

TAX REVENUE AND DEGREE OF FISCAL DECENTRALIZATION OF MUNICIPALITY AND REGIONAL GOVERNMENTS BEFORE AND AFTER LAND AND BUILDING TAX (PBB) MANAGED BY THE LOCAL GOVERNMENT

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Abstract: *The transfer of authorization of Land and Building Tax (PBB) management from central government to local government which is regulated in the Law of Republic of Indonesia (UU) No 28/2009 was aimed to expand the area of fiscal decentralization. The policy changes has significant impact on tax revenue of the governments. However, the municipal government who has wider urban areas has higher potential tax revenue than the regional government who has less urban areas. This study aims to know (1) the difference between tax revenue and degree of fiscal decentralization of municipal and regional governments before and after the policy changes; and (2) are tax revenue and degree of fiscal decentralization of municipal governments higher than regional governments after the policy changes?. The samples in this study are municipal and regional governments that have collected the tax during the period 2011-2014. The sample are 45 municipality and 79 regional governments. Data is processed using nonparametric paired sample and non paired sample test. The results are (1) There was a significant difference intax revenue before and after the tax managed by local governments; (2) there was no difference in the degree offiscal decentralization before and after the tax managed by local governments; and (3) tax revenue and degree of fiscal decentralization of municipal governments higher than regional governments after the tax managed by the local governments. Results of the study can be used on future research by consider other factors beyond the policy changes that may affect the amount of tax revenue and the degree offiscal decentralization.*

Keyword: *Land and Building Tax, Fiscal Decentralization, Municipal Government, Regional Government*

INTRODUCTION

Autonomy of local governments has been executed in Indonesia since 1999 is the practice of decentralized systems. Decentralization is believed to be a 'recipe' which can generate policies that can address the various problems faced by the

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State (Hendrikus, 2007). The decentralized system is intended to address the inefficiencies and ineffectiveness that occurs when a centralized system is run. Decentralization of resource management authority from central government to local governments is also accompanied by the responsibility to fund its requirements itself by relying on its own revenue (internal). Thus, the amount of financing that is sourced from internal revenue (Local Own-Source Revenue/PAD) should be much greater than the external revenue (transfer of funds from central government).

However, ideal conditions can not be achieved. Composition transfer funds to local revenue still has the highest order than other types of income. In the period 2007-2009, the average contribution of each type of income to the local revenue is PAD 16%, transfer funds 75% and other revenues 9% (www.djpk.depkeu.go.id). One instrument used by the government to overcome the condition is to define UU No. 28/2009 on Local Taxes and Retribution. The law mandates that the Land and Building Tax (PBB) and Bea Acquisition of Land and buildings (BPHTB) handed over its management to the local governments and no longer under the authority of central government. The transfer of authorization was intended to increase PAD. Thus level of the local government autonomy will increased.

PBB management practices by local government was first run by Surabaya Municipality in 2011. The result is the management of PBB affect the realization of PBB acceptance of Surabaya. PAD Surabaya is increased significantly after PBB managed by the local government (Ramadan, 2013). It is also common in other local government revenue. For example, result of Lestari (2014) concluded that the PBB revenue also had a significant effect on increase of local revenue of Kediri Municipality.

Other types of taxes that have similar characteristics with PBB is BPHTB. The basis for determining the amount of PBB and BPHTB are same, which is based on fair value of the object (land or building). According Adiati and Juliati (2014), BPHTB is a major contribution to the increase of revenue of Surakarta Municipality. Result of Adiati and Juliati (2014) research also showed that there are differences in financial performance of municipality/regional on Java island between before and after transfer of BPHTB to the local governments. One financial performance used by Adiati and Juliati (2014) is the degree of fiscal decentralization. There are differences in the degree of fiscal decentralization before and after transfer of BPHTB to the area. On the other hand, the result of Wijaya et al (2014) in Regional Government of Karangasem conclude otherwise. BPHTB in Karangasem have no significant effect on PAD, even BPHTB decreased after the implementation of the Law.

