Influence of Local Taxes, Local Levies and Local Taxes Moderated By Taxpayer Compliance With Regional Original Income (Case Study on East Java Provincial Revenue Agency 2016 - 2020)

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ABSTRACT

This research is about the empirically testing and analyzing the local tax effect, regional levies and the taxpayer compliance moderating the effected from local tax at the regional original income at the East Java province in 2016-2020. The population in this study is all data on Tax Regional, Regional Levies and Original Revenues Regional each month during the 2016 - 2020 period as many as 60 regional tax reports, regional levies, regional original income and taxpayer compliance based on targets and their realization. The selection of this research sample carried out using census method. Techniques of analysis and hypothesis test from this study result with PLS. From the Path Coefficient, the following result are shown: Regional Tax has an effect on Regional Original Income, Regional levies and Regional Tax moderated by Taxpayer Compliance has no effect on Regional Original Income.

Keywords: Local Tax, Local Levies, Regional Original Income, Taxpayer Compliance

Introduction

Regional Original Income is income obtain by regional government for implementations from the government activities and service for communities, as well as the utilization of resources owned by the regional government (Anggoro, 2017). One source of Regional Original Income comes from local taxes, the magnitude of the potential and role of the tax sector in economic development is expected to provide an overview of improving the economy by looking at the large contribution of Regional Original Income through the potential and role of the tax sector (Rinaldi Wahfar et al., 2014).

The low development scheme keeps the people more willing to pay their taxes or duties to the local government as compared to the central government, as they can easily see the direct benefits of development in the region (Anggoro, 2017). According to the Law of the Republic of Indonesia number 28 of 2009 on regional taxes and regional taxes, it is stated that "local taxes are part of the contributions that must be made there, in areas where it is a private or agency debt that is compelling but does not receive direct compensation. compensation and is used for the benefit of the region for the greatest benefit to the people, and a
regional tax is a regional allowance for payment for services or certain permits which provided by the private government or provided by the state for the benefit of individuals or legally. body. (Law of the Republic of Indonesia No. 28 of 2009 on Regional Taxes and Regional Taxes, 2009).

The higher of the local tax received by local governments, the higher the local revenue and vice versa. Based on a survey conducted by (Nugroho, 2020), (Fitra, 2016), (Sudarmana & Sudiartha, 2020), local taxes affect local income, but (Lafera, 2020) give different results. Local taxes do not affect local revenue. Not only local taxes received by local governments are higher, but also local revenues and vice versa. Based on a survey conducted by (Fitra, 2016), (Nugroho, 2020) and (Sudarmana & Sudiartha, 2020), he said that local taxes will affect local revenue, but (Lafera, 2020). The regional government states that local taxes do not affect local revenue. The data for East Java Regional Original Income collected by the East Java Dispenda can be seen as follows:

Table 1. Target and Realization of 2016-2020 Regional Original Income

| Year Budget | Original Regional Income Target (Rp) | Original Regional Income Realization (Rp) | Realization to Target (%) | Growth Realization (YoY) (%) |
|-------------|-------------------------------------|------------------------------------------|---------------------------|----------------------------|
| 2016        | 11,953,700,000,000                  | 12,846,803,771,923                      | 107.47                    | 0.00                       |
| 2017        | 13,001,272,700,000                  | 14,412,274,279,321                     | 110.85                    | 12.19                      |
| 2018        | 13,520,900,000,000                  | 15,104,084,430,237                     | 111.71                    | 4.80                       |
| 2019        | 14,916,600,000,000                  | 15,553,525,470,248                     | 104.27                    | 2.98                       |
| 2020        | 12,398,000,000,000                  | 14,438,897,394,408                     | 116.46                    | -7.17                      |

