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Research paper



Analysis Contribution and Effectiveness of Local Taxes Toward Original Regional Income at Bandung City

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Abstract

This research is done to analyze the magnitude of contribution and effectiveness of local taxes toward original regional income at Bandung City. Method that used is descriptive analysis. Analysis result show that contribution of local taxes has contribution toward original regional income. The higher contribution of local taxes in 2013 is 82,763% and the lower in 2010 is 68,671%. Effectiveness of local taxes has effective toward original regional income. The higher effectiveness of local taxes in 2011 is 122,181% and the lower in 2016 is 78,210%. The results of data analysis use SPSS Version 20 showed that the result of hypothesis testing partially is contribution of local taxes has impact toward original regional income, and effectiveness of local taxes has impact toward original regional income. The result of hypothesis.

Keywords: *Contribution of Local Taxes; Effectiveness of Local Taxes and Original Regional Income.*

1. Introduction

National development and regional development are carried out in order to improve the welfare and prosperity of the community, so that the success or failure of national development can be reflected in regional development. This is stated in [11], which reads 'promoting general welfare'. Because regional development is a reflection of national development, it is expected that the Regional Government (Pemda) together with the community can manage the potential of their regions to increase the level of economy and create new jobs. In improving the welfare of its people, the regional government must be able to maximize regional income. This is because one indicator of the success of a regional government is by maximizing locally-generated regional income [1].

In order for regional governments not to always depend on the central government, the regional government must be able to maximize locally-generated regional income (PAD). This is because locally-generated regional income is a large potential owned by Pemda in carrying out regional development [9]. In [14], stated that the locally-generated regional income consists of taxes, regional retribution, income from management of separated regional assets and other legitimate locally-generated regional income.

Based on the [8] concerning Regional Taxes, explains that types of taxes of which included in Bandung's local taxes are hotel taxes, restaurant taxes, entertainment taxes, advertisement taxes, street lighting taxes, parking taxes, underground water taxes, and the acquisition of land and building rights customs. The magnitude of regional taxes in locally-generated regional income of the city of Bandung in financing the development of Bandung City can be seen as follows.

Table 1: The role of regional taxes on locally-generated regional income of Bandung city

Year	Regional Taxes Realisation	PAD Realisation	Percentage
2016	1.709.807.582.556	2.152.755.704.962	79,424%
2015	1.494.147.377.053	1.859.694.643.505	80,344%
2014	1.399.598.856.917	1.716.057.298.378	81,559%
2013	1.194.087.447.016	1.442.775.238.323	82,763%
2012	820.563.651.111	1.005.583.424.429	81,601%
2011	667.106.811.687	833.254.175.288	80,060%
2010	302.378.839.983	440.331.559.083	68,671%

Table 2: The city of Bandung's regional taxes achievement

Year	Regional Taxes Target	Regional Taxes Realisation	% of Achievement
2016	2.186.416.770.000	1.709.807.582.556	78,201%
2015	1.598.000.000.000	1.494.147.377.053	93,501%
2014	1.400.000.000.000	1.399.598.856.917	99,971%
2013	1.407.759.106.133	1.194.087.447.016	84,822%
2012	727.000.000.000	820.563.651.111	112,870%
2011	546.000.000.000	667.106.811.687	122,181%
2010	291.800.000.000	302.378.839.983	103,625%

Based on Table 1 and 2, it can be seen that regional taxes have a very important role in PAD, which on average has a role of 79.203% of PAD. However, the magnitude of the role of regional taxes on PAD is not proportional to the achievement of regional taxes. The achievement of regional taxes has a tendency to decline with an average achievement of regional taxes of 99.310%.

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2. Literature Review

2.1. Regional autonomy

According to [13] concerning Regional Government, regional autonomy is the right, authority and obligation of an autonomous region to regulate and manage their own government affairs and the interests of the local community in accordance with the legislation [13]. According to [5], there are three main missions in the implementation of regional autonomy and decentralization which are:

1. Improving the quality and quantity of public services and community welfare.
2. Creating efficiency and effectiveness in managing local resources.
3. Empower and create space for people to participate in the development process.

2.2. Locally-generated Regional Income (PAD)

According to [14], locally-generated regional incomes are incomes obtained from the regions from sources within their own territory and collected based on regional regulations in accordance with the applicable laws and regulations. Sources of locally-generated regional incomes consist of local taxes, regional retributions, income from management of separated regional assets and other legitimate locally-generated regional income.

2.3. Regional tax

According to [12], regional taxes are contributions to regional owed by private individuals and/or entities which are compulsory based on the law, in a way of not getting compensation directly and being used for regional needs for the greatest prosperity of the people.

Based on the [8] Concerning Regional Taxes, types of regional taxes are hotel taxes, restaurant taxes, entertainment taxes, advertisement taxes, street lighting taxes, parking taxes, groundwater taxes, land and building taxes, and the acquisition of land and building rights customs.

2.4. Regional Tax Contribution

Contribution is the amount of donations given for an activity carried out [7]. According to [10], the contribution of regional taxes is used to determine the extent to which regional taxes contribute to the receipt of locally-generated regional income. The greater the result means the greater the role of regional taxes on locally-generated regional income, and vice versa [6]. Indicators of the contribution of regional taxes are the ratio between the realization of regional tax revenues and the realization of locally-generated regional income [4].