Study on impact of transfer of authorization of PBB management to local government was also carried out by Asyhab (2014). Asyhab (2014) concluded

that there is a difference between amount of PBB of municipality and regional government. Research of Asyhab (2014) explain in consistency results of previous studies. The conclusion that can be drawn is that there are differences in the impact of transfer of authorization of PBB management between municipal government and regional government. The difference is caused by the characteristics of PBB it self.

Results of previous studies had been motivating researcher to know more about pattern of tax revenue and fiscal decentralization at municipality and regional government. Thus there search questions are:

- a. How tax revenues and degree of fiscal decentralization of municipality and regional government before and after transfer of authorization of PBB management to the local government?
- b. Are there differences in tax revenue and degree of fiscal decentralization of municipality and regional government before and after transfer of authorization of PBB management?
- c. Are tax revenue and degree of fiscal decentralization of the municipality higher than regional government after transfer of authorization of PBB management?

REVIEW LITERATURE AND HYPOTHESIS DEVELOPMENT

1. Review Literature

1.1. Local Tax: Land and Building Tax (PBB)

Local taxes are local taxes contribution to the local taxpayer owed by the individual or entity coercive and is used for local purposes. PBB is one of types of local taxes whose authorization of management was transferred from central government to local government under UU No. 28/2009. PBB is a tax on land and / or buildings owned, controlled, and / or utilized by the individual or entity, except for the area used for plantation, forestry and mining (UU No. 28/2009). Management of PBB before 2014 is still responsibility of Directorate General of Taxation (DJP) for municipality or regional government did not implement it, but from 2014 management of PBB is responsibility of municipality and regional government.

Before and after managed by local governments, subject and object of the taxis same. The difference lies in tariff, Taxable Sales Value (NJKP) and Tax Object Sales Value Not Taxable (NJOPTKP). Comparison of UU No. 12/1994 and UU No. 28/2009 are: maximum tariff of 0.3% to 5%, NJKP 0% to 20% -100%, and NJOPTKP of at least Rp. 10.000.000 to Rp. 12.000.000. Tariff, NJKP and NJOPTKP higher than

before, and no longer sharing with the central government, should be increasing tax revenue of local governments.

The tax becomes an additional source of revenue for local governments. The transfer of management of the tax into the local government provides opportunity for the local government to extensive collecting of the tax. Extensification can be new tariff, determination of new object and subject that will be taxed, and new tax collection system. Extending the tax will eventually be able to boost revenue significantly. Significant increase in PAD gives greater space to local government expenditure and financing activities for the public interest and governance, as well as lowering fiscal dependence on the central government.

1.2. Local Government Revenue

Based on source of income, type of local revenue classified into two types, income sourced from within the local government itself (internal source) and the income earned from parties outside the local government (external source) (Riduansyah, 2003). Riduansyah (2003) adds that external parties are parties that are outside the area in question (in addition to local government and instrumentalities) and is not a resident of the area in question as the central government, private sector, foreign countries, and so on. Income derived from internal sources excavated and managed by local governments, where the source of the income is within the power. Internal revenue in the form of local tax revenues, local retribution revenue and local government corporate profits. While revenues from external sources represents income received from outside parties, not excavated and are not managed by the local government.

According to UU No. 33/2004, within the framework of financial balance between central and local government in Indonesia, local revenue consists of revenue, fund transfer from central to local government and other income. PAD which is the main component are taxes and retribution is the most important source of financing in the framework of decentralization of power from central government to local government (Riduansyah, 2003). PAD is the most an important source of financing because the amount of PAD indicates ability of local governments to extent to which local governments able to support themselves by exploiting the resources and potentials. The amount of revenue compared to total revenue it receives a barometer of the local government autonomy.

1.3. Degree of Fiscal Decentralization

Fiscal decentralization is the handover of authority to manage sources of funding from central government to local governments or private organizations in order to carry out the affairs that are submitted to it effectively (Litvack (2004) in Gedeona (2007)). Gedeona (2007) also added that an important condition to make the process

of decentralization in local government is sufficient is financial support. Adequate funding means that local government have minimum of funds to finance government services and development in their region. One of the requirements of local government can be said to have successfully performed the task of autonomy if combination of internal funds >40% of total local government revenue. Table 1 shows the scale interval of degree of fiscal decentralization (Halim, 2007:234).

