The Effect of Local Taxes and Local Retributions on Local Own Revenue (PAD)
(Case Study of the Local Government of Bandung in the 2011-2015 period)

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Abstract: *Local Own revenue (PAD) is a local earned revenue collected by the regional regulation in accordance with the legislation. Sources of revenue are derived from local tax, local retribution, regional owned enterprises, and local wealth management results, and other revenues. The more the local needs can be financed by PAD, the higher the quality of the local autonomy. This study aims to determine the effect of local tax and local retribution on local revenue of the Bandung period of 2011-2015. The population in this study is a Realized Regional Government Budget Report of Bandung in 2011-2015. Sample selection technique used is judgment sampling and obtained 60 samples, consisting of January to December 2011-2015. The data analysis method was a multiple regression analysis. The results show that local tax has a significant positive effect on PAD, while the local retribution has no significant effect on PAD.*

Key Words: *Local Taxes, Local Retributions, Local Own Revenue (PAD).*

1. INTRODUCTION:

Indonesia is a unitary state that adheres to the principle of decentralization in the administration of government by providing opportunities and flexibility to the regions to carry out regional autonomy, as explained in Law Number 23 of 2014 concerning Local Government. The emergence of Law Number 12 of 2008 concerning the second amendment to Law Number 32 of 2004 on Regional Government brought such a big change to the implementation of regional development. This law explicitly gives authority to the regions to regulate and manage the interests of the local community according to their own initiatives based on the aspirations of the community or in other words based on Law Number 12 the Year 2008 that the regions have been given the authority to carry out regional autonomy.

The source of regional finance in the implementation of decentralization consists of local income and local financing. Sources of local finance gained from local income include Local Own Revenue (PAD), intergovernmental revenue and other income. The fundamental source of local finance, owned and managed by the regional government is Local Own Revenue (PAD). Local Own Revenue (PAD) is the revenue from owned area consisting of local tax revenue, the result of levies, local-owned company and the results of separated areas of wealth management, and other legitimate local revenue. Optimization of PAD is expected to be a buffer in the administration of local government activities. If number of regional needs financed by Local Own Revenue (PAD), the higher level of quality of regional autonomy, so the region is more independent in its financial sector. Based on the report on the realization of revenue in Bandung city, Local Own Revenue (PAD) has always increased over the past five years. However, this is inversely proportional to the percentage of Local Own Revenue (PAD) achievement, which has been decreasing over the past five years. This can be seen in the following Graph I :

Graph I Persentance of PAD Achievement
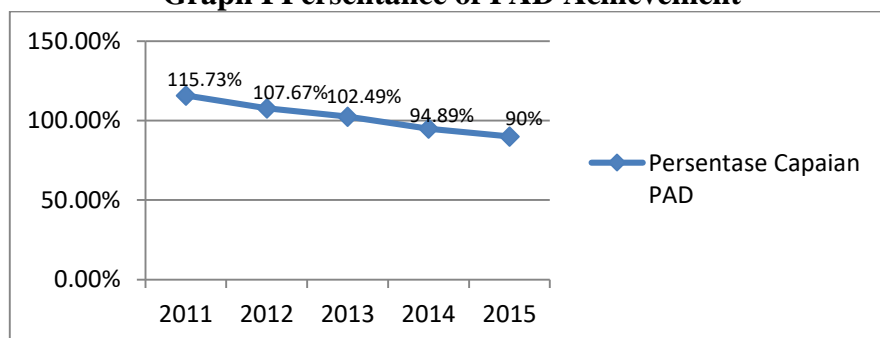
Based on Graph I shows that the rate of percentage of Local Own Revenue (PAD) in Bandung city every year has decreased, especially in 2014 and 2015, which were less than 100%. This is due to the lack of optimal collection of

Local Own Revenue (PAD) sources itself, which causing the realization of Local Own-Source Revenue (PAD) cannot reach the set target. If Local Own Revenue (PAD) of Bandung cannot reach the set target, construction of infrastructure planned will be slightly delayed. Infrastructure development is a key to sustainable economic growth.

