

The Effect of Regional Taxes and Regional Levies on Regional Financial Independence which Impact Economic Growth

Impact of Regional Taxes and Levies

225

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ABSTRACT

This study aims to determine the effect of regional taxes and regional levies on regional financial independence and their impact on economic growth in PPU. The method used is a quantitative approach with path analysis using SPSS software version 26. The results of the study indicate that regional taxes have a positive and significant effect on regional financial independence. The same thing is also shown by regional levies which significantly increase the level of fiscal independence. In addition, both regional taxes and regional levies have been shown to have a positive effect on economic growth in the region. Another important finding shows that regional financial independence also has a significant contribution to increasing economic growth. These results indicate that increasing regional original income from the tax and levy sector has a crucial role in strengthening regional fiscal capacity and encouraging sustainable economic development. Therefore, local governments need to continue to optimize the potential for revenue from taxes and levies through effective, transparent, and accountable governance in order to realize independent and prosperous regions.

Keywords: *Economic Growth, Regional Financial, Regional Levies, Regional Taxes*

ABSTRAK

Penelitian ini bertujuan untuk mengetahui pengaruh pajak daerah dan retribusi daerah terhadap kemandirian keuangan daerah serta dampaknya terhadap pertumbuhan ekonomi di Kabupaten PPU. Metode yang digunakan adalah pendekatan kuantitatif dengan analisis jalur (path analysis) menggunakan bantuan perangkat lunak SPSS versi 26. Hasil penelitian menunjukkan bahwa pajak daerah berpengaruh positif dan signifikan terhadap kemandirian keuangan daerah. Hal yang sama juga ditunjukkan oleh retribusi daerah yang secara signifikan meningkatkan tingkat kemandirian fiskal. Selain itu, baik pajak daerah maupun retribusi daerah terbukti memberikan pengaruh yang positif terhadap pertumbuhan ekonomi di wilayah tersebut. Temuan penting lainnya menunjukkan bahwa kemandirian keuangan daerah juga memiliki kontribusi signifikan terhadap peningkatan pertumbuhan ekonomi. Hasil ini mengindikasikan bahwa peningkatan pendapatan asli daerah dari sektor pajak dan retribusi memiliki peran krusial dalam memperkuat kapasitas fiskal daerah serta mendorong pembangunan ekonomi secara berkelanjutan. Oleh karena itu, pemerintah daerah perlu terus mengoptimalkan potensi penerimaan dari pajak dan retribusi melalui tata kelola yang efektif, transparan, dan akuntabel guna mewujudkan daerah yang mandiri dan sejahtera.

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INTRODUCTION

Previously, the government system in Indonesia was centralized which caused unequal justice for the regions, but since 1999 the government system has been changed to decentralization or what is often known as the era of regional autonomy. According to Law of the Republic of Indonesia No. 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments. The law in the field of regional autonomy has stipulated the granting of autonomy authority in the form of broad, real, and responsible autonomy to the regions. Sources of regional revenue in the context of implementing decentralization include Regional Original Income (*Penghasilan Asli Daerah/PAD*), Balancing Funds, Other Legitimate Regional Revenues and Regional Loans (Maghfiroh et al., 2024). To reduce regional financial dependence on central government assistance, regions must be able to explore and manage the resources they have so that they become a source of Regional Original Income (PAD). One measure of regional independence is to see how much assistance is provided by the central government to the regions, so independent regions are regions that receive minimal assistance from the center (Suharto et al., 2023; Lestari et al., 2024; Ali et al., 2025).

