

## The Effect of Local Own Source Revenue, Tax Effort, and Capital Expenditure on The Level of Regional Financial Independence (Study on District/City Government in West Java Province Period 2019-2021)

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### ABSTRACT

This study aimed to investigate the effect of regionally sourced income, tax effort, and capital expenditure on the level of regional financial independence at the provincial city/district government. West Java from 2019 to 2021. The population of this study consisted of districts/cities in West Java province, totaling 27 districts/cities, using the saturation sampling method with a total sample of 81. sample. The analytical methods used are descriptive and test analysis, classical hypothesis testing, analysis and coefficient of determination analysis, then partial hypothesis testing and simultaneous analysis. conducted with the help of SPSS 21 software. The results of this study show that the principal income of the regions influences the level of financial independence of the regions. The tax effort did not affect the financial independence of the regions. Capital expenditure has an impact on the region's level of financial independence. Region's own revenue, tax effort, and capital expenditures have a concurrent (together) impact on a region's degree of financial independence.

**Keywords:** capital expenditure; level of regional financial independence; regional original income; tax effort.

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## INTRODUCTION

The existence of regional financial reform was marked by the promulgation of Law Number 22 of 1999 concerning Regional Government. This includes the need for local government applications and has been updated by Law No. 32 of 2004 and then updated again by Law No. 23 of 2014, the territory contains self-government. This has implications for the rights, authorities, and obligations of autonomous regions to regulate and manage their government affairs and serve the interests of their people.

In essence, regional autonomy aims to achieve regional independence that allows regions to govern freely without intervention from the central government. After the transfer of the local government, the funds previously held by the central government are transferred. This will allow each region to have its government and handle all affairs. The idea of local independence will be realized when the above steps are realized (Nina, 2020). Located in the western part of Java Island, West Java Province is often considered an autonomous region consisting of 18 provinces and 9 cities. West Java is a region empowered by the central government to carry out regional autonomy. Of course, with this delegation of authority, the central government will provide opportunities for each district/ city in West Java to explore the potential of its region, thereby reducing its dependence on central government support and making the region financially independent. make it happen (Lia Lidiawati, 2021).

Regional financing is an important aspect of implementing regional autonomy (Afifah and Haryanto, 2019). Regional finance means the overall structure and policy of the budget that includes regional revenues and expenditures. Initially, regional revenues were obtained from local own-source revenue (PAD), compensation funds, loans, and other legitimate local own-source revenues (R. Neneng and Nisa, 2018).

Local financial independence describes the ability of local governments to finance their own government activities, development, and services to those who have paid taxes and duties to provide the revenues needed by the regions. The main characteristic of a region that can exercise autonomy is its financial capability. This means that regions must have the power to explore their local resources to fund government activities (R. Neneng and Nisa, 2018).

The original revenue of a region is a source of funding or income that actually needs to be explored by the potential of the region itself because it can reflect the actual situation of the region (Shinta et al., 2022). The level of PAD received by each district/ government itself is the most important measure of regional financial independence (Afifah and Haryanto, 2019).

Another thing that can affect the financial independence of a region is the tax burden. This means that tax-raising efforts are carried out by local governments to see what happens, beyond the possibility of the local tax system. The region is obtained by comparing local tax revenue based on Gross Domestic Product (PDRB) (Yustika, 2018).

In addition to the various factors mentioned above that can affect the financial independence of a region, there is also a capital investment that plays an important role in expanding public infrastructure and encouraging regional economic growth. According to Government Regulation of the Republic of Indonesia No. 71 of 2010, capital expenditure is household expenditure for the acquisition of fixed assets and other assets, such as public infrastructure, that provides benefits for more than one accounting period. (Lia, 2021).

The contribution of locally generated revenue is lower than the use of revenue from the central government and transfer funds. This means that the region is not yet independent. Because it relies on state support to fund regional obligations, especially in regional development. This can be seen from the central government's support, which is greater than the local own-source revenue. It was also explained that the region's dependence on external funding sources from the central or state government will continue for three years from 2019 to 2021.

According to researchers, the problem is that district/ city governments in West Java have not managed the area independently. For this reason, researchers want to find out more about the degree of



regional financial independence of districts/ cities in West Java based on phenomena related to the degree of regional financial independence that occur in districts/ cities in West Java. Also, the authors are interested in being able to research because there are several differences in the results of previous studies. The authors feel interested in being able to conduct research, which they will present in a scientific paper entitled "**The Effect of Regional Original Revenue, Tax Effort, and Capital Expenditure on the Level of Regional Financial Independence (Study on Government in Regency or City in West Java for the 2019–2021 Period)**".

## LITERATURE REVIEW, FRAMEWORK AND HYPOTHESIS

Regional autonomy as a form of implementation of the decentralization system in Indonesia. The government is expected to be able to master and develop what can be used as a source of PAD. The smaller the transfer of funds the local government receives from the central government to meet regional needs, the more independent the region (Afifah & Haryanto, 2019).