In 2014 and 2015 local tax revenues could not reach the set targets. This is due to the lack of optimal local tax collection, one of which is for the type of hotel tax. Based on a survey conducted by the Indonesian Hotels and Restaurants Association (PHRI) there are currently 406 hotels with various classifications spread across Bandung. The number of hotels in Bandung is increasing due to the ease of permission obtained from the Government of Bandung city. This should have an impact on hotel tax receipts in Bandung city. Based on Law Number 28 of 2009, hotel taxes are taxes on services provided by the hotels. Of the total 406 hotels, only 362 hotels are obliged to pay taxes. In addition, many of the star hotels and luxury hotels are in arrears to pay their taxes, so this is the reason why the hotel tax-revenue target is not achieved. Another example is the entertainment tax. Bandung is a city that has various kinds of entertainment and it should increase the amount of entertainment tax receipts. However, this is hampered by the issuance of regulations on the limitation of curfews in early 2014. The government of Bandung city stipulated that all activities and entertainment activities in Bandung were prohibited from operating beyond 12 o'clock at night. Therefore, this regulation has influenced entertainment tax receipts. The regulation makes decreasing entertainment tax revenues and does not achieve the set targets (Dudi, Regional Revenue, Finance and Asset Management Service, Accounting Section, Bandung).

Local retribution which should also be a source of high Local Own-Source Revenue (PAD), only contributed 59.13% from IDR 107,563,238,797 targets set in 2015. This is because there are certain types of levies permits such as levies of building permit; Business Location Permit /activities to individuals permit, route permit to individuals, and route permit to an agency that obtain below 100%. Not achieving the target of receiving local retribution due to the lack of public awareness in carrying out to pay retribution (Ganjar, Finance Department and Bandung City BPPT Program). Regional governments must be able to optimize the receipt of local taxes and retributions because the management is handed over directly to the regions. If the regional government is able to increase revenues, this will also have an impact on the receipt of PAD. A large amount of revenue from PAD can increase the development that will be carried out in the area.

2.   LITERATURE REVIEW:
2.1   Local Taxes
According to Mardiasmo (2016: 14), local taxes are mandatory contributions made by individuals or entities to the regions without balanced direct benefits, which can be forced based on applicable laws and regulations. It is then used to finance the regional/local government and regional development. The types of local taxes include hotel tax, restaurant tax, entertainment tax, advertisement tax, street lighting tax, non-metal mineral, and rock tax; swallow nest tax, parking tax, groundwater tax, customs tax on land and building rights, and tax on land and buildings of rural and urban areas. The subject of local tax is an individual or entity that can be taxed. Whereas Taxpayers are individuals or agencies, including taxpayers, tax cutters, and tax collectors, who have tax rights and obligations in accordance with the provisions of local tax laws.

2.2   Regional/local Retribution
According to Law 28 of 2009 concerning Local Taxes and Local Retributions, local retributions are local charges as payments for services or special permits that are specifically provided and/or given by local governments for the benefit of individuals or agencies. Local retributions are divided into three types, those are general services, business services, and certain permits.

2.3   Local Own Revenue (PAD)
Law Number 33 the Year 2004 states that Local Own Revenue, abbreviated as PAD, is income earned by regions collected under Regional Regulations in accordance with laws and regulations. Sources of Local Own Revenue (PAD) are local taxes, local retributions, separated wealth management, and other legitimate Local Own-Source Revenue (PAD). Local Own-Source Revenue (PAD) has an important role in the development of a region. Local Own-Source Revenue (PAD) is a benchmark for the ability of local governments to organize government and finance of their regions independently. As stated in Law No. 33 of 2004 that the purpose of Local Own-Source Revenue (PAD) in addition to supporting regional/local development, but also to provide flexibility to the regions in getting funding to implement regional autonomy as a manifestation of the principle of decentralization.

