

THE EFFECT OF LOCAL TAXES, LOCAL RETRIBUTIONS, AND CAPITAL EXPENDITURES ON LOCAL OWN-SOURCE REVENUE (EVIDENCE FROM BENGKULU REGENCY)

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Abstract

This study examines the impact of local tax, local retribution, and capital expenditure on the local own-source revenue of the Bengkulu Regency from 2013 to 2017. This study utilizes the actual data of the actual local government budget from the Indonesian Audit Board. Fifty data from 10 cities were sampled representing Bengkulu Regency. This study uses multiple regressions to examine the effect. The result shows that local tax and capital expenditure significantly affect Local Own-Source Revenue, while local retribution does not affect.

Keywords: Local Tax, Local Retribution, Capital Expenditure, Local Own-Source Revenue.

I. INTRODUCTION

One sign of economic inequality is the different economic growth rates in each region [1]. It means that the rate of economic growth can reduce the level of economic inequality. One of the factors that can increase economic growth is Local Own-Source Revenue [2]. Thus, economic growth would increase if PAD collected by local governments is also large. That study explained that local own-source revenue components, namely local taxes and local retributions, are returned to the community to develop and grow the regional economy.

This study focuses on the factors that affect local own-source revenue in Bengkulu Regency. This study refers to Kusuma & Wirawati [3], which uses local tax and local retribution factors as independent variables. This study adds capital expenditure factors to predict another factor affecting local own-source revenue. It is because Bengkulu does not belong to the advanced regional category. After all, the facilities and infrastructure are still inadequate. Therefore, this study analyzes local taxes, local retribution, and capital expenditures that affect local own-source revenue.

Local own-source revenue (PAD) is one component of regional revenue. It contributes to government spending funding, both operating expenditures, and capital expenditures. PAD in each region varies depending on how the local government explores the potential of the area. Areas with a low PAD usually depend on the transfer of funds from the central government. Therefore, it needs special attention from the government to manage PAD so that the results are obtained optimally.

Various studies on PAD have been conducted. Aryanti & Indarti [4] analyzed PAD's factors in Semarang city for 2000-2009. The results showed that Gross Regional Domestic Product (GDP) had a positive

effect on PAD. However, other results show that inflation does not affect the increase of PAD. The rate of inflation is used as the basis for setting tax rates and local retributions. However, the high or low determination of local tax rates and local retribution does not affect PAD increase. Similar research was also conducted by Adriani & Handayani [5] that GDP positively influenced PAD, but the population had a negative influence, and the influence was not partially significant on PAD of Merangin Regency for the period 1991 to 2006.

Suhadak & Saifi [6] predict local taxes affect the increase in PAD. They figured out local taxes, including hotel tax, restaurant tax, entertainment tax, billboard tax, street lighting tax, and parking tax. The results showed that restaurant tax, entertainment tax, billboard tax, street lighting tax are partially positively associated with PAD. However, the hotel tax and parking tax have no partial effect on PAD.

On the other hand, Kusuma & Wirawati [3] analyzed local tax receipts and local retribution on the increase of PAD in Bali. The results showed that local tax receipts and local retribution significantly affected the increase in PAD. Based on previous studies, it can be concluded that local taxes and local retribution are factors that affect PAD.

High PAD is usually followed by increased capital expenditure [7]. The question arises when a regency has not been categorized as an advanced regency. How will PAD increase if the facilities and infrastructure are still inadequate? The decentralization system focuses on development that is the top priority of local governments to support PAD improvement. Therefore, capital expenditure can have a positive and significant effect on PAD [8].

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. *Local Own-Source Revenue (PAD)*

According to Law No. 33, the year 2004 [9], PAD is defined as income earned by regions collected based on government regulations following the laws and regulations. PAD consists of local taxes, local retribution, the revenue of regional-owned companies, and the management of separated regional wealth and other legitimate PAD. The purpose of PAD is stated in Law No. 33/2004 [9]. It gives the region authority to fund regional autonomy following the region's potential as the embodiment of decentralization. PAD consists of 4 components, as follows.