Regional financial independence can be seen based on the ability of local governments to self-finance government activities, development, and public services without relying on the central government. Regional financial independence is supported by various factors, namely increasing regional income, increasing tax burden, and increasing capital expenditure, which can create independent regions (Shinta, et al, 2022).

Aspects that affect regional independence, especially local revenues, are taxed in line with exploring the potential of the region to finance government and development needs, meaning that they come from regional revenue sources such as income and levies. So that PAD can be used as an indicator of regional financial independence (Eka & Fauzan, 2022).

In addition, the tax effort itself is an effort to increase regional taxes and fees, which is measured by the performance (realization) of revenue compared to the potential sources of regional revenue. If local tax revenues add to the tax burden, the regions can be independent in meeting household needs (Lalu Karyawan, 2017).

Another thing that can support regional financial independence is that the government uses capital expenditure to improve, for example, infrastructure needs and public services needed to contribute to or increase regional financial independence, in the hope of maximizing capital expenditure to meet household needs (Imawan & Wahyudin, 2017).

## METHOD

The object of this research was conducted in the Regency / City Government of West Java Province. This study consists of three independent variables, namely Regional Original Revenue (X1), Tax Effort (X2), Capital Expenditure (X3), and the dependent variable, namely the Level of Regional Financial Independence (Y). The data source in this study is a secondary data source called the 2019-2021 Budget Realization Report (LRA). The data is published by the Central Bureau of Statistics (BPS) of West Java Province through its official website [www.jabar.bps.go.id](http://www.jabar.bps.go.id) and sourced from the Directorate General of Fiscal Balance (DJPK) through its official website [www.dipk.keu.go.id](http://www.dipk.keu.go.id). The population and sample of this study were all district/ city governments in West Java, totaling 27 districts/ cities. While the sample of this study amounted to 81 samples of Regency/ City Governments in West Java.

The type of data used in this study is quantitative data. According to Sugiyono (2017), quantitative data is data in the form of numerical or qualitative data that is evaluated (scored). The data source used in this research is secondary data. Secondary data is a data source obtained by reading, studying, or understanding through other media sourced from literature, books, and documents of certain institutions (Sugiyono, 2017: 10).

## RESULT AND DISCUSSION

### Descriptive Analysis of Research Results Data

Based on the research results, the standard deviation value of PAD is IDR 1,424,022,212,134, which indicates that the standard deviation value is close to the average and the data is well distributed. The standard deviation of the tax burden is 24.64%. This result shows that the standard deviation value is close to the average, implying that the data is well distributed. In addition, the standard deviation value of capital expenditure is Rp 37,049,804,059, which is close to the average, indicating a good distribution of data. For the standard deviation value of 74.42%, the standard deviation value is close to the mean, indicating good data distribution.

### Coefficient of Determination Analysis

**Table 1. Results of the Coefficient of Determination Analysis**

Variable	Coefficient of Determination	Percentage
Local Own Source Revenue	0,873	76,21%
Tax Effort	-0,190	3,61%
Capital Expenditure	0,413	17,05%
Local Own Source Revenue, Tax Effort, and Capital Expenditure	0,797	63,52%

Source: *Output SPSS 21*, Self-processed data, 2022

From the table above, it can be seen that the value of the coefficient of determination is obtained from the value of *Adjusted R Square*, namely  $K_d = (0,797)^2 \times 100\% = 63,52\%$ . It can be seen from this result that the contribution of PAD, *Tax Effort*, and Capital Expenditure variables to the Level of Regional Financial Independence is 63,52% and the remaining 36,48% (100% - 63,52%) is determined by other variables that are not explained in this study.

### Partial Hypothesis Test

**Table 2. Partial Hypothesis Test Results**

Variable Independent	$T_{count}$	$t_{table}$	Significance
Local Own Source Revenue	26,433	1,991	0,000
<i>Tax Effort</i>	-1,727	1,991	0,088
Capital Expenditure	-15,889	1,991	0,000

Source: *Output SPSS 21*, Self-processed data, 2022

The t-table value of (df) =  $n - k = 81 - 3 = 78$ . Local Revenue:  $t\text{-count} > t\text{-table}$ ,  $H_0$  is rejected,  $H_a$  is accepted, sig value:  $0,000 < 0,05$ , significant effect. *Tax Effort*:  $t\text{-count} < t\text{-table}$ ,  $H_0$  accepted,  $H_a$  rejected, sig value:  $0,088 > 0,05$ , no effect. Capital Expenditure:  $t\text{-count} > t\text{-table}$ ,  $H_0$  rejected,  $H_a$  accepted, sig value:  $0,000 < 0,05$ , significant effect on the level of regional financial independence.