Source: BAPENDA East Java Province 2021

It can be seen that the revenue target has changed with the most significant decrease in the target in 2020, and the percentage of East Java’s original income in 2016-2020 is always above the set target or above one hundred percent, however, this positive trend does not last long. That shown from the % growth of Regional Restitution realization year on year (YoY) which has decreased even to negative. This indicates the high compliance or obedience of the taxpayers of East Java province in paying their obligations, where the tax sector revenue is related to tax payer compliance in paying taxes. However, the realization growth year on year (YoY) decreased even to negative. The issue of compliance and the things that cause non-compliance as well as efforts to improve compliance are an important agenda in both developed and developing countries, including the province of East Java, because non-compliance simultaneously causes efforts to avoid tax with violations (Tax Evasion) and avoidance of taxes without violations (Tax Avoidance). Theory that used in this study was Planned Behavior. It was theory about human behavior, the theory is about a development Theory of Reasoned Action (TRA) by Fishbein and Ajzen in 1980, TRA explains that a person can do or not do something behavior depending on the intentions of the person (Ajzen, 1991). This theory argues that the taxpayers awareness (behavioral beliefs) and tax sanctions (control beliefs) are some factors that can determine taxpayer compliances realize this intention.

Taxpayer compliance in this study acts as a moderating variable, namely seeing that taxpayer compliance will strengthen or weaken the relationship between local taxes and original regional income. Taxpayer compliance is a moderating variable because it is closely related to tax revenue as research has been conducted by (Monica & Andi, 2018) and (Suryadi & Subardjo, 2019) which states that taxpayer compliance affects tax revenue.
This study was conducted with the aim of empirically testing and analyzing the effects from the local taxes on regional as an original income, the regional levies of a regional original incomes and taxpayer compliance moderating the effect of local taxes on local revenue of East Java province in 2016-2020. This research is interesting to study because research on local tax and the local levies on regional original incomes has been widely carried out but has different results, while research on the effect of local taxes on local revenue with taxpayer compliance as a moderating variable has not been widely researched. In addition, the majority of the analytical tools used are still using multiple regression analysis.

**Theoretical Basis**

**Planned Behavior Theory**
The theory of deliberate behavior is the theory of human behavior. Developed in 1980 by Fishbein and Eisen's Theory of Reasonable Action (TRA), this TRA explains that a person may or may not behave depending on one's intentions (Eisen, 1991). The theory of planned behavior is designed to explain the behavior of taxpayers in the execution of tax obligations. Before someone does something, the person will believe the results of their behavior, so the taxpayer will decide whether to do it or not. According to this theory, taxpayers' awareness (behavioral beliefs) and tax penalties (control beliefs) are factors that determine taxpayers' compliance with these goals.

**Development From Below Theory**
Bottom-up theory suggests that people are more likely to pay taxes or levies to local government than to central government because they can easily see the direct benefits of development in their area (Anggoro, 2017: 45).

**Regional Original Income**
According to Law No 33, 2004 on the financials balances between the central governments and the local governments, the regional initial regional income is “the regional income derived from regional taxes, regional fees, the results of separate regional wealth management and other legitimate sources, which is directed to provide flexibility for regions to explore funding and exercise regional autonomy as a manifestation of the principle of decentralization.

**Local Tax**
The reference for the local tax was published in the Laws No 28, 009 on Local Tax and Regions Retributions, what is meant by regional tax is "Compulsory contributions to regions owed by individuals or entities that are coercive under the law, without getting direct compensation and are used for regional needs for prosperity of the people".

**Regional Levies**
Refers from the to Law No 28, 2009 on Local Tax and Regions Retributions, regionals levies are the regional levies as payment for services or the granting of certain permits specifically provided and/or granted by the regional government for the benefit of individuals or entities”.

**Taxpayer Compliance**
The previous study from (Rahayu, 2010:138), the result for this study was taxpayers compliances can be definition as a condition where the Taxpayers can fulfill all their tax obligations and exercises his taxation rights.

Regional Tax is a mandatory contribution to the region that is owed by an individual or entity that is coercive under the law without receiving direct compensation and is used for regional needs for the greatest prosperity of the people. This understanding is contained in the Law on Regional Taxes and Regional Levies Number 28 of 2009. This tax or mandatory contribution given by the residents of a region to the regional government will be used for the benefit of the government and the public interest of a region. Examples include the construction of roads, bridges, the creation of new jobs, and other development and government
interests. In addition to the development of a region, local tax revenue is one of the sources of the Regional Revenue Budget (APBD) used by the government to carry out its work programs. Based on the theoretical basis and framework of thought, a diagram of this research framework and the hypotheses to be tested in this study are:

![Framework Diagram]

**Figure 1. Framework Diagram**

H1: Regional Tax have an effect on Regional Original Income  
H2: Regional levies have an effect on Regional Original Income  
H3: Regional Tax moderated by Taxpayer Compliance have an effect on Regional Original Income

**Research Methods**

**Variable Operational Definition**

**Regional Original Income**

Regional Original Revenue is regional revenue sourced from regional taxes, regional levies, separated regional wealth management results, and other legitimate PAD, which aims to provide flexibility to the regions. The measurement scale is the ratio with units of Rupiah (Rp). It calculated using the following formula (Law Number 33 of 2004 on Financial Balance between the Central Government and Local Government):

\[
\text{Regional Original Income} = \text{Regional Taxes} + \text{Regional Levies} + \text{Regional Wealth Management Results} + \text{Other Levy Source}
\]

**Local Tax**

Regional Tax is a mandatory contribution to the region that owed by an individual or entity that is coercive in nature based on the Law, without receiving direct compensation and is used for regional purposes for the greatest prosperity of the people. In this study, the local tax used is the Provincial Tax. The measurement scale is the ratio in Rupiah (Rp). It calculated using the following formula (Law of the Republic of Indonesia Number 28 of 2009 concerning Regional Taxes and Regional Levies, 2009):

\[
\text{Local Tax} = \text{Motor Vehicle Tax} + \text{Transfer Fee for Motor Vehicles} + \text{Motor Vehicle Fuel Tax} + \text{Surface Water Tax} + \text{Cigarette Tax}
\]
Regional Leves (X2)

Regional levy is a levy of Regional as payment for services or certain special permits provided and/or supplied by the regional government for the benefit of individuals or the Agency. The measurement scale is the ratio with units of Rupiah (Rp). It calculated using the following formula (Law of the Republic of Indonesia Number 28 of 2009 concerning Regional Taxes and Regional Levies, 2009):

\[
\text{Regional Levies} = \text{General Service Retribution} + \text{Business Service Retribution} + \text{Certain Permits}
\]

Taxpayer Compliance

Taxpayer compliance is a condition where the taxpayer fulfills all tax obligations and exercises his taxation rights. Taxpayer compliance in this study measured by the difference between the tax revenue target and the tax revenue realization. The measurement scale is the ratio in Rupiah (Rp). It calculated using the following formula (Ardiansyah, 2019):

\[
\text{Taxpayer Compliance} = \text{Tax Revenue Realization} – \text{Tax Revenue Target}
\]

The Analysis Techniques and Hypothesis Testing

The population used in this study is all provincial tax data, provincial tax and provincial monthly income for the period 2016-2020 up to 60 percent-provincial tax, provincial, provincial revenue and taxpayer compliance based on their goals and achievements. The selection of the study sample is done through the census method which is a sampling technique used by the entire population as the study sample (Sugiyono, 2016: 124). The sample of this study includes 60 data on provincial taxes, provincial taxes and provincial income in the Ostjava region for the period 2016-2020.

The Hypothesis Analysis and Testing technique used partial least squares (PLS) in this study. PLS is a variance-based SEM statistical method developed to address multiple regression when topics related to different data are present, such as small sample size, missing data, and multicollinearity. SEM is a multivariate statistical method that assists researchers in testing theories in empirical data-driven research (Ghozali, 2014). PLS-SEM analysis usually consists of two sub-models, namely the measurement model or often the external model and the structural model or often the internal model. The measurement model shows how the manifested or observed variables represent the measured latent variables. While the structural model shows the power of estimation between latent variables or constructions (Ghozali, 2014).

