The Spirit of Society Journal
International Journal of Society Development and Engagement
LPPM - Universitas Narotama
ISSN : 2594 - 4777 (Online)
2597 - 4742 (Print)
https://jurnal.narotama.ac.id/index.php/scj/index

The Effect of Tax, General Allocation Fund, and Retribution on Regional Expenditure

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Abstract: Regional autonomy gives local governments the authority to manage their finances, including regional expenditure, in order to achieve national goals. Effective and efficient regional spending is the key to regional development and improving community welfare. This study aims to analyze the effect of local taxes, local levies, the General Allocation Fund (DAU), and the Special Allocation Fund (DAK) on regional expenditure in Central Java and Yogyakarta. This study uses secondary data in the form of Budget Realization Reports (LRA) in 2019 and 2020. Data analysis was performed with multiple linear regression, F test, t test, and coefficient of determination. The results showed that local taxes, DAU, and DAK have a positive and significant influence on local spending. Local retribution has no effect on local expenditure. The conclusion is that local governments need to maximize local revenue, especially local taxes, and optimize the use of DAU and DAK to increase the effectiveness and efficiency of local spending.

Keywords: local taxes, local levies, general allocation fund, special allocation fund, local government expenditure

INTRODUCTION

The rapid development of the region accompanied by the development of taxation activities that require local government funds is to fund expenditure items consisting of daily expenditure and development expenditure to fund these activities, meaning that the need for available funds is very large (Amin-Smith et al., 2018). Local government expenditure is the responsibility of the local government reported in the Regional Revenue and Expenditure Budget (APBD) (Fisher, 2022). This means that local cash is spent regularly to fund government operations. With increasing expenditure, so many resources are needed to meet the needs of local government. If the needs of government spending are met, it is expected that services to the community will improve and the welfare of the community will increase. The enactment of Law No. 23 of 2014 on Regional Government and Law No. 33 of 2004 on Central and Regional Financial Equality are regulations on the process of implementing regional autonomy and changes in regional financial plans in Indonesia. The development of Indonesia's economic policy has brought many changes for regions to develop in all fields.

Law No. 23/2014 gives regions the authority to explore the origin of funding within the region as part of the application of decentralization. The common dispute faced by regions regarding the potential origins of their own-source revenue (PAD) arises because each region has different characteristics, resulting in financial capabilities that vary among regions. To improve the welfare and development of a region, efforts are needed to strengthen its own financial capabilities, including efforts to increase PAD revenue (Barbera et al., 2018). Increasing PAD revenue can be achieved by considering applicable regulations and paying attention to the economic potential of a region. This effort aims to reduce the level of dependence of the Regional Government on the central government. Local taxes and levies are one of the main sources of income in order to increase PAD (Elsandy & Wasil, 2023).

Regional autonomy is a representation of the authority of local governments as entities that have great responsibility in achieving national goals. The management of regional expenditure is a key factor in the smooth development of the region. The success of a city in implementing community development and improving the welfare of its residents is often related to the effectiveness and efficiency of the management of the Regional Budget (APBD). In this context, it is important to note that poor financial management can negatively affect the performance of local governments in improving regional development and fulfilling the public interest (Admaja et al., 2021). Constraints arise when local governments are faced with low spending yet must meet their essential needs. This creates a challenge where the lack of creativity in controlling the APBD by local governments can be an obstacle, so that the optimization of APBD control by higher-level governments, such as the central government, is not well achieved.

Local government statement that regional autonomy is the right, authority, and obligation of autonomous regions to regulate and control the administration of local government. All local government revenues and expenditures, involving money, goods, and/or services during a particular fiscal year, are budgeted through the APBD. Regional autonomy aims to accelerate the improvement of the welfare of the population in autonomous regions, improve the quality and number of public services, and create strong regional competitiveness. It is expected that regional autonomy can improve services in various sectors, especially the public sector, and attract investment from investors to contribute to the region. Regional autonomy provides opportunities for regions to manage economic resources independently and responsibly, with a focus on improving people's welfare. There is a significant paradigm shift in the implementation of regional autonomy, where local government accountability in managing economic resources shifts from vertical accountability to the government to horizontal accountability to local communities (Sawir, 2017).

Mardiasmo (2021) argues that local taxes can be collected according to applicable laws and regulations and are used to finance the administration of local governments, without balanced direct compensation, individuals or are mandatory contributions from companies to the community. In addition to local taxes, there is a source of income obtained from the center, namely the General Allocation Fund. According to Sembiring (2020) DAU aims to equalize the financial capacity between regions to meet regional needs as part of the implementation of decentralization. The regional general allocation fund is determined by the size of the regional financial disparity. The difference between regional demand (financial demand) and regional potential (financial capacity).