2.4   The Effect of Local Taxes on Local Own-Source Revenue
Local tax is a mandatory contribution for the region that is owned by an individual or entity compelling based on the law, by not getting direct compensation and can be used for local government needs for the greatest prosperity of the people (Law Number 28 of 2009). Local tax is one of the most important sources of local income to finance

government administration and regional development. In addition, local taxes are a form of community participation in carrying out regional autonomy. Local taxes are also one of the largest sources of local revenue, which any increase in local taxes will affect the increase in local revenue. Hence, there is a relationship between local taxes and local revenue. If the number of local tax revenues increases, the local revenue also increases. This is in accordance with the research study conducted by Fitriana (2014) and Kusuma (2013) explaining that local taxes have a significant effect on local revenue.

H1: Local taxes have a positive effect on PAD.

2.5 The Effects of Local Retribution on Local Own-Source Revenue

Local retribution is regional levies as payment for services or the provision of certain permits specifically provided and/or given by local governments for the benefit of individual person or entities (Law Number 28 of 2009). Local retributions are one component of PAD which has a considerable role in the implementation of regional autonomy to realize Local Own-Source Revenue. Local governments have the authority to collect all types of local retributions. The participation of the community in paying retribution is expected to increase the receipt of local retribution. The greater the number of regional retribution receipts, the greater the amount of local own-source revenue. Thus, there is a relationship between local retributions and Local Own-Source Revenue, namely if the number of regional retribution receipts increases, then the Local Own-Source Revenue also increases. It relates to the research of Taluke (2011) and Fitriana (2014) concluding that local retribution has a significant effect on Local Own-Source Revenue.

H2: Local retributions have a positive effect on PAD

3. METHOD

The population in this study was the Local Budget Realization Report of the Bandung City in 2011-2015. The sampling technique used in this study was judgment sampling so that 60 samples were obtained from January to December 2011-2015. The type of data used was secondary data. The data was obtained from the Local Budget Realization Report of the Bandung City in 2011-2015 gained from the Local Revenue, Finance, and Asset Management Service (DPKAD) of Bandung City.

3.1 Measurement and Definition of Operational Variables
3.1.1 Dependent Variable

The dependent variable in this study is Local Own Revenue (PAD). The amount of Local Own Revenue (PAD) can be measured by the sum between the amount of local taxes, the number of local retributions, the number of results of separated local wealth management and other legitimate local own-source revenue listed in the Budget Realization Report of the Bandung City for the period of 2011-2015.

3.1.2 Independent Variables
a. Local Taxes

Based on Law No. 28 of 2009, local taxes, hereinafter referred to as Tax, is a mandatory contribution to the region owed by an individual or entity that is compulsory based on the Law, by not receiving direct compensation and being used for regional needs for the greatest possible prosperity for people. The amount of local taxes can be measured by summing the various types of local taxes collected by the local government listed in the Budget Realization Report of Bandung City for the 2011-2015 periods.

b. Local Retributions

According to Law No. 28 of 2009, local retributions are regional levies as payments for services or special permits that are specifically provided and/or given by local governments for the benefit of private persons or entities. The number of regional retributions can be measured by summing the various types of local retributions collected by the local government and listed in the Budget Realization Report of Bandung City for the period 2011-2015.

3.2 Data analysis

To test the hypothesis proposed in this study, the researcher used a multiple linear regression analysis to see the effect of regional taxes and regional levies on PAD. This study also used descriptive statistical analysis to see the average value, standard deviation, maximum value, and minimum value. This study also conducted a test of determination coefficient to see how much the independent variable affects the dependent variable.

