

The Effect of Regional Tax and Regional Returns on Increasing Regional Income of West Java Province

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Fiscal policy is the policy of the central government regarding balancing and adjusting income and welfare for the development and welfare of a region within the country and also local government policies in the form of regional tax levies and regional levies which are the main focus of attention in the development of a country's territory. The purpose and objective of this thesis is to determine the effect of regional taxes and regional levies on increasing regional original income along with the growth rate of local taxes and regional levies on increasing Regional Original Income (PAD). The research subjects were the West Java Provincial Government and the Research Object was regional tax revenues, receipt of regional retribution and Regional Original Income (PAD). The data analysis method used both a descriptive method and a relationship analysis method. Data sources used are secondary data sources with data collection techniques in the form of observation, library research and internet studies. The analytical tools used are multiple regression test, classical assumption test and panel data regression. The results of the statistical data processing produced the result that there was no deviation after the analysis and correction of data analysis was carried out using Eviews version 10. The results of the study explained that Regional Taxes partially and simultaneously affected the increase in Regional Original Income (PAD), Regional Retribution partially and simultaneously influence Regional Original Income (PAD) and that the Regional tax growth rate tends to be greater than the rate of growth of regional levies. Suggestions are made to the DaTi I Government of West Java Province in order to maintain and increase revenue in the Regional Tax sector and focus and maximize the revenue process from Regional Retribution and Other Research in order to be able to develop research studies and research instruments.

Key words: *Regional Taxes, Regional Original Income (PAD), Regional Retribution.*

Introduction

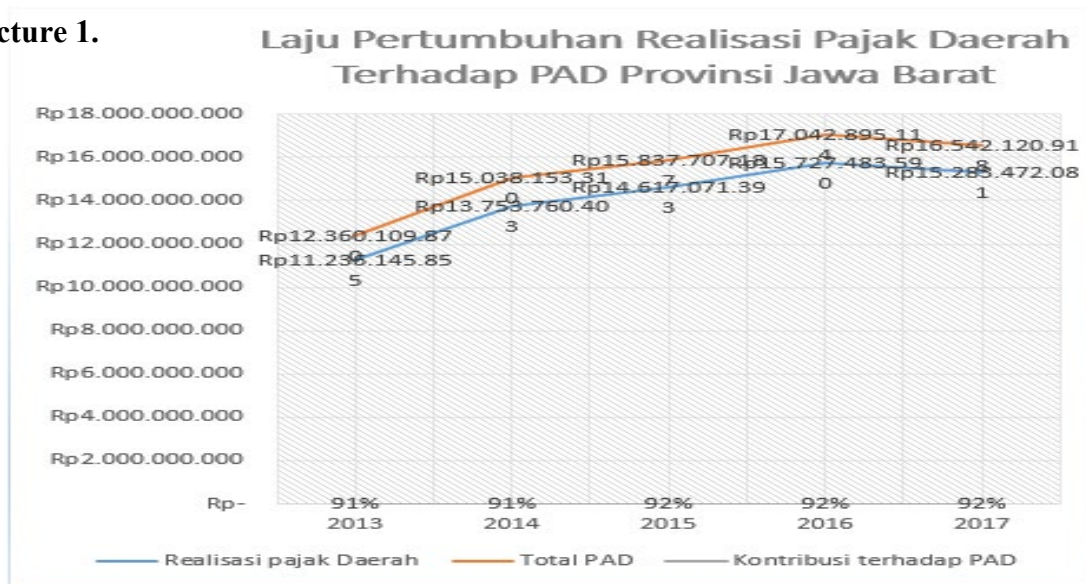
The 1945 Constitution Article 18 Paragraph 1 states that Indonesia as the Unitary State of the Republic of Indonesia (NKRI) is divided into provincial regions where each province is divided into regencies and cities that have regional government and are regulated by law. According to Bastian (2001) a province, regency and city consist of a region covering all parts that become the authority of a region and the community includes a group of individuals formed on an element consisting of individual households, companies and governments. With the existence of regional and community elements, the Central Government and Regional Government were formed.

