



THE EFFECT OF LOCAL TAXES, LOCAL LEVIES, AND BUMD PROFITS ON INCREASING LOCAL ORIGINAL REVENUE (PAD) IN PACITAN REGENCY

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Abstract

Local Original Revenue is relied upon as a source of organizing development and providing the best services for the community. The components of PAD include local taxes, local levies, the results of the management of separated local assets, and other legitimate PADs. In addition to these four (4) sources, the existence of BUMD also affects PAD, which fills the post of other legitimate PAD. The purpose of this study is to test and prove the effect of local taxes, local levies, and BUMD profits on increasing PAD in Pacitan Regency. The data used in this study are quantitative data based on the method of collecting documentation data from third parties at the Pacitan Regency Local Revenue Agency. The population of this study were 5 Budget Realization reports and 5 BUMD Financial Reports. Using saturated sampling technique, which makes the entire population as a research sample. The data analysis technique used in this research is Partial Least Square (PLS). The results showed that local taxes had no contribution to increasing local revenue, local Levies had no contribution to increasing local revenue, and BUMD profits had a contribution to improving local revenue.

Keywords: Local Tax, Local Levies, BUMD, PAD.

INTRODUCTION

Law No. 23 of 2014 states that the Central Government gives rights, authority, and power to local governments to regulate their respective regions in the form of autonomy, which aims to prosper the community. Local autonomy affects broader Local authority; the process of effective budget use depends on the transfer of Local authority. Local Original Revenue (PAD) is relied upon as the best source for the implementation of development and service delivery for the community. The components of PAD include local taxes, local levies, the results of the management of separated local assets, and other legal PADs. Apart from these 4 (four) sources, the existence of Local companies (BUMD) can also affect PAD, which fills the post of other legitimate PAD.

Local governments have a responsibility that aims to be fulfilled based on Law No. 32 of 2004 concerning Local Government and Law No. 33 of 2004 concerning Financial Balance between the Central Government and Local Governments. The existence of obligations in the implementation of this matter indirectly, the local Government has a demand to be able to generate as much funding as possible to carry out development in a sustainable manner (Sudarmana & Sudiarta, 2020). The higher the ability of the region to carry out decentralization and the higher the level of Local independence reflects the high Local Original Revenue owned by a part (Sari et al., 2020). Local Original Revenue is the most critical indicator in assessing a local government's independence in the financial sector (Warta et al., 2021). The demand for increased Local Original Revenue (PAD) is growing along with the increasing number of government authorities delegated to the regions, which is accompanied by the

transfer of personnel, equipment, financing, and documentation (P3D) to the areas (Mamengko et al., 2021).

Based on statistical data, local governments in Indonesia still have a relatively low level of local government independence. One indicator that can reflect this is the degree of decentralization. Factors that influence this include the degree of financial dependence of local governments on the central Government. The low level of local revenue, compared to the high flow of funds received, indicates that the higher the level of dependence of the region on the central Government. In Pacitan Regency, according to the Central Bureau of Statistics (BPS) in 2019, it shows that Pacitan Regency is among the regions with a high degree of financial dependence on the central Government, derived in the form of equalization funds as much as 72.5%, while 9.6% comes from local original income, and 17.9% from other legitimate Local income. It proves that the degree of financial dependence of the Pacitan Regency government on the central Government is very high. Pacitan Regency is a regency in East Java Province that presents abundant natural tourism. Among them are 68 beach tours and 105 cave tours that make Pacitan Regency have the nickname as the City of 1001 Caves and the Paradise of Java. During 2022, the Pacitan Regency Government earned a profit of 11.2 billion rupiah from the Pacitan tourism sector, including a surplus of 170 million rupiah obtained from the target of receiving Local Original Revenue from the tourism sector (Ristanto, 2023).

