. At the end of each fiscal year, the agency should compare revenue performance before and after incentives, assess taxpayer feedback, identify operational errors, and revise the SOP. This learning cycle will prevent the policy from becoming a one-time campaign. It will turn fiscal incentives into a sustained mechanism for improving local revenue governance.

CONCLUSION

This article concludes that fiscal incentive policy for compliant taxpayers in North Minahasa Regency is a strategically relevant instrument for optimizing local own-source revenue. The policy responds to a real compliance problem, particularly in PBB-P2, where second-quarter realization has remained far below ideal progress. The policy also introduces a more persuasive and service-oriented approach to local tax administration. The implementation process has been initiated through policy formulation, administrative and legal review, taxpayer database preparation, determination of compliance criteria, socialization, and technical execution. These stages indicate that the policy is not merely conceptual. It has begun to enter the administrative structure of the revenue agency and is supported by leadership awareness and implementer commitment. However, implementation has not yet reached optimal maturity. The main constraints are inadequate taxpayer data validity, uneven socialization, limited human resource capacity, weak SOPs and technical guidelines, limited supporting facilities, and incomplete monitoring. These constraints reduce targeting accuracy, service consistency, public understanding, and the capacity to measure revenue impact. The article argues that fiscal incentives can improve compliance and support PAD optimization only when the policy is embedded in a strong governance system. The incentive must be supported by accurate data, transparent criteria, capable officers, clear procedures, consistent communication, and evidence-based evaluation. Without these elements, the policy may remain administratively present but operationally weak. The recommended strategy is integrated strengthening through data governance, SOP refinement, capacity building, communication

redesign, monitoring and evaluation, and public transparency. When these elements are improved together, fiscal incentives can become not only a short-term revenue tool but also a long-term mechanism for strengthening taxpayer trust, voluntary compliance, and local fiscal resilience.

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