The Central Government has a role in managing in the public and state sphere which includes fiscal management policies, monetary management and separated state wealth management, while the Regional Government has roles including management of regional revenues, regional expenditure, regional wealth management and loan management (Dewi Salma Murniati, 2017; Abdul Hadi et al., 2018; Sehic, 2017). According to Murniati (2017) in developing regions the community to prosper, the regional government must be able to manage regional revenues well so that Regional Original Revenues (PAD) increase. To increase PAD, local governments can increase regional revenues sourced from Regional Taxes, Regional Levies, Results of Management of Separate Regional Wealth and Other Legitimate PADs. Of the four types of PAD, regional taxes and regional fees have a very important role in increasing PAD.

In order to be able to build the region and prosper the community, the regional government must be able to manage regional revenue. The most important regional revenue is through regional tax and regional retribution. According to Law No. 28 of 2009 regional taxes and regional levies are one of the important sources of regional income to finance the implementation of local government both in building and prospering the community and as such, it is necessary to expand the object of regional taxes and regional levies and discretion in tariff setting.

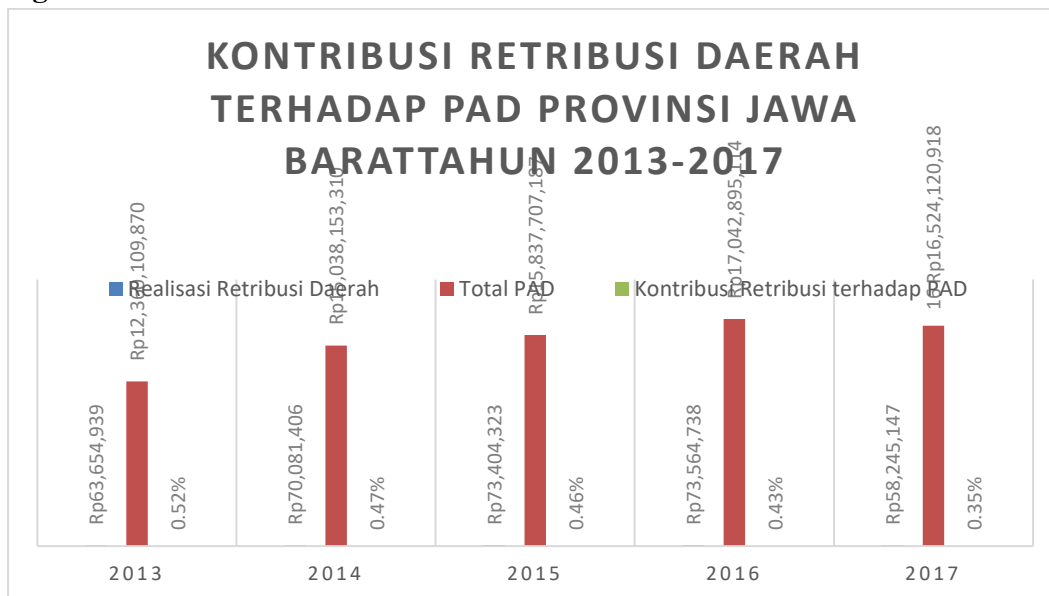
Based on Law Number 28 of 2009, the West Java province issued West Java regional regulation number 13 of 2011 concerning regional taxes and number 19 of 2014 concerning regional retribution. West Java Province from 2013-2017 received local taxes of more than Rp 10,000,000,000 (ten billion rupiah). The regional tax revenue rate from 2013-2017 to PAD (Regional Original Revenue) is as follows:

Picture 1.



Whereas if seen from the contribution of regional retribution on PAD in West Java province from 2013-2017 are as follows:

Figure 2.



Based on the picture above, it can be seen that regional tax revenues and regional retributions have an imbalance between regional tax revenues and regional retribution on PAD (Regional Original Revenue) of West Java Province. This imbalance can be seen from local tax revenues which experienced a significant increase from 2013-2017, whereas if seen from the receipt of regional levies, the increase was less than 1%.