Central Java and Special Region of Yogyakarta (DIY) are two regions with different characteristics. Central Java has the largest population in Indonesia, combined with diverse economic potential (BPS, 2023). In contrast, DIY is recognized as a special region with a clear focus on culture and education, in accordance with Law No. 13 of 2012. Local taxes, allocation funds, and retributions are the main sources of revenue for this region. Optimal and effective management of these revenue sources is essential to ensure smooth development and public services (Kemendagri, 2022).

Over the past five years, Central Java's own-source revenue (PAD) has increased from Rp 49.404 billion in 2019 to Rp 60.810 billion in 2022. Simultaneously, DIY PAD increased from Rp 8.784 billion in 2019 to Rp 10.124 billion in 2022. Likewise, Central Java's Allocation Fund increased from Rp 47.028 billion in 2019 to Rp 62.198 billion in 2022, while DIY's Allocation Fund increased from Rp 12.824 billion in 2019 to Rp 14.824 billion in 2022. In terms of retribution, Central Java experienced an increase from Rp 3.974 billion in 2019 to Rp 4.810 billion in 2022, and DIY experienced an increase from Rp 1.284 billion in 2019 to Rp 1.324 billion in 2022.

PAD, Allocation Funds, and Retributions act as the main sources of funding for regional expenditure. The increasing trend in PAD, Allocation Funds, and Retributions indicates an increase in fiscal capacity for regional spending in Central Java and Yogyakarta. However, the extent of their impact on regional spending capacity and improvements in community welfare requires further exploration.

METHODOLOGY

This research uses a quantitative approach. The data used in this survey is secondary data obtained from data from the Directorate General of Balance in 2019 and 2020. Specifically, the data used are local tax data, general allocation funds, special allocation funds, local taxes and local. Expenditure. realization. The data analysis methods used in this study are, traditional acceptance test, and multiple regression analysis using SPSS. Descriptive statistics are used to determine the maximum, minimum, mean, and standard deviation of the origin of each variable. The traditional acceptance test consists of normality test, multicollinearity test, and non-uniform variance test.

RESULTS AND DISCUSSION

Based on the results of the descriptive statistical analysis of the 80 samples as presented in Tabel 1, the highest regional expenditure was IDR 2 trillion, the highest regional tax was IDR 579 billion, the highest retaliation was IDR 84 billion and the highest general allocation fund was IDR 1 trillion. 118 billion rupiah. The minimum local expenditure is Rp 458 billion, the minimum local tax is Rp 5 billion, the minimum retaliation is Rp 5 billion, the minimum special allocation fund is Rp 691 million, and the minimum special allocation fund is Rp 1 billion. More details can be seen in the descriptive table below.

Table 1. Descriptive Statistics

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Regional Expenditure	80	458618	205333	1090878,77	303269,570
Local Tax	80	5854	597520	45843,54	81600,459
Local levies	80	5282	84877	25486,37	16821,515
General allocation fund	80	691	1057911	631123,25	188999,461
Special allocation fund	80	1763	118913	62459,80	22360,291

The average regional expenditure is Rp 1 trillion and the standard deviation is Rp 303 billion. The average value of local taxes is IDR 45 billion and the standard deviation is IDR 81 billion. The average value of the local tax variable is IDR 25 billion and the standard deviation is IDR 16 billion. The average DAU is IDR 631.0 billion and the standard deviation is IDR 188 billion. The average value of the special allocation fund is Rp 62 billion and the standard deviation is Rp 22 billion.

Table 2. *. Uji Kolmogorov-Smirnov*

N Asymp. Sig	***Description***
80,255	*Normal spread*

From the normality test results in Table 2, Kolmogorov-Smirnov test, Sig. Since the value is 0.255 > 0.05, we can see that the residuals are normally distributed and we can conclude that the normality estimate is met.

Table 3. Multicollinearity Test Results

Variable	Tolerance	VIF	Description
Tax	0,487	2,059	No multicollinearity
Retribution	0,566	1,772	No multicollinearity
General allocation fund	0,434	2,299	No multicollinearity
Special allocation fund	0,432	2,323	No multicollinearity

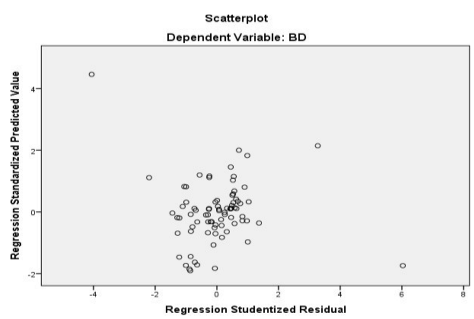
From the multicollinearity test results in Table 3, it can be concluded that there is no multicollinearity from the tolerance value> 0.1 and VIF <10 for all independent variables.

Table 4. Autocorrelation Test Results

Durbin Watson Value	Description
2,099	No autocorrelation

From the results of the autocorrelation test in the table 4 above, it can be seen that the Durbin Watson value of 2.099 is between du and 4du, namely 1.473 < 2.099 < 2.257, meaning that there is no autocorrelation.