PAD is a source of financing for the Regional Government whose role is very dependent on the ability and willingness of the region to explore the potential that exists in the region (Putr & Mahiswara, 2024). PAD sources consist of regional tax revenues, regional retribution revenues, results from the management of separated regional assets, other legitimate PAD such as sales of regional fixed assets and giro services. In an effort to increase Regional Original Income, the regional government must be able to explore sources of income in the regional tax and retribution sector so that they continue to increase (Ramadhanti, 2024). A picture of regional independence in implementing regional autonomy can be seen through how much the regional financial resources are able to develop their region. Regional financial independence shows the ability of the Regional Government to finance its own government activities, development and services to the community who have paid taxes and levies as a source of income needed by the region (Ermawati & Aswar, 2020; Fisher, 2022)

Local revenues, including local taxes and levies, are expected to be one of the sources of local government revenue in increasing regional financial independence. This is also in accordance with Law Number 34 of 2000 concerning local taxes and levies, as one of the efforts to realize broad, real and responsible regional autonomy while providing policy guidelines and directions for regions in implementing tax and levy collection which also establishes regulations to ensure the implementation of general procedures for regional taxation and levies. So that local taxes and levies are one of the important sources of regional revenue to finance the implementation of regional government and regional development in the context of implementing broad, real and responsible regional autonomy (Arum, 2024). Potential sources of regional revenue must be explored optimally, but of course in accordance with applicable laws and regulations, including local taxes and levies which are indeed the main elements of local revenue. In the era of regional autonomy, it is hoped that regions will be more independent in managing their authority which is marked by an increase in PAD in a region (Munandar, 2022). Meanwhile, local governments are still given assistance from the Central Government in the form of Balancing Funds. However, the initial objective of implementing autonomy is to realize a strong Regional Fiscal Capacity in supporting the creation of regional independence.

The ratio of regional financial independence also describes the level of community participation in paying taxes and levies in an orderly manner, where taxes are the main component of regional original income (Dollery et al., 2020). The level of participation is directly proportional to the level of community welfare, where the higher the community

participation in paying regional taxes and levies, the higher the level of community welfare (Iwan & Arisman, 2023). Likewise, the existence of tax arrears by the community or taxpayers indicates that the level of community welfare is still low so that they feel reluctant to pay taxes. However, this is only in general and does not entirely happen, tax arrears can also be caused by other factors, such as lack of socialization, the difficulty of the existing tax payment system and others. In its development, the implementation of regional autonomy is not accompanied by the financial independence of the regional government, especially in the PPU district government. This reflects the dependence of the regional government on the flow of funds from the central government in the form of balancing funds. Therefore, it is a phenomenon in this study regarding the financial independence of the regional government even though the tendency of its regional original income is increasing. Several factors that can determine the amount of regional original income that are the subject of study in this study are regarding the amount of regional tax revenue and regional levies. This study aims to determine whether regional taxes and regional levies have a partial influence on increasing regional original income and economic growth.

LITERATURE REVIEW

Economic Growth

Economic growth is a measure of the development of activities in the economy. It causes an increase in the goods and services produced in society, which in turn leads to an improvement in people's welfare (Walker et al., 2021). Growth is also a process of increasing the production capacity of an economy, and this is manifested in the form of a rise in national income. An economy is said to experience growth if the number of real services to the use of production factors in a particular year is greater than in the previous year. Furthermore, economic growth must lead to a higher real standard of living and increased employment (Hasan et al., 2023).

Gross Regional Domestic Product (GRDP)

The definition of GRDP according to Fedorov & Kuznetsova (2020), is the amount of added value generated from all business areas in a region. It is also defined as the total value of final goods and services produced by all economic units in a region. GRDP calculation can be done using two methods, namely direct and indirect (allocation). One of the concepts of calculating national income is gross regional domestic product (GRDP). GRDP refers to the total value or market price of all final goods and services produced by an economy during a certain period, usually one year. This concept helps in understanding the overall output and productivity of a region. GRDP is widely used as a measure or indicator to assess the economic performance or macroeconomic activities of a country (Agu et al., 2022; Sule, 2024; Attatur et al., 2024).

Regional Financial Independence

In Law Number 32 of 2004, regional financial independence is defined as the government's ability to finance and be accountable for its own finances. This independence allows the government to manage its finances on its own and is implemented within the framework of the principle of decentralization. Regional financial independence reflects the capability of the Regional Government to fund its activities, which include governance, development, and public services. The funding for these activities comes from taxes and levies paid by the community. These contributions serve as essential sources needed by the region to sustain its financial operations and autonomy (Zulfikar et al., 2024; Ojiako, 2025).