Literature review

Regional Original Income (PAD)

According to Muhtada (2016), regional original income is income earned by local governments sourced from the resources owned by the local government. Regional original income is income earned by regions collected under regional regulations in accordance with laws and regulations (Law No. 33 of 2004).

Erlina (2015) states that local revenue (PAD) can be grouped into three categories, namely:

PAD through stipulation

PAD that falls into this category is the demand for regional compensation, regional income for delays in the implementation of work, income from tax penalties and income from fine fees where these revenues are recognized when a decree has been issued for the related income.

PAD without stipulation

PAD included in this category is the receipt of demand deposits, deposit interest income, commissions, deductions and the difference in the rupiah exchange rate, return on income, social facilities and public facilities, income from education and training, instalment income / sales instalments, and yields from the utilization of regional wealth where these revenues are recognized when the related party has made payments directly to regional general cash.

PAD from Guarantee Execution Results

The PAD included in this category is the income obtained from the results of executions carried out by the regional government. Where the income is recognized when the third party does not fulfil its obligations, the PPKD executes the deposit that has been deposited and acknowledges it as income. Recognition of this income is made when a valid execution document has been issued.

Local tax

Regional Tax is the contribution of taxpayers to regional governments that are owned either by individuals and/or bodies that are compelled, based on the law, not to receive compensation directly and to focus on regional needs for the greatest prosperity of the people (Law Number 28 the Year 2009). Regional taxes are divided into:

1. Provincial Tax, consisting of:
 - a) Motor vehicle tax

- b) Customs fees for motor vehicle names
 - c) Motor vehicle fuel tax
 - d) Surface water tax
 - e) Cigarette tax
2. Regency / City Tax, consisting of:
- a) Hotel tax
 - b) Restaurant tax
 - c) Entertainment tax
 - d) Advertising bill
 - e) Street lighting tax
 - f) Taxes on non-metallic minerals and rocks
 - g) Parking tax
 - h) Groundwater tax
 - i) Swallow nest tax
 - j) Rural and urban land and building tax
 - k) Fees for acquiring land and building rights

Regional Retribution

Regional levies are payments for services or special permits that are specifically provided and/or provided by local governments for the benefit of private individuals and/or agencies (Law Number 28 of 2009). Regional levies can be divided into:

1. General service levies which are fees or services provided by local governments for the purpose of the interests of individuals or bodies.
2. Business service levies are levies or services provided by local governments by adhering to commercial principles which can basically be provided by the private sector.
3. Certain licensing levies are retributions or services for certain activities of the regional government in the framework of granting permits to individuals or bodies intended for guidance, regulation, control and supervision of spatial utilization activities, use of natural resources, goods, certain infrastructure or facilities in order to protect the public interest and preserve the environment.

Research methods

Object of research

According to Sekaran (2015), the object of research is something that is the target and focus of attention of a study. In this study, the object of the research was regional tax revenue, regional retribution and local revenue.

Research methods

The research method is a scientific way to obtain valid data with objectives that can be found, proven and developed so that knowledge can, in turn, be used to understand and solve problems (Sugino, 2012). The research method used in this study is explanatory with a quantitative approach. According to Nuryaman and Christina (2015), explanatory research is research whose purpose is to obtain answers to how and why in regard to a phenomenon.

Operational Variables

Dependent Variable (Y)

The dependent variable in this study is Regional Original Income (PAD). Based on Law No. 33 of 2004 concerning Government (Central and Regional) balancing funds with PAD indicators recorded in the Annual West Java Provincial Budget Realization Report at BPS.

Independent Variable (X)

Independent variables in this study consisted of:

1. Regional Tax (X1)
Based on Law No. 28 of 2009 the local tax indicator is regional tax recorded in the annual West Java Regional Budget realization report issued by BPS.
2. Regional Retribution (X2)
Based on Law No. 28 of 2009 the indicators of regional retribution are regional retribution recorded in the annual West Java Regional Budget realization report issued by BPS.