2.5. Regional Tax Effectiveness

Effectiveness is the relationship between outputs and goals or objectives that must be achieved. Effectiveness is related to achieving policy objectives or targets [5]. According to [4], the effectiveness of regional taxes is the ratio between regional tax collection and the potential tax returns.

3. Methodology

The research variables used in this study are as follows:

1. Dependent Variables (Y)
   Dependent variable (Y) used in the study is PAD. According to [14] states that locally-generated regional income are incomes obtained from the regions from sources within their own territory which are collected based on regional regulations in accordance with the prevailing laws and regulations.
2. Independent Variable (X)

a. Regional Tax Contributions (X_1)
   According to [4], the indicator of Regional Tax Contributions is the ratio between the realization of regional taxes and the realization of locally-generated regional income. The contribution of regional taxes on locally-generated regional income can be calculated by the formula:

$$\text{Contribution of Regional Tax} = \frac{\text{Realization of Regional Taxes}}{\text{Realization of locally-generated regional income}} \times 100\%$$

To interpret the magnitude of the contribution of local taxes on local revenue, the following criteria are used:

Table 3: Classification of criteria for regional tax percentage contributions [2]

Percentage	Criteria
0,00% - 10%	Very Low
10,10% - 20%	Low
20,10% - 30%	Average
30,10% - 40%	Above Average
40,10% - 50%	High
> 50%	Very High

b. Regional Tax Effectiveness (X2)
   According to [4], the effectiveness of regional taxes is the ratio between regional tax collection and the potential of regional tax incomes. The indicator can be seen from the following formula:

$$\text{Effectiveness of Regional Taxes} = \frac{\text{Regional Taxes Income Realization}}{\text{Regional Taxes Income Potential/Target}} \times 100\%$$

To interpret the magnitude of the effectiveness of regional tax income, the following criteria are used:

Table 4: Classification of criteria for regional taxes percentage effectiveness [2]

Percentage	Criteria
> 100%	Very Effective
90% - 100%	Effective
80% - 90%	Quite Effective
60% - 80%	Less Effective
< 60%	Not Effective

4. Results and Discussion

4.1. Classic Assumption Test

According to [3], testing the normality test was conducted to test whether the regression research has met the requirements of normal distribution and whether the residual variables in the regression model of the study have normal distribution. Following are the results of the normality test data:

Table 5: Normality Test

One-Sample Kolmogorov-Smirnov Test				
		PAD	ContriPD	EfectPD
N		7	7	7
Normal Parameters[a,b]	Mean	,99200	,79214	,99314
	Std. Deviation	,126494	,047747	,153701
Most Extreme Differences	Absolute	,174	,373	,113
	Positive	,108	,226	,113
	Negative	-,174	-,373	-,097
Kolmogorov-Smirnov Z		,461	,986	,300
Asymp. Sig. (2-tailed)		,984	,285	1,000
a. Test distribution is normal.				
b. Calculated from data.				

Based on Table 5, it can be seen that the value of asymptotic sig. (2-tailed) PAD of 0.984, contribution of regional tax (ContriPD) of 0.285 and regional tax effectiveness (EFFPD) of 1,000 greater than 0.05. So it can be concluded that the regression model of this research has a normal distribution.

4.2. Multicollinearity Test

Multicollinearity test was conducted to test the regression model if there is a correlation between independent variables, in which a good regression model should not have correlation between independent variables [3]. Following are the results of multicollinearity test data processing:

Table 6: Multicollinearity test

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	,372	,646		7,576	,096		
	ContriPD	,194	,058	,652	3,327	,029	,986	1,015
	EfectPD	,686	,227	,833	3,023	,039	,986	1,015
a. Dependent variable: PAD								

According to Table 6, it can be seen that the Tolerance and VIF values of each independent variable which are the contribution of regional taxes (ContriPD) and the effectiveness of regional taxes (EfectPD), are 0.986 and 1.015 respectively. So it can be concluded that multicollinearity did not occur in the regression model of this study.

4.3. Autocorrelation Test

According to [3], autocorrelation test is conducted to test whether there is a correlation in the linear regression model between confounding errors in period t with period t-1 confounding errors, in which a good regression model is a regression that is free of autocorrelation. Following are the results of the autocorrelation test data:

Table 7: Autocorrelation Test

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,925[a]	,856	,784	,05886	1,932
a. Predictors: (Constant), ContriPD, EfectPD					
b. Dependent variable: PAD					

Based on Table 7, we can find that the Durbin Watson (DW) value of 1,932, and du value of 1,896. So that:

du < d < 4-du
1,896 < 1,932 < 2,104

So, we can make a conclusion that there is no autocorrelation in this regression model.