Regional Original Income

Each region has the authority and obligation to explore its own sources of profit (Barauskaite & Streimikiene, 2021). This is done by making every effort to increase Regional Original Income (PAD). With increased PAD, the regional government can

carry out governmental and developmental tasks more effectively for the welfare of its people. Regional Original Income is income obtained by a region from sources within its own territory. It is collected based on regional regulations in accordance with applicable laws and regulations. Therefore, it can be concluded that PAD is regional income derived from local sources as regulated by law. PAD must be truly dominant and capable of bearing the necessary workload so that regional autonomy is not financed through subsidies, third parties, or regional loans.

Regional Taxes

Sagita (2023), tax is a people's contribution to the state treasury (which can be enforced) owed by taxpayers to pay it according to regulations, without getting a return, which can be directly appointed, and the purpose of which is to finance general expenses related to the state's task of organizing government. According to Law Number 28 of 2009, tax is a mandatory contribution to the state owed by individuals or bodies that is mandatory based on the law without getting a direct return and is used for state needs for the greatest prosperity of the people. Based on the definition and understanding of tax put forward by experts and Law Number 28 of 2007. The author can conclude that tax can be interpreted as a transfer of wealth from the community to the state treasury to finance the government's routine in running the government and its surplus is used for public savings (saving public) which is the main source of state income and the main source of capital in public investment.

Regional Retribution

Retribution is a mandatory payment from residents to the state because of certain services provided by the state to its residents individually. The service can be said to be direct, namely only those who pay the retribution enjoy the remuneration from the state (Siahaan, 2016). According to Demu & Dethan (2024), the basic characteristics of retribution are retribution is collected by the state; in the collection there is economic coercion; there is a counter-performance that can be directly designated; Retribution is imposed on every person/body that uses/receives services provided by the state. In accordance with the provisions of Law Number 34 of 2000 concerning Amendments to Law Number 18 of 1997 concerning Regional Taxes and Regional Retributions, Article 1 number 6 that the collection of retribution can only be collected by the regional government. So, the retribution collected by Indonesia is a regional retribution. Regional levies are regional levies as payment for services or granting of certain permits that are specifically provided and/or granted by the regional government or for the benefit of individuals or bodies.

METHODS

The research method used in this study is quantitative with a causal approach (Santoso & Madiistriyatno 2022). To test the hypothesis and determine the relationship between the behavior of two independent variables on the dependent variable, path analysis is used, assisted by SPSS version 26 software. This analysis allows researchers to evaluate the extent of the direct and indirect influence of the independent variables on the dependent variable through the mediating variable. The influence in the path model is indicated by the path coefficient in each relationship diagram between the variables. In this study, two structural models were used. Structural Model I explains the direct influence of independent variables X_1 and X_2 on the mediating variable Y_1 , with the equation $Y_1 = b_1Y_1X_1 + b_2Y_1X_2 + \epsilon$. While Structural Model II describes the direct influence of X_1 , X_2 , and Y_1 on the dependent variable Y_2 , with the equation $Y_2 = b_1Y_2X_1 + b_2Y_2X_2 + b_3Y_2Y_1 + \epsilon$. Calculations using path analysis with a decomposition approach to the influence between variables are divided into three types, namely direct, indirect, and total causal influences. Direct causal effect is the effect of one exogenous variable on an endogenous variable without going through another variable. Indirect causal effect is the effect of an exogenous variable on an endogenous variable through

another endogenous variable. Meanwhile, total causal effect is the sum of direct and indirect effects. With this approach, researchers can gain a more comprehensive understanding of the pattern of relationships between variables in the model being developed.