Figure 1. Scatterplot Test Results



Scatter Plot Test Results The non-uniform variance test results in Figure 1 show that the diagram points above and below the 0 line on the Y-axis are randomly distributed, i.e. there is no non-uniform variance.

Hypothesis Testing

The F test is used to measure the influence that occurs with the dependent variable and the independent variable, the results derived from the t test are as follows:

Table 5. Simultaneous Test

Model	df	Mean Square	F	Sig
Regression	4	1,526E13	108,084	.000
Residual	75	4435373945		
Total	78			

The table 5 shows that the calculated F-number is 108.084. This is indicated by (+), so the direction of the relationship is positive. This value shows a statistically significant result at a = 0.05. It is 0.000, which is an important value for 0.000 < 0.05. This shows that the independent variables have a positive effect on the dependent variable simultaneously (together) and have a significant positive effect. This means that H1 is accepted in this study because the independent variables of local taxes, local taxes, allocation funds, and special distribution funds together have a positive effect on local expenditure. The results also show that the increase in local taxes, local taxes, general allocation funds and special allocation funds simultaneously increases local spending by local governments. Increasing regional expenditure requires concentration in the implementation of regional expenditure. Special attention can reduce spending in areas that do not meet the required plan. Being aware of local spending can make a big difference between local needs, spending and revenues.

The t test is used to show the partial effect that occurs with the dependent variable and the independent variable, the results derived from the t test are as table 5:

Table 5. Partial Test

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Ket**
	B	Std. Error	Beta			
(Constant)	212764,734	50316,973		4,228	,000	
Local Tax	1,563	,238	,420	6,572	,000	Accepted
Local Retribution	1,636	1,069	,091	1,529	,130	Rejected
General allocation fund	,816	,108	,507	7,509	,000	Accepted
Special allocation fund	4,025	,920	,297	4,372	,000	Accepted

Multiple Linear Regression Analysis

Based on the results of the data that has been processed using SPSS in the table 5, the regression equation is as follows:

$$\mathbf{BD = 212764,734 + 1,563\ (X1) + 1,636\ (X2) + 0,816\ (X3) + 4,025\ (X4) + e}$$

The results in the table above, the hypothesis that local taxes influence local spending is accepted because the coefficient of the local tax variable is positive, so it corresponds to a positive start. In short, an increase in local taxes in local governments also causes an increase in local spending. The test results are in line with the research results of Pakpahan & Sari (2021), Riduansyah (2010), Prameka (2013), Suliasih & Mun'im, (2022) and Asih, (2018) the previous survey by Pakpahan, Handayani, and Elva, interpreted that local taxes have a significant positive effect on the distribution of regional spending. Local taxes are revenue. The higher the tax, the higher the regional expenditure that must be incurred by the local government, and vice versa.

Meanwhile, the hypothesis that local retribution affects local expenditure is rejected. This may be due to the underdevelopment of revenue sources from user fees. New efforts have been made to increase the economic activities of the community by increasing rural income. These efforts should be directed at preserving the potential of the region so that it can be utilized further.

The hypothesis that the general allocation fund influences regional spending is accepted from the value of t count < t table. The results show that districts/cities with high general allocation funds tend to spend more in the regions. These results are also in accordance with the research of Prakosa (2004), Prakosa (2004), Maimunah (2006), Rahmawati & Suryono (2015), Apriliawati & Handayani (2016) and (Dahliah, 2022) which state that the general allocation fund has a significant positive effect on regional spending. This means that the higher the general allocation fund, the higher the regional expenditure. Prakosa (2004) shows that the amount of regional spending is determined by the amount of general allocation funds received from the central government. This shows that the government/municipal government is still very dependent on the central government. As it is known that budget expenditure ends at the end of each fiscal year, the effectiveness of regional expenditure must also be taken into account.

The hypothesis that special allocation funds affect regional spending is accepted from the value of t count < t table. This result shows that the behavior of regional spending is mainly determined by the source of revenue from the special allocation fund. In line with Simanjuntak & Ginting's research (2019), it states that special allocation funds have a positive impact on regional spending. The results are not the same as previous research by Ernayani (2017) which found that special allocation funds do not affect regional spending.

Coefficient of Determination

Table 6. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,922[a]	,851	,845	120147,30103

Table 6 shows the Adjusted R-squared value of 0.845. This means that 84.5% of the regional expenditure variable is explained by the local tax, local levy, general allocation fund and special allocation fund variables. The remaining 15.4% is explained by variables other than the regression model.

CONCLUSIONS

The conclusion of this study shows that the variables of local taxes, local taxes, general allocation funds, and special allocation funds have an influence on regional spending. Local taxes, general allocation funds and special allocation funds have a positive influence on local expenditure. Local taxes, on the other hand, do not affect local expenditure.

Local retribution does not influence local expenditure. This means that the extraction and management of resources in each region has not been optimized to increase your regional income. Local governments are expected to further optimize the economic potential of each region in order to increase local revenue, such as optimizing local taxes and local tax proceeds.

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