4.4. Heteroscedasticity Test

Heteroscedasticity testing conducted to test whether there is an inequality of variance in the regression from one observation to another observation, where a good regression research has no heteroscedasticity [3]. Here are the results of the heteroscedasticity test data:

Table 8: Heteroscedasticity Test (Glejser Test)

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,117	,229		,511	,636
	ContriPD	,195	,259	,211	,754	,493
	EfectPD	-,224	,080	-,779	-2,786	,051
a. Dependent variable: RES2						

Based on Table 8, it can be seen that the value of Sig. regional tax contribution (ContriPD) of 0.493 and Sig. regional tax effectiveness (EFFPD) of 0.051 is greater than 0.05. So it can be concluded that in this regression model heteroscedasticity does not occur.

4.5. Partial Hypothesis Test (t test)

According to [3], t test is testing the regression coefficients of each independent variable to the dependent variable to find out how much influence the independent variable has on the dependent variable. The following are the results of the partial test data (t test):

Table 9: Partial Test (t Test)

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,372	,646		7,576	,096
	ContriPD	,194	,058	,652	3,327	,029
	EfectPD	,686	,227	,833	3,023	,039
a. Dependent variable: PAD						

Based on Table 9, t-table value of 2.776 with a significance level (α) of 0.05, the resulting hypothesis is as follows:

1. Hypothesis I (Variable Regional Tax Contribution / ContriPD)
   It can be seen that the contribution of regional taxes (ContriPD) has a t-count of 3,327 and the value of Sig. amounting to 0.029. This means that the t-count value > t-table 3.327 > 2.776 and the value of Sig. 0.029 < 0.05. So it can be concluded that Ha is accepted, which means the contribution of regional taxes (ContriPD) affecting the locally-generated regional income (PAD).
2. Hypothesis II (Variable Regional Tax Effectiveness / EffectPD)

It can be seen that the effectiveness of local tax (EFFPD) has a t-count of 3.023 and the value of Sig. amounting to 0.039. This means that t-count > t-table is 3.023 > 2.776 and the value of Sig. 0.039 < 0.05. So it can be concluded that the hypothesis that Ha is accepted, which means the effectiveness of regional taxes (EfectPD) affecting the locally-generated regional income (PAD).

4.5. Simultaneous Hypothesis Test (Test F)

According to [3], the F test is conducted to test whether all independent variables simultaneously influencing the dependent variable. Following are the results of the F test data processing:

Table 10: Simultaneous Test (F Test)

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,067	2	,034	7,681	,040[b]
	Residual	,029	4	,007		
	Total	,096	6			
a. Dependent variable: PAD						
b. Predictors: (Constant), EfectPD, ContriPD						

Based on Table 10, it can be seen that the calculated F value is 7.681 and the Sig value amounting to 0.040. While, the F-table value is 6.94 and the value of Sig. Probability of 0.05. This means that the calculated F value > F-table which is 7.681 > 6.94 and the value of Sig. 0.040 ≤ 0.05. So it can be concluded that Ha is accepted, which means that independent variables which are the contribution of regional taxes (ContriPD) and the effectiveness of regional taxes (EfectPD) simultaneously influencing PAD.

5. Conclusion

5.1. Conclusion

Based on the results of research and discussions that have been made regarding the contribution of local taxes and the effectiveness of local taxes on local revenue, it can be concluded that:

1. The highest realization of Bandung city's PAD was in 2016, which amounted to Rp 2,152,755,704,962 and the lowest was in 2010, which amounted to Rp 440,331,559,083. While the highest PAD achievement occurred in 2011, which amounted to 115.732% and the lowest occurred in 2016 which was 77.790%.
2. Based on a partial test (t test), it can be proved that the Contribution of Regional Taxes (ContriPD) from 2010-2016 has an effect on PAD of Bandung City. This means that the Contribution of Regional Taxes (ContriPD) in the locally-generated regional income has an effect. Where the highest Regional Tax Contribution (ContriPD) occurred in 2013 which was 82.763% and the lowest occurred in 2010 which was 68.671%.
3. Based on the partial test (t test), it can be proved that the Regional Tax Effectiveness (EfectPD) from 2010-2016 has an effect on the PAD of Bandung City. This means that the Regional Tax Effectiveness contributed to the Regional Original Income in the City of Bandung has an effect. Where the highest Regional Tax Effectiveness (EfectPD) occurred in 2011 that is equal to 122.181% and the lowest occurred in 2016 which was 78.201%.
4. Based on the simultaneous test (F test), it can be proved that the Contribution of Regional Taxes (ContriPD) and Regional Tax Effectiveness (EfectPD) together influenced the PAD of Bandung City from 2010-2016.

5.2. Recommendations

Based on the results of research conducted on the contribution of regional taxes and the effectiveness of regional taxes the locally-generated regional income in the city of Bandung, the researchers gave suggestions to the parties namely:

1. Regional Government of Bandung City

a. To increase regional taxes and explore potentials that are more detailed and adapted to the laws and regulations that apply in the Government of Bandung City.
b. Make efforts to intensify and extend regional taxes, so as to increase regional taxes and make a greater contribution to locally-generated regional income of the city of Bandung.

2. Next researcher

a. For the next researchers to be able to examine further about other factors that affect the locally-generated regional income of the city of Bandung.
b. By examining other factors that affect the locally-generated regional income of the city of Bandung, the researcher can then add more independent variables.

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