1. *Local Taxes*

According to Law No. 28, the year 2009 [10] concerning Local Taxes and Charges, tax is a mandatory contribution to the Region owed by private individuals or entities that is coercive under the Law, by not getting rewarded directly and used for the Region for the greatest prosperity of the people. The local tax consists of provincial tax and district/city tax. The provincial tax consists of motor vehicle tax, name and motor vehicle refund, motor vehicle fuel tax, surface water tax, and cigarette tax. The district/city tax consists of hotel tax, restaurant tax, entertainment tax, advertising tax, street lighting tax, parking tax, tax on non-metal mineral and rock, groundwater tax, swallow nest's tax, rural and urban land, and building tax, and tax object sale value. Regions are given the authority to determine the number of regional tariffs imposed in the region through the Regional Regulation (PERDA) if it does not exceed the minimum and maximum tariffs listed in Law No. 28/2009 [10].

2. *Local Retribution*

Local retribution defined in Law No. 28 the year 2009 is the regional charges after this referred to as retribution, is regional charges as payment for particular services or permits expressly provided and/or granted by the Local Government for the benefit of a person or entity [10]. The object of retribution consists of three kinds, namely:

a. *Public Services*

Public services are services provided or given by the Regional/Local Government for public interest and benefit and can be enjoyed by private persons or Entities. The types of public service fees are as follows: retribution for health/ medical service, garbage disposal/cleanliness services, compensation of printing residential identity cards and civil registry deeds, burial and cremation services, parking services at sides of public roads, market services, motor vehicle testing, an inspection of firefighting equipment, compensation of printing maps, the supply and/or suction of toilets, liquid waste management/processing, calibration, and re-calibration services, education services, and telecommunications tower control.

b. *Business Services*

Business services are services provided by the Regional/Local Government adhering to commercial principles, which include services by using/utilizing Regional assets that have not been optimally used, and services by the Regional Government if they have not been provided adequately by the private sector. The types of business service retribution are charges for the utilization of regional assets, wholesale markets and/or shops, auction venues, terminals, parking spaces, hotels/lodging/villas, animals' slaughterhouses, port services, recreational and sports centers, water crossings, and sales of regional business production.

c. *Certain Permits*

Specific permits are permit services by the Regional Government for private persons or entities intended for managing and monitoring activities of space usage, utilization of specific natural resources, goods, infrastructures, and facilities to protect the public interest and preserve the environment. Certain types of permit retribution include building construction permits, selling alcoholic drinks, disturbance permits, routing permits, and fishery business permits.

3. *Results of the Management of Separated Regional Assets*

According to the Regulation of the Minister of Home Affairs (PERMENDAGRI) No. 59 the year 2007 [11], the types of proceeds from the management of separated regional assets are detailed according to the revenue objects. The details consist of the share of the return on investment in Government-Owned Enterprise (BUMD), the share of the return on capital participation in State-Owned Enterprises (BUMN), and the share of the return on equity participation in private companies or community business groups.

4. *Other legal PAD*

Other types of legitimate original regional income are provided to regional budget revenues that are not included in the types of local taxes, local retributions, and the results of the management of regional assets, which are separated by itemized income objects. These details include the proceeds from the sale of regional assets that are not separated in cash or installments, current accounts, interest income, receipts for regional compensation, commission receipts, discounts, or other forms. As a result of the sale and/or procurement of goods and/or services by the regions, receiving profits from the difference in the exchange rate of the rupiah against foreign currencies, income from penalties for late execution of work, income from tax penalties, retribution penalties, income from the execution of guarantees, income from returns, social facilities and public facilities, income from education and training, and income from the Local Public Service Agency (BLUD).

B. Capital Expenditures

Based on the Regulation of Minister of Finance (PMK) No. 196 the year 2015 [12], capital expenditures are expenditures for the payment of the acquisition of fixed assets and/or other assets or add value to fixed assets and/or other assets that benefit more than one accounting period and exceed the limit. Minimum capitalization of fixed assets/other assets determined by the government. Capital Expenditures consist of Capital Expenditures for Land, Capital Expenditures for Equipment and Machinery, Capital Expenditures for Buildings and Buildings, Capital Expenditures for Roads, Irrigation and Networks, Other Capital Expenditures, Value Added Expenditures for Fixed Assets/Other Assets and Capital Expenditures. An expenditure can be categorized as a capital expenditure if:

1. these expenditures result in the acquisition of fixed assets or other fixed assets that add to government assets.
2. The expenditure exceeds the minimum capitalization limit for fixed assets or other fixed assets set by the government.
3. The acquisition of fixed assets is intended to be used in government operations, not to be sold or handed over to the community.

