



Effectiveness and Contribution of Regional Taxes, Regional Levies, Segregated Regional Assets and Other Legitimate Regional Original Income

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Abstract. The purpose of this study is to prove and analyze how much contribution and effectiveness of revenue from the regional original revenue component to regional original income in Indonesia. The data used are Local Government Financial Statements from 34 provinces during the 2018–2022 fiscal year. The analysis methods include effectiveness analysis and contribution analysis. The results of the study show that the effectiveness of regional taxes, the results of separate regional wealth management, and other local original revenues are quite effective. Meanwhile, regional levies are less effective.

Keywords: Regional income, taxes, wealth management

1 Introduction

Indonesia as a country with a decentralized system of government, which consists of districts/cities with each having its own local government. Regional Government [1] a decentralization policy gives birth to a regional autonomy, where local governments are given the authority to be able to manage regional finances independently. This is expected to fund regional development independently in accordance with the principle of real autonomous regions. In a context of regional autonomy, Regional Original Income (ROI) is a very important pillar in the regional financial structure that affects the ability of a regional government to independently finance development programs and activities. The source of a regional revenue [1] consists of ROI, Transfer Revenue, and Other Legitimate ROI. ROI also includes revenue from the tax sector, retribution, separated regional wealth results, and other legitimate ROI, which is an indicator of regional fiscal independence [2]. The higher the revenue obtained by ROI, the lower the level of fiscal dependence of the local government on the central government.

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ROI is the revenue derived from the existing potential of the region that must be explored and utilized by the local government. Local tax, as one of the mainstay sectors in ROI, has great potential. Local tax revenue is obtained from provincial taxes and regency/city taxes. Local retribution as payment for a service, the granting of certain permits provided by the local government is also an important component in ROI.

Optimization of strategic sectors such as taxes or retributions is expected to show a positive impact on the income of a region in a sustainable manner. In 2022, the financial report includes 34 provinces in Indonesia. Data on the Realization of Regional Original Income from 2018 to 2022 showed significant fluctuations. This study focuses on the specification of ROI variables, namely Local Taxes, Local Levies, the Results of Separated Regional Wealth, and Other Legitimate ROI, which have continued to fluctuate in the last five years. This study covers 34 provinces in Indonesia and aims to provide a comprehensive analysis of the role of each sector's revenue or component in ROI in increasing ROI revenue in Indonesia

Regional Original Income [1] is revenue collected and taxed by local governments according to regulations applied in each region. ROI comes from local tax revenues, local retribution, local performance of enterprises, and the results of individual management of local assets [2]. ROI refers to revenue derived from specific regional sources and revenue derived from specific regional sources. The higher the amount of ROI received in the regional fiscal structure, the greater the regional fiscal capacity in carrying out regional infrastructure activities [3].

Local taxes are managed by each region with the potential that exists in the region [4]. The obligation of the community to contribute to the region with a compelling nature in accordance with the legislation without obtaining direct rewards and utilized for regional needs optimally for the welfare of the community [5]. Local retribution is a payment that must be fulfilled by certain parties or business entities to the local government in return for services or the use of certain facilities that have been provided by the local government [6]. These services are local government activities in the form of businesses and services for goods, facilities and other benefits for individuals and entities.

The results of separated assets, in its practice, regionally owned companies as managers, namely most or all of the capital/shares of the company belong to a region. Revenue from this management comes from the profits of regionally owned companies and the results of cooperation with third parties. Examples of segregated regional assets include the share of profits from equity investments in Regionally Owned Enterprises, such as Regional Development Banks, Regional Water Supply Companies, and Regional Rural Banking Companies. In addition, State-Owned Enterprises (SOEs) as well as private companies or community business groups are part of the profit from equity participation. Other local own source revenues are all local revenues other than ROI and transfer revenues, such as grants and others that are legally in accordance with the provisions of official and legal regulations.

The link between outputs and goals and objectives must be achieved [7]. The greater the contribution of outputs to the achievement of objectives, the more optimal the effectiveness. Overall effectiveness is the level of the entity's ability to achieve goals according to the previous provisions to measure the extent to which the revenue target is achieved, effectiveness is assessed based on the comparison of each revenue realization against the budget has been set.

Contribution comes from the word contribute, which means contribution, involvement, or participation. Contribution analysis is an analytical activity that is conducted with the aim of producing results about the level of contribution, or the contribution of the component to ROI [8]. Contribution analysis is an analysis of the level of contribution from local taxes to ROI [7]. It can be interpreted that the higher the contribution, the higher the contribution of the revenue to ROI.

2 Research Methodology

This research uses a type of research that is descriptive quantitative to identify specific populations and samples. Secondary data is a type of data used through publication analysis techniques by searching and recording observation variables in research based on previously published documents. In this case, the research uses the publication of the Local Government Financial Report, especially the Budget Realization Report obtained from Audit Board of the Republic of Indonesia. The population used is in accordance with the selected research object, namely 34 provinces in Indonesia.