Table 1
Interval scale of Degree of Fiscal Decentralization

<i>Criteria</i>	<i>Financial Capability of Local Government</i>
0,00 – 10,00	SangatKurang
10,01 - 20,00	Kurang
20,01 – 30,00	Cukup
30,01 - 40,00	Sedang
40,01 – 50,00	Baik
>50,00	SangatBaik

Source: Abdul Halim (2007:234)

The greater of internal funds can be produced by a local government, the greater the degree of fiscal decentralization of the local government. Vice versa. A high degree of fiscal decentralization showed a high degree of local government autonomy. The degree of fiscal decentralization is measured by amount of local government revenue to total revenue of local government.

1. Hypothesis Development

PBB alteration of central taxes in to local taxes contributed to increase revenue, especially local tax revenue. Freedom of local governments to manage the tax has a major contribution to the increase in revenue. Higher PAD will enhance the ability of municipality and regional governments to finance their own needs. PAD larger composition of total local government revenue lowered degree of fiscal decentralization area. Based on this, the hypothesis developed are:

- H1. There are differences in tax revenue of municipality and regional governments between before and after the tax managed by the local governments.
- H2. There are differences in the degree of fiscal decentralization of municipality and regional governments between before and after the tax managed by the local governments.

Determination of the tax based on fair value of the tax object. The fair value of land and buildings in urban areas is higher than non urban area. In addition, urban areas object of property tax more heterogeneous than the object of taxation in the non urban area, so the municipality has more opportunities to extending the tax collection. Thus the local governments that have extensive urban area (municipal governments) will earn a higher income tax than the tax revenues in areas that have fewer urban areas (regional governments). The differences in the degree of fiscal decentralization resulted in the municipality was lower than the degree of fiscal decentralization of regional governments. The hypothesis are:

- H3. *The municipality has a higher tax revenues from the regional governments after the tax managed by the local governments*
- H4. *The degree of fiscal decentralization the municipality is higher than the degree of fiscal decentralization of regional governments after the tax managed by the local governments.*

RESEARCH METHOD

1. Population, Sample and Data Collection Techniques

This study population are municipality and regional governments throughout Indonesia. Sample selection is done by using purposive sampling method. The criteria used is local governments have been established prior to UU No. 28/2009 enacted and data about Annual Statement of Budget Realization (LRA) before and after the application of the law has been published. Based on the criteria, obtained 125 local governments. Details of the number of samples is shown in Table 2. The data obtained from website of Director General of the Regional Financial Balance (www.djpk.depkeu.go.id) and the official website of municipality and regional governments.

Table 2
Research Sample

<i>Year of Transfer Authorization</i>	<i>Municipality</i>	<i>Regional</i>	<i>Total</i>
2011	1	0	1
2012	12	5	17
2013	33	69	102
2014	0	5	5
Total	46	79	125

2. Variable Definitions and Measurement

- a. Tax income is the total income of a local government in a given year is sourced from managed local tax revenue. Tax Revenue-Before (TR_{before}) is local tax revenue in the period before the tax managed by local governments. Tax Revenue-After (TR_{after}) is local tax revenue in the period after the tax managed by local governments.
- b. Degree of fiscal decentralization (DFD) is the ratio that indicates the level of Local government capability in generating revenue. The variable measured by:

$$DFD_t = \frac{\text{Total of Local Own - Source Revenue}_t}{\text{Total of Local Government Revenue}_t}$$

3. Data Analysis Techniques

Prior to the study tested the data, first tested is normality of the data to determine the appropriate test equipment. Normality test used is Kolmogorov-Smirnov test. If the normality of the data is known then determined whether use parametric or nonparametric test. Different test used is paired samples test to test H1 and H2, and non paired samples test to test H3 and H4.

DATA ANALYSIS AND INTERPRETATION

1. Descriptive Statistics

Descriptive statistical analysis showed that mean of tax revenue of municipal governments before the tax managed by local government is Rp. 525.104.261.000 and after the policy changes is Rp. 730.082.630.000. While the mean of tax revenue of regional governments before the tax managed by local government is Rp. 88.804.367.089 and after the policy changes is Rp. 124.004.215.190. Increasing of tax revenue average before and after the policy changes was 104.7% for municipality and 66.7% for regional governments.