Research Results and Discussion

Multiple Regression Test

Table 1:

Tabel Analisis Regresi

Variable	Coefficient t	Std. Error	t-Statistic	Prob.
C	1.58E+08	12250390	12.89017	0.0000
PAJAK_DAERAH	1.151074	0.041559	27.69754	0.0000
RETRIBUSI_DAERAH	0.882370	0.380697	2.317775	0.0220
R-squared	0.966194	Mean dependent var		5.80E+08
Adjusted R-squared	0.965681	S.D. dependent var		5.76E+08
S.E. of regression	1.07E+08	Akaike info criterion		39.82966
Sum squared resid	1.50E+18	Schwarz criterion		39.89422
Log likelihood	-2685.502	Hannan-Quinn criter.		39.85589
F-statistic	1886.297	Durbin-Watson stat		1.033598
Prob(F-statistic)	0.000000			

Based on Table 1, the amount of adjusted R² of 0.9666 means that 96.6% of local taxes and regional retributions are able to explain the increase in local revenue, while 3.4% is explained by other variables. This means that regional taxes and regional levies received from each district / city greatly affect regional revenues and also increase regional income in West Java province.

Test F (Simultaneous Test)

Based on table 3, the value of F statistics of 18886,297 and the probability is far below 0.05, it can be concluded that the variables of regional tax and regional retribution jointly influence the increase in local revenue.

This means that regional taxes and regional levies obtained from regencies / cities in West Java province are capable of jointly influencing the increase in regional income in West Java province.

T test (Partial Test)

Based on table 3, the regional tax and regional retribution variables are as follows:

- A constant of 1.58 billion means that if the independent regional tax variable and regional retribution are considered constant then the average increase in regional original income is 1.58 billion.
- Local tax of 1.151074 means that an increase in local taxes will affect the increase in regional original income by 1.151074.
- Regional retribution of 0.882370 means that an increase in regional retribution will affect the increase in regional original income of 0.882370.

Classic assumption test

Multicollinearity Test

Table 2:

	PAD	LOCAL TAX	REGIONAL RETURNS
PAD	1.000000	0.982251	0.877336
LOCAL TAX	0.982251	1.000000	0.874901
REGIONAL RETURNS	0.877336	0.874901	1.000000

Output of the correlation matrix between local taxes and regional levies and between local taxes, regional levies, and local revenue can be explained as below:

1. The correlation between regional tax and regional retribution is 0.8749 and the correlation of regional retribution with regional tax of 0.8749 states that there is no correlation between independent variables which is high above 0.90 and so it can be concluded that there is no multicollinearity between independent variables.
2. The correlation between local taxes and PAD is 0.982 and the correlation of regional levies with PAD is 0.877 and so it can be concluded that there is a correlation between the regional tax variables with PAD of 0.982 and it can be further concluded that there is multicollinearity between the dependent variable PAD and the independent variables of Regional Taxes on the grounds that there is a correlation between Dependent and Independent variables above 0.90. While the correlation between regional retribution and PAD, amounting to 0.877 means that there is no multicollinearity with retribution.

Heteroscedasticity Test

Table 3:

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.460089	Prob. F(2,132)	0.2359
Obs*R-squared	2.921906	Prob. Chi-Square(2)	0.2320
Scaled explained SS	4.473350	Prob. Chi-Square(2)	0.1068

The output Eviews shows the value of obs * R-squared has a significant value of chi-squared probability (p value = 0.2320). Explanation of the BPG test value explained that there was no heterocedasticity and homocedasticity occurred in the BPG test and in other words another alternative hypothesis was rejected in the model.

The output Eviews in the BPG test can be interpreted as such that regional taxes and regional levies do not have an effect on PAD. Heterocedasticity will occur when heteroscedasticity is corrected for the BPG Test so that heterocedasticity can be obtained in the statistical analysis carried out and in order to obtain the influence between the hypotheses in the study, it is necessary to do heterocedasticity correction / treatment to be carried out in the next sub-chapter.