The study aims to prove and see how high the revenue effectiveness and the influence of the contribution of taxes, regional levies, segregated regional wealth and other legitimate regional original income on ROI revenue in Indonesia. The analysis technique used is the calculation of effectiveness and contribution analysis.

3 Result and Discussion

3.1 Analysis of Local Tax Effectiveness

The analysis of the calculation of the effectiveness of local taxes aims to assess how successful local taxes in Indonesia in the period 2018-2022, in achieving their goals. The effectiveness of local tax revenue was very high in 2018, the results of tax realization reached 105.94% of the budget, which means that the tax collection in that year exceeded the set target, it was very effective. The same thing happened in 2022, the results of tax realization reached 109.82% of the budget, indicating that Local Tax was very effective. However, the effectiveness of local tax collection decreased in 2020 and 2021, where the tax realization reached only 76.79% and 89.22% in the less effective category. This shows that there are obstacles in the collection of local taxes in

both years. Overall, the average effectiveness of tax collection in 2018 - 2022 is 96.41% in the moderately effective category. Although there are several years where the effectiveness is below 100%, the figure still shows that the overall collection of local taxes is quite effective.

One of the causes of the decline in effectiveness and contribution of ROI is due to the pandemic in 2020. As stated by the Governor of Central Java, Ganjar Pranowo, ROI decreased by IDR 1.9 due to the pandemic. The largest decrease in revenue came from motorized vehicles, namely IDR 1.9 trillion (12.5%), a decrease in the average district/city including nationwide [9]. In 2021, the effectiveness of local taxes is still in the category of not yet effective, this may occur due to changes and adjustments due to the post-Covid-19 pandemic, of course, it greatly affects the effectiveness of local taxes on ROI after the pandemic period.

3.2 Analysis of the Effectiveness of Local Retribution

The calculation of the effectiveness of retribution aims to assess how successful local retribution in Indonesia is in achieving its goals during 2018-2022. The effectiveness of local retribution shows an effectiveness percentage of 82.75%, which means that in 2018, it was in the less effective category. The following year, 2019, showed an increase in effectiveness with a percentage of 90.35%, with an increase in the moderately effective category. However, there was a significant decrease in effectiveness in 2020 to 2022, with the percentage of effectiveness being 63.78%, 63.53%, and 63.79%, respectively, ineffective. The average effectiveness of local retaliation over the five-year period is 72.84%, which is still considered less effective overall. The decrease in effectiveness from 2020 to 2022 may indicate a challenge in achieving local retribution goals.

One of them is the lack of public interest in taking care of business licenses, which is one of the causes of ineffective regional retribution income. In addition, the relaxation of local fees imposed by the provincial government also contributes to the non-optimization of local fee revenue, so that fee income becomes ineffective [10]. In addition, the effectiveness of local tax collection is influenced by administrative management, which is a crucial factor for the success of local tax management, increasing the ability of both skills and managerial skills of employees or state civil apparatus in local governments as tax collectors is needed [11].

3.3 Analysis of the Effectiveness of the Separate Regional Wealth Results

In 2018, the effectiveness was recorded at 90.85%, and in 2019 there was an increase to 94.36%, which means that it was quite effective in 2018 and 2019. This increase reflects a more optimal management. However, in 2020 and 2021, there was a consecutive decrease in effectiveness, with an effectiveness percentage of 82.55% and 72.86% in the less effective category.

The decrease may indicate that there are obstacles caused by the COVID-19 pandemic, which affect the effectiveness of the income after the pandemic period. In 2022, there was a significant jump in the effectiveness to reach 113.84% very effective, indicating that the realization of the separated regional wealth management results exceeded the budget target. This shows that there is improvement and optimization in the management of segregated regional assets. by having an average for five years at 90.89%, which means it is quite effective.

3.4 Analysis of the Effectiveness of Other Legitimate ROI

The data on the effectiveness of other legitimate ROI from 2018 to 2022 show fluctuations in the achievement of realization according to the budget provisions. In 2018 and 2019, there was an excess of realization over the planned budget, with an effectiveness percentage of 101.23% and 103.29%, respectively, which is very effective. This indicates that in both years, other legitimate ROI was implemented very effectively, exceeding the predetermined target. However, in 2020 to 2022, there was a decrease in effectiveness of 92.25%, 94.86%, and 93.19% in the moderately effective category, respectively.

This decrease may indicate challenges or obstacles in the management and receipt of revenue from other sources of legitimate ROI, one of which is the impact of the post-pandemic in 2019. However, the average effectiveness over five years is 96.96%, which still indicates that, overall, the management of revenues from other sources of legitimate ROI is still at a fairly effective level, although there are fluctuations in performance from year to year.

3.5 Analysis of Local Tax Contribution

The contribution of local taxes to ROI shows fluctuations. In 2018, the contribution of local taxes to ROI reached 85.70% highly contributing, then slightly decreased in 2019 to 85.18% highly contributing. This downward trend continued in 2020 with a percentage of 83.99% and in 2021 with 83.44% remaining in the highly contributing category. However, in 2022, the contribution of local taxes increased again to 86.00% with a highly contributing category.