Mean of degree of fiscal decentralization of municipal governments before the tax managed by local government is 17,7% and after the policy changes is 20,6%. While the mean of tax revenue of regional governments before the tax managed by local government is 10,3% and after the policy changes is 11,7%. Increasing of degree of fiscal decentralization average before and after the policy changes was 19,1% for municipality and 18,6% for regional governments.

The data indicate that policy changes have a significant impact on increasing local tax revenues of regional governments, but the impact is not as big as the municipality governments impact. But different things happen on a comparison

of the degree of fiscal decentralization. Changes in average of degree of fiscal decentralization of the municipalities almost the same height as the average change in the degree of fiscal decentralization of regional governments. This means that increasing in tax revenue and in other types of incomes together have increased the degree of fiscal decentralization of regional governments.

When comparing the degree of fiscal decentralization of the local governments with criteria developed by Halim (2007), it is clear that financial capacity of the local governments in Indonesia, both before and after the policy changes, it is still far from the expected. Table 3 shows that.

Table 3
Degree of Fiscal Decentralization of Municipality and Regional Governments in Indonesia

<i>Criteria</i>	<i>Rating</i>	<i>Municipal Governments</i>		<i>Regional Governments</i>	
		<i>Before</i>	<i>After</i>	<i>Before</i>	<i>After</i>
0,00 – 10,00	Very Lack	9	5	52	45
10,01 – 20,00	Lack	24	23	19	25
20,01 – 30,00	Sufficient	9	9	6	6
30,01 – 40,00	Medium	2	5	1	1
40,01 – 50,00	Good	0	2	0	1
>50,00	Very Good	2	2	1	1

Before the tax managed by local government, from 46 municipal governments as sample, only 28.3% who have “sufficient” to “very good” financial capabilities, remaining at the level of “lack” and “very lack”. After the policy changes was increased to 39.1%. While capacity of the regional government’s financial performance is lower, both before and after the policy changes. Before the policy changes, only 10.1% who have “sufficient” to “very good” financial capability. After the policy changes, there was a slight increase to 11.4% on the same criteria. Others are in “lack” and “very lack” financial capability.

2. Normality and Hypothesis Test

2.1. Normality Test

Test data normality was tested with the K-S test. Table 4 shows the results of tests of normality. It is known that the probability of significance for all variables is 0.000, which means that all variable not normally distributed. Thus the hypothesis testing using non parametric test.

Table 4
Normality of Data

<i>Variabel</i>	<i>K-S Value</i>	<i>Sig</i>
TR _{before}	4,899	0,000
TR _{after}	4,865	0,000
DFD _{before}	3,505	0,000
DFD _{after}	4,116	0,000

1.2. Hypothesis Test

The test using SPSS 16.0, paired test for H1 and H2 and non paired test for H3 and H4. Table 5 shows the results.

Table 5
Conclusion of Hypothesis Test

<i>Hipotesis</i>	<i>Z hitung</i>	<i>Signifikansi</i>	<i>Conclusion</i>
H1	-8,668	0,000	H1 Cannot Rejected
H2	-0,292	0,770	H0 Receive
H3	-2.795	0,005	H3 Can Not Rejected
H4	-4,801	0,000	H4 Can Not Rejected

The results show that there are differences in tax revenue of municipality and regional governments before and after PBB managed by the local governments. H1 can not be rejected and it is shown by z value -8,668 and significance 0.000. But the degree of fiscal decentralization indicate different things. Z value -0,292 and significance 0.770 showed that there was no difference in the degree of municipality and regional development either before or after the policy changes. Thus H2 is rejected.

3. Interpretation

There are four hypotheses in this study. Based on testing performed, three hypotheses (H1, H3 and H4) can not be rejected and one hypothesis (H2) is rejected. The conclusion of this study are:

- a. There was a significant difference in tax revenue Before and after PBB managed by local governments
- b. There was no difference in the degree of fiscal decentralization before and after the tax managed by Local Government.