Local Original Revenue (PAD) has 4 (four) sources of income, namely local taxes, local levies, the results of the management of separated Local property assets, and other legitimate Local Original Revenue (PAD). The role of taxes in a country's economy is as one of the sources of revenue used in the state pad budget. Therefore, taxes are considered to have a vital role. Taxes account for almost 75% of state revenue. Thus, currently, taxes are the dominating revenue in Indonesia because they have an unlimited lifespan. (Kusumawati, 2014). Tax is one of the sources of funds to carry out development; for this reason, the central Government and local governments continuously strive to increase revenue targets through taxes (Widajantie et al., 2014). State revenue in the tax sector every year shows how the level of role is increasingly emphasized as one of the largest sources of funds for financing national development sourced from the community (Kasih & Sulistyowati, 2019). Therefore, the role of local revenue whose tax is progressive determines the management of local Government (Pertiwi & Akbar, 2022).

Another source of local revenue is local Levies, which are a source of funds for granting licenses and unique business services to benefit individuals or entities. With the existence of local Levies, the provincial Government hopes it can act as a source of local financing for all development (Effendi, 2018).

The management of local taxes and levies should be able to run well because this is an element that has a promising future if the Government can develop it, so it must be managed openly or transparently, professionally, and as well as possible so that the contribution to local revenue increases

optimally (Trisnasari & Sunaningsih, 2022). In addition to local taxes, the high or low revenue of local 2 Levies received by the local Government will also affect the increase and decrease in local revenue.

In addition to the four existing sources of local revenue, Local companies can also affect local payment. Local companies, which are a form of business entity, used to carry out market management with proper and professional management with market developments that always increase every year, so that to adjust to the expected market development requires a work system that can be applied in the company. BUMD profit is one component in addition to four (4) sources of PAD revenue that can also affect PAD. According to Kasmir (2010), in the PAD structure, BUMD plays a role in filling in other legitimate PAD posts where this income is obtained from the profit share of equity participation carried out by the Local I district government to increase and develop. One of the active efforts made in the framework of Local development to realize independence is the formation of Local businesses or BUMDs as the main basis of the region. However, along with the formation and development of BUMD, it has become one of the weak points of Local finance that puts pressure on Local finances. The poor performance of companies in the region is one of the problems often faced by local governments in Indonesia (Nugroho et al., 2023).

This research takes the variables of local taxes and local levies, which are considered to optimize the receipt of local revenue in Pacitan Regency. It is supported by many tourism sectors that generate various tax revenues and local levies. Such as hotel tax, entertainment tax, and restaurant tax, as well as parking lot levies. The following variable is the profit of Locally owned enterprises. The existence of business entities is expected to increase local revenue. In Pacitan Regency, the earnings of Locally owned enterprises experience ups and downs, as in 2017, the PDAM of Pacitan Regency made a profit of Rp. 914 million, while in 2018, it decreased to Rp. 97 million. However, BUMDs are still recorded as making a profit, so they are still one of the sources of Local original revenue (Dharma, 2019).

According to Mardiasmo (2011: 12), local tax is a mandatory payment owed by individuals or entities to the region that is compelling based on the law, with no immediate reward, and is used for Local purposes for the most excellent welfare of the people.

According to Mamengko et al. (2021), the local levy is a local levy as payment for services or the granting of certain licenses expressly provided and granted by the local Government to benefit individuals or entities. Levies have an essential function for PAD.

Profit of Locally owned enterprises is a share of revenue in the form of a percentage of net income from locally owned enterprises, consisting of profits of Local development banks and shares of other Locally owned enterprises. A Local Owned Enterprise (BUMD) is required to be able to generate profits or returns; the higher the BUMD profit generated by a region, the better its contribution to Local Original Revenue, meaning that the better and more significant its role in contributing to GRDP (Heriasman & Suwaji, 2021).

Development From Below Theory states that a person will prefer or be more willing to pay taxes and tax levies to the local Government than to the central Government, because it will be easier for them to see the direct benefits of development in their area (Yasser, 2022). According to Blakely, Local economic development is the process of Government and all components of society managing various resources owned and forming cooperation to create new jobs and stimulate Local economic activity (Walewangko, 2017).

Local levies based on applicable laws and regulations are Local Original Revenue. Local Original Revenue comes from local taxes, local levies, the results of the management of separated local assets, and other legitimate PADs. This Local Original Revenue reflects the level of independence of a region. The higher the PAD, the higher the degree of independence in an area (Effendi, 2018).