Overall, local taxes play a critical role in ROI contribution, with an average contribution of 84.86%, categorized as high contributing over five years. Where local taxes are a stable and significant source of income for ROI. Although there are fluctuations, it still shows that local taxes remain the backbone of ROI. Therefore, efforts to manage and optimize local taxes must continue to improve to ensure sustainability and increase ROI. The contribution to ROI fluctuates, one of the causes is due to the delay in establishing the Regional Budget, resulting in delays in implementation, limited resources and support facilities [12]. In addition, public

understanding of the urgency of taxes to develop the region is minimal, which is a challenge for local governments.

3.6 Analysis of the Contribution of Local Retribution

The contribution of retribution to ROI reached 1.00% in 2018. This percentage increased slightly in 2019 by 1.03%. However, the contribution decreased in 2020 by 0.92%, then it continued to decrease in 2021 by 0.78% until it reached its lowest point in 2022 by 0.70%. It can be concluded that from 2018 to 2022 the regional retribution each year is in the category of not contributing. With an average of 0.89%, which means that it is in the category of not contributing. The decrease in the percentage contribution of regional retribution to ROI indicates that although ROI tends to increase, the growth of regional retribution is not in line with the increase in ROI. This could be due to various factors, such as a greater increase in ROI from other sources or a decrease in retribution collection.

In addition, the contribution of retribution has not increased from year to year due to newly implemented forms of local retribution, changes in the purpose of retribution, and a lack of socialization of local regulations. Compared to other types of retribution, the contribution of specific license retribution is the largest [13]. In order to increase the contribution of local retribution, it is necessary to evaluate and optimize the management system implemented by local governments.

3.7 Analysis of the Contribution of Segregated Regional Assets

In 2018, this contribution reached 2.29%, then an increase to 2.52% in 2019. Furthermore, 2020 showed a further increase with a percentage contribution of 2.64%. In 2021, the contribution decreased by 2.34%, then increased in 2022 by 2.59%. It can be concluded that from 2018 to 2022 every year is in the category of not contributing. The average contribution during this period is 2.48%, which means that it is in the category of not contributing to ROI. Although there are significant increases in some years, such as 2019 and 2020, the decrease in 2021 signals the need for evaluation and strategy adjustment. The increase in 2022 is a positive signal, but consistency in the management of regional assets must be maintained to ensure a stable and optimal contribution.

This is due to less than optimal efforts in exploring the potential in several provinces, because there are still several provinces that do not have this income. For example, North Kalimantan province in 2018 did not have this income, as well as North Maluku province in 2020 and 2022. Furthermore, the problem of governance of Regional-Owned Enterprises (ROEs) has not been running optimally, including the types of legal forms of ROEs, regulations, and the implementation of ROEs in the pandemic starting in 2020. This pandemic has caused the regional and national economy to slump, resulting in a decrease in revenue for the majority of businesses,

especially ROEs [14].

3.8 Analysis of the Contribution of Other Legitimate Regional Source Income

There are fluctuations in the contribution of other legitimate local revenue to ROI. In 2018, the contribution of other legitimate local revenue reached 11.01%, which then increased to 11.26% in 2019. The increase in contribution continued in 2020, peaking at 12.45%. In 2021, the percentage contribution of other legitimate local revenue increased significantly to 13.44%. In 2022, however, the contribution decreases again to 10.71%. It can be concluded that other legitimate local revenue is in the category of less contribution each year.

The average contribution of Other Legitimate ROI to ROI over the 5-year period is 11.78% in the category of less contribution to ROI. This fluctuation shows that the contribution of Other Legitimate ROI increases significantly until 2021 and decreases in 2022, even though ROI has increased. This shows that there are factors that affect the revenue from other sources of other legitimate local revenue, one of which is that the government must optimize the non-tax state revenue, which includes improving governance and business, innovation, and improving the quality of services [15]. The government must strive to optimize revenues from new sectors in the form of digital and investment in technology to increase the efficiency of non-tax state revenue management [16].

4 Conclusion

The contribution of regional original income contributions, the contribution of the general allocation fund, and the contribution of the remaining excess of budget calculations together have an influence on the contribution of regional spending on provincial governments in Sumatra in 2018 to 2022. The contribution of regional original income, the contribution of the general allocation fund, the contribution of the remaining excess of budget calculations affect the contribution of regional spending on provincial governments in Sumatra.

Based on the findings of the study, it can be useful to provide advice to provincial governments regarding what influences the contribution of regional expenditure budget allocations. Another influence is to assist local governments in optimising, managing, and utilising the contribution of local revenue, general allocation funds and the remaining over budget calculations to the contribution of regional expenditure. Optimal budget utilisation and management can encourage increased regional independence by increasing regional funding sources to high absorption for regional expenditure budgets and can be an evaluation material for the provincial government in setting policies, especially related to regional spending.

It is recommended that future researchers add other variables that are more complete and varied outside of this discussion and can take a period of more than five

years so that it is expected to improve the quality of research results and reflect conditions that can affect the contribution of regional spending. Other variables such as special allocation funds, special autonomy funds, revenue sharing funds, and gross regional domestic product.

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