C. The Effect of Local Taxes and Local Retributions on PAD

Local taxes and local retribution are a source of revenue from PAD. The size of the PAD funds collected is based on these two things. The government must be wise in making local regulations regarding tax and retribution rates. People do not feel too burdened by these retributions and will eventually threaten the macroeconomy [13].

Research by Asriyawati [14] shows that hotel tax and advertisement tax do not have a partial effect on PAD, and restaurant tax has a partial effect on PAD. Simultaneously, the study results show that all variables affect PAD. Asteria [15] predicts the influence of local tax revenues and levies on PAD districts/cities in Central Java. The results show that local taxes and retributions have a significant effect on PAD. Suprihati et al. [16] also conducted a similar study, which stated that local taxes and retributions increase PAD.

Local taxes and levies play a significant role in increasing PAD. The government should formulate tax rates and levies wisely. Tariff setting must also be adjusted by the quality and quantity of public services. If public services are good, people will not object to paying local taxes and user fees. Of course, this will have an impact on the increase in PAD. Thus, the hypothesis is as follows.

H1: Local taxes have a positive effect on PAD.

H2: Local retributions have a positive effect on PAD.

D. The Effect of Capital Expenditures on PAD

The increase in PAD should be supported by local governments' efforts to improve public services quality [17]. Local governments have allocated capital expenditures to provide direct benefits to the community. Adequate facilities and infrastructure will make it easier for people to increase productivity [8]. Furthermore, they also explain that adequate infrastructure will attract investors to open businesses to impact PAD positively. Wong [18] explains that developing specific industrial sectors (services and retail) has contributed to tax increases.

Mardiasmo [13] states that people will not pay if the quality and quantity of public services do not increase. If the community is satisfied with local government services, the community will not be burdened with local taxes and levies. It will undoubtedly have an impact on increasing PAD. Thus, the hypothesis is as follows.

H3: Capital expenditure has a positive effect on PAD.

III. RESEARCH METHODS

This study uses a quantitative approach that is associative in form and consists of three independent variables: local taxes, local levies, and capital expenditures, directly related to the dependent variable, namely Regional Original Income (PAD). A research design is as follows.

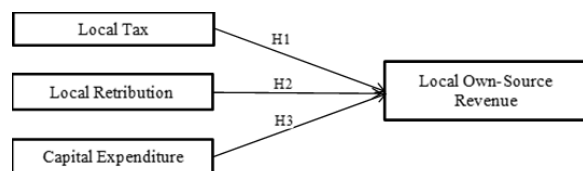


Figure 1. Research Design

A. Samples and Data

This study chose Bengkulu Regency as the object of research. Bengkulu is still included in the category of underdeveloped regions. It is because the facilities and infrastructure are still inadequate. Bengkulu has nine districts (Bengkulu Utara, Bengkulu Selatan, Bengkulu Tengah, Lebong, Rejang Lebong, Kaur, Seluma) and one municipality namely Bengkulu. The number of samples in this study amounted to 50. This study uses secondary data, namely the regional financial data that has been audited by the Supreme Audit Agency (BPK) [19]. The data are as follows.

1. Local tax for districts and cities of Bengkulu Province in 2013-2017.
2. Local retribution for districts and cities of Bengkulu Province in 2013-2017.
3. Capital expenditure from regencies and cities of Bengkulu Province in 2013-2017.

B. Data Analysis Techniques

This study used multiple linear regression analysis techniques that can be tested with a significance level

of 0.05. The analysis technique used application EViews 10 to determine or obtain a description of the influence of the independent variable of local tax (X1), local retribution (X2), and capital expenditure (X3) on the dependent variable of PAD throughout the district/city in Bengkulu (Y). The regression model is as follows.