Results of The Research

This research from the study result from processing data, it was found that the data had met the evaluation of the outer model, namely each variable had met the validity convergent, the discriminant validity and composite reliability. Based on the evaluation of the inner model, the result of the coefficient of determination (R2) is 1,000, that was has meaning that local taxes, regional levies, taxpayer compliance and their interactions are able to affect local revenue by 100.0%, and indicate that the model in this study belongs to the "strong" category. The path coefficient values obtained are as follows:
Table 2. Path of The Coefficient

|                        | Original Sample | T Statistics | p values |
|------------------------|-----------------|--------------|----------|
| Local tax              | 0.992           | 383,313      | 0.000    |
| Regional Retribution   | -0.000          | 0.204        | 0.729    |
| Taxpayer Compliance    | 0.009           | 3.093        | 0.002    |
| Local Tax*TP Compliance| -0.000          | 0.347        | 0.838    |

Source: Processed Data, 2021

Based on Path of the Coefficient Table, the results can be explained:

1. Regional Tax has effect to the Regional Original Income with a parameter coefficient of 0.992 at a significant level 5% (T Statistics > 1.96 and p values < 0.05).
2. Regional levies have no effect on Regional Original Income with a parameter coefficient of -0.000 at a significant level of 5% (T Statistics < 1.96 and p values > 0.05).
3. Regional Tax moderated by Taxpayer Compliance has no effect on Regional Original Income with a parameter coefficient of -0.000 at a significant level of 5% (T Statistics < 1.96 and p values > 0.05).

The Effect of Regional Taxes on The Income of Regional

County taxes affect regional revenues with T> 1.96 statistics and p <0.05. These results also support the development of a basic theory that citizens prefer to pay taxes or levies to local governments rather than central governments because it is easier to see the direct benefits of district development (Anggoro, 2017). From that implication, the higher the local tax levied by the municipality, the higher the regional revenue and vice versa.

The data also show that the East Java Provincial Tax, which consists of a car tax, a motor fuel tax, a car transfer tax, a surface water tax and a cigarette tax, accounts for more than ninety percent of the East – Java Province, original revenue. Thus, it can be said that the original income of the East Java region is highly dependent on or influenced by local taxes. Based on the field research, it is also a fact that both BAPENDA JATIM and the community benefit from a tax relief program organized by the Provincial Government of East Java to increase local tax revenues. The result from that study were consistent with the previous study from (Nugroho, 2020) and (Fitra, 2016) that local taxes have an impact on regional source income.

The Effect of Retribution Regional to The Original Income Regional

Regional levies have no effect on Regional Original Income with T Statistics < 1.96 and p values > 0.05. These results cannot support the Development From Below Theory, which argues that people will be more willing to pay taxes or levies to local governments than to the central government because they can easily see the direct benefits of development in their area (Anggoro, 2017). Therefore, the high or low regional retribution received by the regional government does not affect the increase or decrease in the regional original income.

Based on data on the realization of the value of regional retribution, it only contributes less than one percent to local revenue, and there are other revenues whose proportion is much larger than revenues from the retribution sector such as tax revenues, fines and other income originating from regional government agency or business unit. These results are not in line with the results of research conducted by (Fitra, 2016) and (Nugroho, 2020) which state that regional levies have an effect on regional original income.
The Effects of Local Taxes Moderated by Taxpayer Compliance on Local Revenue

Taxpayer compliance cannot moderate the effects from the local taxes on local revenue with a PD*KWP parameter coefficient of -0.000 at a significant level of 5% (T Statistics < 1.96 and p values > 0.05). This means that taxpayer compliance is not able to strengthen or weaken the relationship between local taxes and local revenue. Taxpayer awareness (behavioral beliefs) and tax sanctions (control beliefs), are factors that determine taxpayer compliance. They are more willing to pay taxes or levies to local governments than to the central government because they can easily see the direct benefits of development in their area (Anggoro, 2017), which is manifested by taxpayer compliance having an impact on local revenue.

Statistically, if the interaction of the independent variable with the moderator has no effect and the moderator variable individually affects the dependent variable, the moderator variable is included in the Moderation Predictor category, which means that the moderating variable only acts as an independent variable in the relationship model that formed.

Conclusion

The conclusion in this study can be explained from the discussion that shown before are as follows:

1. Increase in the local taxes has an impact on increasing the original regional income of East Java Province in 2016-2020, because local taxes contribute more than ninety percent of East Java Province’s original revenue.

2. Regional levies have no impact on East Java Province’s original regional income in 2016-2020, because regional levies account for less than one percent of East Java Province’s original revenue.

3. Taxpayer compliance is can not be able to strengthen the relation of local taxes and the regional original income in East Java Province in 2016-2020.

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