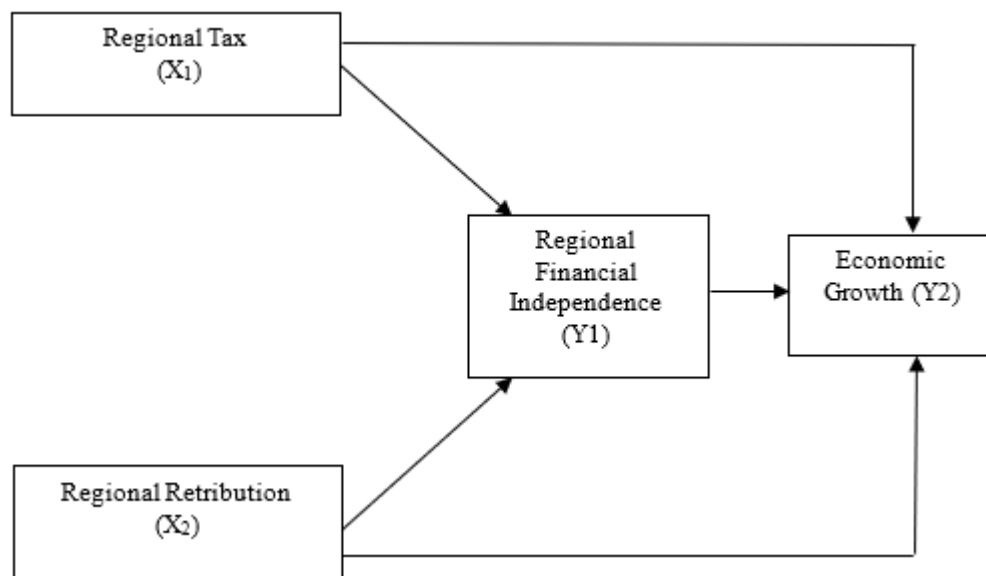


Figure 1. Path Analysis

RESULTS

The following table presents the results of multiple linear regression analysis for direct structure model 1. This model tests the influence of independent variables in the form of Regional Taxes (X1) and Regional Retributions (X2) on the dependent variable, namely Regional Financial Independence (Y1). The analysis was conducted to determine the extent to which the two variables contribute directly to financial independence. Each coefficient is equipped with a standard error value, t-statistic, p-value, and the lower limit of the 95% confidence interval. These results provide a basis for assessing the significance of the relationship between regional revenue and the level of fiscal independence of local governments.

Table 1. Direct Structure Model Coefficients 1

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	9.350743038	2.846522168	3.284971	0.021834	2.033524859
X Variable 1	15.87993E-12	1.21611E-12	14.835029	0.004736	2.75382E-12
X Variable 2	6.1384E-12	2.6326E-12	2.33169	0.02707	1.29057E-11

Source: Processed Secondary Data

Based on Table 1, partially the Regional Tax (X₁) and Regional Retribution (X₂) variables have contributed to explaining the changes that occur in the Regional Financial Independence (Y₁) variable. The Influence of Regional Tax (X₁) on Regional Financial Independence (Y₁). The table above shows the results of the regression analysis of the influence of Regional Tax (X₁) on Regional Financial Independence (Y₁). Based on the output above, the results of the direct influence coefficient model of structure model 1 show that X₁ – Y₁ in the partial or separate test has a significant influence on the regional financial independence variable, this is indicated by a significance value smaller than the alpha value of 5%, namely (0.004 < 0.05). This means that the Regional Tax (X₁) variable has a positive and significant influence on Regional Financial Independence (Y₁). The Influence of Regional Retribution (X₂) on Regional Financial Independence (Y₁). The table above shows the results of the regression analysis of Regional Retribution (X₂) on

Regional Financial Independence (Y_1). Based on the output above, the results of the direct influence coefficient model of structure model 1 show that $X_2 - Y_1$ in a partial or separate test has a significant influence on the Regional Financial Independence variable, this is indicated by a significance value smaller than the alpha value of 5%, namely ($0.02707 < 0.05$). This means that the Regional Retribution variable (X_2) has a positive and significant influence on Regional Financial Independence (Y_1).