### Simultaneous Hypothesis Test

**Table 3. Simultaneous Hypothesis Test Results (Test F)**

Variable	$F_{count}$	$f_{table}$	Sig.
Local Own Source Revenue, Tax Effort, dan Capital Expenditure	249,784	2,72	0,000 <sup>0</sup>

Source: *Output SPSS 21*, Self-processed data, 2022



$F_{\text{count}} > F_{\text{table}} = 249,784 > 2,72$ . Dam Sig  $0,000 < 0,05$   $H_0$  rejected,  $H_a$  accepted, local own source revenue, *tax effort*, and capital expenditure simultaneously have a significant effect on the level of regional financial independence.

### **The Effect of Local Own Source Revenue on the Level of Regional Financial Independence**

H1 accepted. This means that PAD affects the level of regional financial independence. The impact of PAD based on data obtained by the authors in the West Java APBD Realization Report shows that the number of authors studying PAD has increased or decreased every year for the last three years. Thus, the increase and decrease in PAD affect regional financial independence.

Optimizing hotel tax levies (hotel tax, restaurant tax, PBB, and BPHTB), subject to levies for dependence on the central government, optimizing district/ city transfer funds, and exploring regional potential. By generating large local revenues in West Java, West Java can carry out its activities and its territory can be said to be independent.

### **The Effect of Tax Efforts on the Level of Regional Financial Independence**

H2 rejected, In other words, *tax effort* does not affect the level of financial independence of a region. Based on data obtained from the LRAPBD in West Java, the amount of tax has increased or decreased every year during the period that the author examined for the last three years. From this, it can be concluded that the high and low value of tax efforts made by the government does not contribute to regional financial independence.

There is no impact on the value of the taxation efforts of district/ city governments in West Java. This is because most district/ city governments still rely on funds from the central government. regional financial independence. Even when the government's tax efforts are at their peak, the government still relies on compensation funds or central government funds when tax revenues are low.

### **The Effect of Capital Expenditure on the Level of Regional Financial Independence**

H3 is accepted. This means that capital expenditure affects the level of regional financial independence. Usually, capital expenditures have a strategic role in any region. This is because the purpose of investment is to support the smooth running of private companies and to finance the development of public facilities and infrastructure that can maximize services to the local community, which is expected to contribute to regional growth. regional financial independence. From this, it can be concluded that capital investment can be used to calculate the level of regional financial independence in the future.

This is because capital expenditures incurred by district/ city governments in West Java during the same period increased local revenue, for example, through toll roads, to meet household needs through the improvement and construction of public supporting infrastructure, airports, food courts, and other public facilities.

### **The Effect of Local Own Source Revenue, Tax Effort, and Capital Expenditure on the Level of Regional Financial Independence**

H4 is accepted, meaning that PAD, tax effort, and capital expenditure will simultaneously impact the level of financial independence of districts/ cities in West Java from 2019 to 2021. According to Cindi & Nur (2021), several factors can affect the level of financial independence of a region, including local revenue, tax effort, and capital expenditure. It is expected that the more effectively the local government is assisted in managing PAD through government contributions through tax initiatives, it can help increase PAD in the region, especially capital expenditure. When this mechanism is established, the region can be said to be independent.



## CONCLUSION

1. Local own source revenue affects the level of Regional Financial Independence. It can be said that the amount of PAD received allows the region to meet the needs of its territory and can be said to be independent.
2. *Tax Effort* do not affect the level of Regional Financial Independence. That is, the increase or decrease in the value of local tax businesses will not affect the level of regional financial independence, because it still depends on central government funding.
3. Capital Expenditure affects the level of Regional Financial Independence. That is, if the government can maximize the use and allocation to meet household needs, it is expected to increase the level of financial independence in the regions.
4. Local own source revenue, *Tax Effort*, and Capital Expenditure simultaneously affect the Level of Regional Financial Independence. This means that the effectiveness of local governments in managing PAD is supported by the contribution of government tax initiatives.

This is expected to increase regional PAD and fund regional expenditures, especially capital expenditures. When this mechanism is formed, the area can be said to be self-sufficient.

## SUGGESTION

1. The local government of West Java Province tries to further explore the potential resources owned by the region using potential mapping in the region, as a result, the local government can make the right decisions regarding the sources of PAD that can be developed and can increase the amount of local revenue.
2. Regions must be able to realize maximum capital expenditure allocations in activities that can support and increase regional revenue.
3. It is attempted that the government can consider the contribution of tax effort in increasing the level of regional financial independence, therefore the district/ city government must further explore the potential of local taxes and the revenue obtained from the tax object that can affect the level of regional financial independence.
4. Further, develop this research by adding other variables that affect the level of regional financial independence. Suppose the variable Balance fund, general allocation fund (DAU), special allocation fund (DAK), and revenue sharing fund (DBH). Increase the range of research periods, for example, to 5 years, as a result of which the data obtained is more accurate. Adding independence proxies such as the ratio of the degree of fiscal decentralization, the ratio of financial dependence, and the ratio of the effectiveness of PAD management.

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