- c. Tax revenue of municipal governments higher than regional governments after the tax managed by local governments.
- d. Degree of fiscal decentralization of municipal government higher than regional governments after the tax managed by local governments.

Increasing tax revenues occurred in almost all research samples. Increasing tax revenue that occurred significantly shows that the government's policy have positive impact on increasing the local governments tax revenue. Tax increase occurred in 116 municipality/regional governments, decrease in 7 municipality/local governments and there is no change in municipality/regional governments. The highest increasing occurs in Banjarmasin Municipal government by 2399.3% in 2013 and the lowest increasing occurred in West Kutai Regional Government by 9.6% in 2013. Decreasing occurred in 2 municipal governments (Pontianak and Binjai) and 4 regional governments (Central Lampung, North Labuhan batu, Karawang, Mimika and Bondowoso). The highest decrease occurred in tax revenue of Pontianak Municipal government amounted to 92.2% and the lowest in tax revenue of Karawang Regional Government of 2.4%. While the municipality/regional governments which has no differences are Indragiri Hulu and Mojokerto Regional Governments.

The second hypothesis can not be proven because the data showed that of 125 municipality/regional government, 72 does not increase or decrease, an increase of 37 and 16 decreased degree of fiscal decentralization. The conclusion is that in the first year by the local governments managed the tax has not been able to improve the local government's finance ability. Many obstacles still facing the local governments in the early years of the policy changes such as collection of the tax object is not optimal, so on. The result differ from Adiati and Juliati (2014) who found that the degree of fiscal decentralization difference before and after BPHTB managed by the local governments (2010-2011) where as PBB and BPHTB have same characteristics. The difference arises because different sample characteristics. Adiati and Juliati's (2014) sample is homogeneous. They used local government son Java Island which is known mostly relatively more developed and have better financial capability than the other local governments outside of Java Island. While this study used heterogeneous sample of local governments through out Indonesia. Samples of this research can better represent population of the local governments in Indonesia.

The third hypothesis test about the difference government tax revenue of municipality and regional after PBB administered by local governments. The result show that the municipal government tax revenue is higher than the regional government tax revenue. When associated with H1, it shows that the policy changes have a positive impact for local governments, but the benefits received by the municipality is greater than the benefit received by the regional governments.

The municipal government has fair value of taxation object is higher than the tax object of regional governments and PBB have an impact on the amount received by the local government. In addition, the tax object of the governments more heterogeneous than the regional government tax objects. It impacts on many types of the tax objects of municipal governments than regional governments. The results are consistent with results of Asyhab (2014).

The fourth hypothesis proposed is that after PBB managed by local governments, the degree of fiscal decentralization of the municipality is higher than the degree of fiscal decentralization of regional government. The hypothesis cannot be rejected. When looking at the data, after the policy changes the degree of fiscal decentralization of municipal governments have an average of 20.6% and the degree of regional governments amounted to 11.7%. The degree of fiscal decentralization of municipal government is higher than the degree of fiscal decentralization of regional government (17.7% versus 10.3%) before the policy changes. It can be concluded that the policy changes have negative impact on dependency of local governments. But the regional governments has a more difficult task homes than the municipality for ekstensify and intensify the collection of the tax to increase local tax revenues.

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

1. Conclusion

The study aims to determine the tax revenues and the degree of fiscal decentralization of local government before and after transfer of authorization of PBB management from central government to local government, and differences in tax revenues and the degree of fiscal decentralization between municipalities and regional governments after the policy changes. The results show that there are differences between the municipal and regional governments of tax revenue before and after the policy changes, but it did not happen to the degree of fiscal decentralization. The degree of fiscal decentralization is not significantly different although the policy has changes. The results also showed that after the policy changes, tax revenues and the degree of fiscal decentralization of the municipality is higher than regional government.

2. Limitations and Future Research

The study did not consider other factors beyond the policy changes that may affect the amount of tax revenue and the degree of fiscal decentralization of local governments. Future research can developer search with similar themes by analyzing the influence of PBB and other factors to increase tax revenue or the degree of fiscal decentralization of local governments.

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