METHOD

This research uses quantitative data emphasizing numerical data (numbers), which are then processed statistically. The research objects in this study are local taxes, local levies, BUMD, and PAD profits. The population in this study were 5 Budget Realization reports and 5 BUMD Financial Reports. The sampling technique used in this study is saturated by taking the entire population as a sample. This study uses secondary data obtained through intermediary media. The data analysis technique used in this research is Partial Least Square (PLS), which is relevant to use with the limitations of a small sample. The variable measurement scale used in this study is Ratio with units of percent (%), as follows:

1. Increasing Local Original Revenue

$$\frac{\text{PAD } t - \text{PAD } t - 1}{\text{PAD } t} \times 100\%$$

Sumber : Karlina & Handayani, (2017)

2. Local Taxes

$$\frac{\text{Local Taxes Realization}}{\text{Local Taxes Target}} \times 100\%$$

Sumber: Yasser, (2022)

3. Local Levies

$$\frac{\text{Local Levies Realization}}{\text{Local Levies Target}} \times 100\%$$

Sumber: Yasser, (2022)

4. BUMDs Profit

$$\frac{\text{Revenue from BUMDs Profit}}{\text{PAD Receipts}} \times 100\%$$

Sumber : Mahmudi, (2010:142)

RESULTS AND DISCUSSION

Outer Model

1. Convergent Validity

Table 1 Loading Factor and AVE

	<i>Loading Factor</i>	AVE
X1	1,000	1,000
X2	1,000	1,000
X3	1,000	1,000
Y	1,000	1,000

Sources: Output SmartPLS, 2023

Based on Table 1, the loading factor value of all variables is >0.7 , and the AVE value of all variables is >0.5 . The calculation results show that all variable indicators are correlated and valid.

2. Discriminant Validity

Table 2 Discriminant Validity

	X1	X2	X3	Y
X1	1,000	0,000	0,000	0,000
X2	0,000	1,000	0,000	0,000
X3	0,000	0,000	1,000	0,000
Y	0,000	0,000	0,000	1,000

Sources: Output SmartPLS, 2023

Cross Loading :

Table 3 Cross Loading

	X1	X2	X3	Y
X1	1,000	0,276	0,716	-0,534
X2	0,276	1,000	-0,017	-0,312
X3	0,716	-0,017	1,000	-0,874
Y	-0,874	-0,312	-0,874	1,000

Sources: Output SmartPLS, 2023

Tables 2 and 3 show that each variable's cross-loading value is greater than the loading value on other variables. These results show that all variables have a cross loading value greater than 0.7 (>0.7), so it can be concluded that all variables have a good and valid discriminant value.

3. Reliability Test

Table 4 Cronbach Alpha, Composite Reliability, Description

	<i>Cronbach Alpha</i>	Reliabilitas Komposit
X1	1,000	1,000
X2	1,000	1,000
X2	1,000	1,000
Y	1,000	1,000

Sources : Output SmartPLS, 2023

Based on the calculation results, the Cronbach's alpha value is > 0.6 and composite reliability > 0.7 , so it can be interpreted that all constructs or latent variables have reflected the expected value of the reliability test..

Inner Model

1. Coefficient of Determination (R²)

Table 6 R-Square Calculations Results

	<i>R-Square</i>	Adjusted R ²
Increasing PAD	0,956	0,824

Sources : Output SmartPLS, 2023

Based on the results obtained , the R-Square for the variable of increasing local revenue is 0.824 meaning that the independent variable has an influence of 82,4% on the variable of increasing local revenue, while the rest is influenced by other untested variables in this study. The R-squared value of 0,824 indicates that the model is in the "Strong" category.

2. Predictive Relevance Test (Q²)

Table 6 Q-Square Calculations Results

	<i>Q-Square</i>
Increasing PAD	0,124

Sources : Output SmartPLS, 2023

Based on the table, the research model estimation results show good predictive validity because it has a value above zero.