4. RESULT AND DISCUSSION:

4.1 Descriptive Statistics

Table I Descriptive Statistics Test					
	N	Minimum	Maximum	Mean	Std. Deviation
LocalTaxes	60	18.355.892.992	280.235.744.468	92.925.069.063,0667	46.431.730.626,60630
LocalRetribution	60	3.474.187.471	18.992.272.737	7.577.157.930,2167	3.367.170.194,93370
PAD	60	30.055.475.023	309.057.283.822	114.289.412.998,7170	55.244.526.111,32490
Valid N (listwise)	60				

Based on the descriptive statistical test in Table I, it shows that the local taxes for the past five years has a minimum value of IDR 18,355,892,992 occurred in January 2011 and the maximum value of IDR 280,235,744,468 happened in September 2015. The average local tax revenue from 2011 to 2015 is IDR 92,925,069,063.06. The standard deviation is IDR 46,431,730,626.60. The minimum value of regional retribution is IDR 3,474,187,471 occurred in July 2015 and the maximum value happened in May 2014 of IDR 18,992,272,737. The average revenue from local retribution 2011 to 2015 is IDR 7,577,157,930.21. The standard deviation is IDR 3,367,170,194.93. The minimum value of Local Own Revenue (PAD) for the past five years is IDR 30,055,475,023 occurred in January 2011 and the maximum Local Own Revenue (PAD) value is IDR 309,057,283,822 in August 2015. The average revenue of PAD from 2011 to 2015 is IDR 114,289,412,998.71. The standard deviation is IDR 55,244,526,111.32.

4.2 Classic Assumption Test

According to Sanusi (2011: 135), multiple linear regression must fulfill the assumptions set in order to produce coefficient values as unbiased estimators. The following are the results of the classic assumption test:

a. Normality test

Based on the tests carried out using Kolmogorov Smirnov, a significance value of 0.062 was obtained. This shows that the significance value is greater than 0.05. Therefore, the data is normally distributed.

b. Heteroscedasticity Test

Based on the tests conducted using Scatter plot graphs, it can be concluded that the points spread randomly and scattered above and below the zero on the Y-axis. It also means that heteroscedasticity does not occur in this regression model.

c. Autocorrelation test

Based on the test carried out using Durbin-Watson (d) of 1,637, it means that there was no autocorrelation. It is because the Durbin Waston number was at the value of -2 to +2. A good regression model is if the regression is free from autocorrelation.

d. Multicollinearity test

Based on the test conducted by looking at the VIF value from the results of the regression analysis, the value of the Variance Inflation Factor (VIF) in the local tax variable and local retribution was less than 10, and the tolerance value was greater than 0.10. In the test, there was no multicollinearity. Therefore, there was no correlation between the independent variables.

4.3 Multiple Regression Analysis

Multiple regression analysis is an analysis that describes the relationship between three or more variables; at least 2 independent variables and one dependent variable.

Table II Multiple Regression Analysis					
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	,827	,757		1,091	,280
LN_PajakDaerah	,946	,024	,977	39,837	,000
LN_RetribusiDaerah	,033	,026	,031	1,249	,217
a. Dependent Variable: LN_PAD					

Based on the table above the regression model can be obtained as follows:

$$Y = 0,827 + 0,946X_1 + 0,033X_2 + \varepsilon$$

Information:
Y   = Local Own-Source Revenue (PAD)
X_1 = Local tax
X_2 = Local Retribution
Ɛ   = Error

From the regression model can be summarized as follows:
- The constant value obtained was 0.827 stating that if the independent variable of local tax and local retribution was zero, it was assumed that the total local revenue obtained was 0.827.
- The positive local tax regression coefficient as 0.946 stating that every increase in one unit of local taxation was estimated that Local Own Revenue (PAD) would increase by 0.946 assuming other variables were a fixed value.
- The local retribution regression coefficient was positive 0.033 meaning that every increase in one unit of local retribution was estimated that the Local Own Revenue (PAD) would increase by 0.033; assuming other variables are of a fixed value.