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e \quad (1)$$

Description:

Y = Local Own-Source Revenue (PAD)

α = Constant

β = Regression Coefficient

X1 = Local Tax

X2 = Local Retribution

X3 = Capital Expenditure

IV. RESULTS AND DISCUSSION

Based on the coefficient of determination's test results, the R square value is 0.637490 or 62.22%. It means that PAD can be explained by the variables of local taxes, local levies, and capital expenditures by 63.75%, while the remaining 36.25% is explained by other factors that we do not examine.

TABLE I. DESCRIPTIVE STATISTIC

	Local Own-Source Revenue	Local Tax	Local Retribution	Capital Expenditure
Mean	4.42	1.15	4.36	1.72
Median	3.30	6.49	2.16	1.60
Maximum	1.71	7.51	2.32	3.19
Minimum	8.76	2.39	5.72	8.39
St. Dev.	3.14	1.58	5.14	5.25
Skewness	1.76	2.89	2.14	0.82
Kurtosis	6.92	10.17	7.2	3.28
Observations	50	50	50	50
Cross Section	10	10	10	10

Hypothesis 1 predicts that local tax has a significant positive effect on PAD. Based on the hypothesis test, the probability value is $0.0000 < \text{Alpha } 0.05$. Thus, the first hypothesis is supported. The results of this study are supported by Asteria [15]. It means that if local tax revenues increase, of course, PAD will also increase. Local taxes are the most considerable revenue in PAD. Therefore, taxes must be managed to create an economical, efficient, and effective collection system.

Hypothesis 2 predicts that local user fees have a significant positive effect on PAD. The probability value is $0.8624 > \text{Alpha } 0.05$, which means that the second hypothesis would not be supported. The results of this study indicate that the presence of local user fees does not affect PAD. It is due to the small or minimal revenue collected by local governments. As a result, receiving local user fees does not have a positive impact on PAD. The community also feels that the

quality of public services is inadequate, so the receipt of local retribution is small. As Adi [17] explained, the increase in PAD should be supported by local governments' efforts to improve public services quality.

Hypothesis 3 predicts that capital expenditure has a significant positive effect on PAD. Based on the hypothesis test, the probability value is $0.0000 < \text{Alpha } 0.05$. Thus, the third hypothesis is supported. This result is supported by Adi (2005). Capital expenditures focus not only on industrial infrastructure but also on various service infrastructures directly related to providing services to the public. Therefore, the government should make various efforts to improve the quality of public services through capital spending. It means that the community feels satisfied with the government's performance, and ultimately the PAD will also increase. This study also indicates that the amount of PAD received by the district/city is still heavily influenced by the capital expenditure factor [8].

TABLE II. MULTIPLE LINEAR REGRESSION RESULTS

Variable	Coefficient	t-statistic	p-value
Local Tax	1.399600	5.925155	0.0000
Local Retribution	0.119473	0.174280	0.8624
Capital Expenditure	0.154363	7.252303	0.0000
R-Squared			0.637490
Adjusted R-Squared			0.622064

V. CONCLUDING REMARKS

This study examines the impact of local tax, local retribution, and capital expenditure on the local own-source revenue of the Bengkulu Regency, especially for years of observation from 2013 to 2017. The result shows that two of our factors are supported to affect the PAD. Local tax revenue has a significant positive effect on PAD in Bengkulu. It indicates that if local tax revenue increases, PAD will also increase. Capital expenditure has a significant positive effect on PAD districts/cities in Bengkulu Province. This condition reflects that if the government makes efforts to build infrastructure facilities and services and services, it will contribute positively to PAD. Besides, revenue from local retribution has no effect on PAD in Bengkulu. It means that local user charges do not have a substantial role in PAD. It can be caused by the small or minimal revenue from local retribution. Overall, this study implies that the government in Bengkulu must make efforts to increase revenue from PAD through local taxes and retribution. The government must also focus on capital expenditures such as constructing facilities and infrastructure to leverage the public services to increase PAD.

This study has several limitations. This study only uses secondary data from the Indonesian Audit Board. The addition of primary data (for example, interviews) directly from district/city governments in Bengkulu can complement this study's analysis. Moreover, the object of this research is only in Bengkulu. There are

differences in conditions between Indonesia regions, so this study's results may not be generalizable. Future research can analyze all the regions in Indonesia or consider other factors such as General Allocation Funds and Special Allocation Funds.

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