Autocorrelation Test

Table 4:

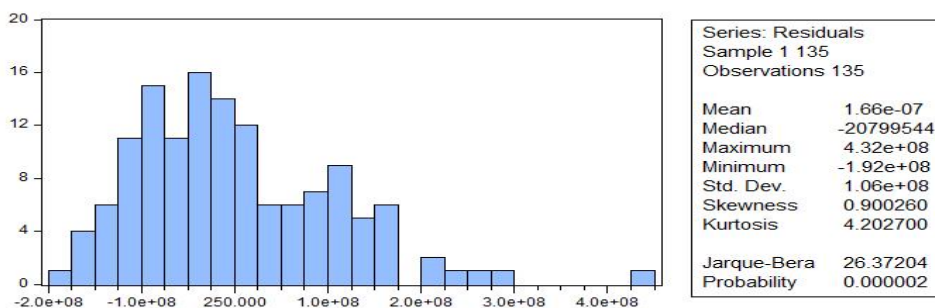
Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	22.18083	Prob. F(2,130)	0.0000
Obs*R-squared	34.34714	Prob. Chi-Square(2)	0.0000

Output Eviews on LM Test (Lagrange Multiplayer Test) states that the value of Obs * R-squared statistically has a value of 0.0000 explaining that there is autocorrelation in the LM model because the value of Obs * R-squared is far below 0.05.

The results of the autocorrelation test on Durbin Watson (DW) and LM Test analysis indicate that there are autocorrelations in both models. The autocorrelation that occurs in both models can be prevented by correction of autocorrelation in the next chapter.

Normality test

Figure 3.



The Eviews output of the normality test has obtained a Jarque-Bera value of 26.37204 with a P value of 0.000002 and the results indicate that normal distributed residuals could not be fulfilled.

The results of the normality test appear to be abnormal because there is insignificant data with other cities in West Java Province in terms of the receipts received from the city of Banjar for five years (2013-2017) and the Pangandaran district in 2013 that do not look comparable with the revenue in each regency / city that reaches hundreds of millions, billions, and even trillions because of the influence of economic and demographic factors in a region which is a manifestation of an expansion of the region.

This causes the model to be distributed less normally when viewed from the data of revenue in West Java Province. Statistically the model will look normal with the correction approach described on the next page. Residuals at hypothesis 0 or H_0 can be met normally if correction is made to the specification error test which will be described in correction of specification errors against the normality test in the explanation of the next chapter.

Conclusions and recommendations

Conclusion

1. Output from the analysis issued by the Statistics program explains that Regional Taxes and Retributions simultaneously and partially affect the increase in Regional Original Income (PAD);
2. The results of the nomination test appear to be abnormal because there is an insignificant data with other cities in West Java Province in terms of the receipts received from Banjar City for five years (2013-2017) and Pangandaran District in 2013 which did not look comparable with revenues in each region / city in West Java Province which reaches hundreds of millions, billions, and trillions of rupiah caused by economic and demographic factors of a region which is a manifestation of the expansion of the region.
3. The growth rate of regional taxes and regional levies is based on the processing of data of the Regional Finance of West Java Province which is focused on regional taxes and regional levies received from 27 regencies and cities in West Java Province over a period of 5 years, tax revenues from 2013- 2017 shows that the growth rate of local taxes tends to be greater than regional levies. The value of regional tax contributions from 27 districts / cities is above the 50% percentage mark. The rate of growth of regional retribution in the period of five years from 2013 to 2017 from 27 regencies / cities in West Java Province is still classified as very low revenue for the increase of Regional Original Income (PAD) below 50% which continues to decrease every year.

Suggestion

1. For the First District Government of West Java Province

The DaTi I Government of West Java Province should maximize the attention to the revenue process that comes from the Regional Tax and Regional Retribution sector by maintaining and increasing revenues from the Regional Tax sector and increasing revenues from the Regional Retribution Sector from regional revenue sources originating from the Tax Subject and subject levies and taxpayers and tax objects as well as objects of retribution originating from creative activities and non-creative activities carried out in areas in West Java Province

2. For Further Research

This research on the Influence of Regional Taxes and Regional Levies on Regional Original Revenue (PAD) can be expanded in terms of research variables as well as in terms of the object of research in carrying out further research actions.

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