Path Coefficient

Table 7 P-Value Calculations Results

	Original Sample	<i>P-Value</i>
X1	0,45	0,52
X2	-0,45	0,32
X3	-1,21	0,00

Sources : Output SmartPLS, 2023

Based on the table, the following results are obtained:

1. The p-value of local tax on increasing local revenue is 0.52, which means that the first hypothesis is rejected because it has a p-value > 0.05 . These results indicate that local taxes have no effect on increasing local revenue.
2. The p-value of local Levies on the increase in local revenue is 0.32, which means that the second hypothesis is rejected, because it has a p-value > 0.05 . These results indicate that local Levies has no effect on increasing local revenue.

3. The p-value of Locally Owned Enterprise Profit on increasing Local Original Revenue is 0.00, which means that the third hypothesis is accepted, because it has a p-value.

Discussion

The Effect of Local Taxes on Increasing Local Original Revenue

Based on the results of data processing and hypothesis testing, it shows that local taxes have no effect on increasing local revenue in Pacitan Regency in 5 years of 2017-2021. Local taxes have a p-value of 0.52, which means that the amount of local tax revenue or the increase and decrease in the value of local taxes does not affect the increase or decrease in local revenue, and vice versa.

The absence of the influence of local taxes on increasing local revenue in Pacitan Regency can be supported by research data. These results can be proven by the increase in local tax revenue in 2019, but the value of local revenue has decreased. This proves that although the level of tax revenue increased, it did not affect the increase in local revenue of Pacitan Regency. These results also do not support the Development From Below Theory, which states that a person will prefer or be more willing to pay taxes and tax levies to the local Government than to the central Government, because they will be easier for them to see the direct benefits of development in their area (Anggoro, 2017: 322).

The Effect of Local Levies on the Increasing of Local Original Revenue

Based on the results of data processing and hypothesis testing, it shows that local Levies has no influence on increasing the local revenue of Pacitan Regency in 5 years of 2017-2021. Local Levies has a p-value of 0.32, which means that the amount of local Levies revenue or the increase and decrease in the value of local Levies does not affect the increase or decrease in local revenue, and vice versa.

The absence of the influence of Levies on the increase in local revenue of Pacitan Regency can be supported by research data. This result can be proven by the decrease in local levy revenue in 2021, but the value of local revenue has increased. This proves that even though the level of local levy revenue has decreased, it does not affect the decrease in local revenue of Pacitan Regency. These results also do not support the Development From Below Theory, which states that a person will prefer or be more willing to pay taxes and tax levies to the local Government than to the central Government, because they will be easier for them to see the direct benefits of development in their area (Anggoro, 2017: 322).

The Effect of BUMD Profit on Increasing Local Original Revenue

Based on the results of data processing and hypothesis testing, it shows that the profit of Locally owned business entities has a effect on increasing the local revenue of Pacitan Regency in 5 years of 2017-2021. The profit of Locally owned business entities has a p-value of 0.00, which means that the amount of profit revenue of Locally owned business entities or the increase and decrease in profit of Locally owned business entities affects the increase or decrease in local revenue, and vice versa.

The influence of Levies on the increase of local revenue of Pacitan Regency can be supported by the research data. These results also support the Development From Below theory according to Blakely, Local economic development is the process of Government and all components of society managing various resources owned and forming cooperation to create new jobs and stimulate Local economic activity (Walewangko, 2017). In this case, Local-Owned Enterprises are expected to be able to develop natural resources and human skills.

CONCLUSION

Based on the results of testing and analysis of research that has been conducted on the effect of local taxes, local levies, and profits of Locally owned business entities on increasing local revenue, it can be concluded that the local tax variable has no contribution on increasing local revenue, the local levy variable has no contribution on increasing local revenue, and the BUMDs profit has a contribution increasing local revenue. With the results of this study, it is hoped that both the Government and the community can still pay taxes as an obligation in the form of contributions to the state to add Local revenue as a form of Local original revenue for economic growth and Local development. Local levies, in this case, can be applied in various sectors that are possible and appropriate. The existence of BUMDs which influence the increase in PAD revenues, the local Government is expected to add and reactivate BUMDs, with the hope that the community can benefit from the BUMD.

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