4.4 Hypothesis Testing
4.4.1 The Effect of Local Taxes on Local Own-Source Revenue (PAD)
Based on Table II, it can be seen the significance value obtained for local taxes is equal to 0,000, where the value is smaller than 0.05. This means that local tax variables had a significant effect on Local Own Revenue (PAD). The influence of local taxes on Local Own Revenue (PAD) was caused by local taxes as one of the components of Local Own Revenue (PAD), which had the greatest role in increasing Local Own Revenue (PAD). The role of local taxes on the receipt of Local Own Revenue (PAD) is caused by taxes that are mandatory contributions and must be paid by taxpayers. Local taxes are including in forceful laws so that inevitably the taxpayer must comply, if not, then the taxpayer will be subject to sanctions. The great contribution of local taxes to Local Own Revenue (PAD) is inseparable from the addition of new tax categories that is Duty on Land and Building Right Acquisition tax, groundwater tax, and the Land & building tax (L&B Tax) in 2011. Therefore, H1 proposed in this research study is supported, meaning that local taxes had a significant influence on Local Own Revenue (PAD) of Bandung city. This finding is consistent with the research study conducted by Fitriana (2014) and Kusuma (2013) who found that local taxes had a significant effect on Local Own Revenue (PAD).

4.4.2 The Effects of Local Retribution on Local Own-Source Revenue (PAD)
From Table II it can be seen that the level of significance obtained for the regional retribution variable is greater than 0.05, which is equal to 0.217. This means that regional retribution did not significantly influence Local Own Revenue (PAD). The effect of local retribution on PAD was not due to the small contribution of regional retribution to the PAD since the community still lack awareness in paying local retribution. This is also due to local retributions that are not as forceful as local taxes and there are no strict sanctions imposed if the community does not pay the retribution. Moreover, the limited facilities and infrastructure available at the Public Health Office also result in the non-optimal acceptance of health service retribution. The enactment of rules in the form of restrictions on development in the North Bandung area which is a favorite place for investors to carry out development also result in a significant reduction in the realization of receipts of Building Construction License (IMB). It will also have an impact on the decline in Business Location Permit revenue as happened in 2014 and 2015. Hence, the proposed H2 is not supported, meaning that local retributions did not significantly influence the PAD. The results of this study are consistent with the findings of Toar Waraney (2016) who found that regional retribution did not significantly influence the Local Own-Source Revenue.

4.4.3 Coefficient Determination Testing
Testing the coefficient of determination was conducted by looking at the adjusted R-Squared value. The adjusted R-Squared value was 0.966. This means, there were 96.6% of the Local Own Revenue variable of the Bandung city could be explained by local tax and regional retribution variables, while the remaining 3.4% was influenced by other factors outside the model.

5.   CONCLUSION:
The findings in this study indicated that local taxes had a positive and significant effect on Local Own Revenue. This study also found that local retribution did not significantly influence Local Own Revenue. In addition, the Local Own Revenue variable could be explained by local tax variables and local retribution of 96.9%, while the remaining 3.4% was influenced by other factors outside the model.

This research is expected to have implications for the community and the city government of Bandung. For the community, they are expected to have more awareness to pay their local tax and retribution obligations, because the results of the Local Own-Source Revenue will also be used for community interests such as local infrastructure

development. With the higher public awareness in paying taxes and retributions, it means that the community contributes to develop and to improve the welfare of the area where they live. For the government of Bandung city, it is expected to be an input in the implementation of regional financial management to further increase the collection and receipt of each component of Local Own-Source Revenue, especially local taxes and retributions. This can be implemented by increasing supervision, fostering and evaluating the collection of local taxes and retributions, because both of them are sources of PAD that contribute significantly to the regions.

This research is expected to be an additional reference for similar research in the future. Subsequent research is expected to be able to consider several other variables to analyze factors that can affect PAD, such as the results of regional wealth and other legitimate PAD. Subsequent research is also expected to expand research objects, such as provinces and other cities that have large PAD.

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