Table 2. Direct Structure Model Coefficients 2

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	10.44680031	1.502353493	6.953623343	0.000945209	6.584877716
X Variable 1	8.32222E-13	6.41846E-13	1.296607394	0.02513761	8.17695E-13
X Variable 2	4.16931E-12	1.38945E-12	3.000698382	0.030075105	7.741E-12

Source: Processed Secondary Data

Based on Table 2, the results of multiple linear regression analysis for the direct structure model 2, where the independent variables are Regional Tax (X_1) and Regional Retribution (X_2), while the dependent variable is Economic Growth (Y_2). Based on the tabulation of the data above, partially the Regional Tax (X_1) and Regional Retribution (X_2) variables have contributed to explaining the changes that occur in the Economic Growth variable (Y_2). The Effect of Regional Tax (X_1) on Economic Growth (Y_2). The table above shows the results of the regression analysis of the effect of Regional Tax (X_1) on Economic Growth (Y_2). Based on the output above, the results of the direct influence coefficient model of the structural model 2 show that $X_1 - Y_2$ in the partial or separate test has a significant effect on the economic growth rate variable, this is indicated by a significance value greater than the alpha value of 5%, namely ($0.025 < 0.05$). This means that the Regional Tax variable (X_1) has a significant effect on economic growth (Y_2). The Effect of Regional Retribution (X_2) on Economic Growth (Y_2). The table above shows the results of the regression analysis of the effect of Regional Retribution (X_2) on Economic Growth (Y_2). Based on the output above, the results of the direct influence coefficient model of structure model 2 show that $X_2 - Y_2$ in partial or separate tests have a significant influence on the economic growth variable, this is indicated by a significance value smaller than the alpha value of 5%, namely ($0.030 < 0.05$). This means that the Regional Retribution variable (X_2) has a significant positive influence on economic growth (Y_2).

Table 3. Direct Structure Model Coefficients 3

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
Intercept	6.811873713	0.43781555	15.55878	1.1E-06	5.776604445
Y Variabel 1	1.10695817	0.068619868	2.558706	0.043028	-0.055302034

Source: Processed Secondary Data

Based on Table 3, the results of the linear regression analysis for the direct structure model 3, where the independent variable is Regional Financial Independence (Y_1) and the dependent variable is Economic Growth (Y_2). The table 3 shows the results of the linear regression analysis for the direct structure model 3, where the independent variable is Regional Financial Independence (Y_1) and the dependent variable is Economic Growth (Y_2). Based on the tabulation of the data above, the partial Regional Financial Independence variable (Y_1) has a contribution in explaining the changes that occur in the Economic Growth variable (Y_2). The Influence of Regional Financial Independence (Y_1) on Economic Growth (Y_2). The table above shows the results of the regression analysis of Regional Financial Independence (Y_1) on Economic Growth (Y_2). Based on the output above, the results of the direct influence coefficient model of the 3 structure model show that $Y_1 - Y_2$ in the partial or separate test have a significant influence on the Economic Growth variable, this is indicated by a significance value smaller than the alpha value of 5%, namely ($0.04 < 0.05$). This means that the Regional Financial Independence variable (Y_1) has a significant positive influence on Economic Growth (Y_2).

CONCLUSION

Based on the results of the analysis and discussion, it can be concluded that regional taxes have a positive and significant effect on regional financial independence in PPU. Regional levies also show a positive and significant effect on regional financial independence. In addition, regional taxes have a positive and significant effect on economic growth in the region. The same thing also applies to regional levies which show a positive and significant effect on economic growth. Regional financial independence itself has been proven to have a positive and significant effect on economic growth in PPU. Indirectly, regional taxes have a significant effect on economic growth through the mediating role of regional financial independence. Likewise, regional levies have a significant indirect effect on economic growth through increasing regional financial independence. These findings indicate that increasing local revenue (PAD) through taxes and levies can strengthen the fiscal independence of local governments. With a higher level of fiscal independence, local governments have a better capacity to manage resources and encourage optimal regional economic development. Therefore, optimizing regional tax and levy revenues is an important strategy in strengthening regional fiscal capacity and accelerating sustainable economic development. Local governments need to increase the tax base, improve the collection system, and encourage community participation in tax compliance. Thus, effective regional fiscal policy can be a key instrument in driving inclusive and sustainable local economic growth.

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