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## LOCAL TAXES AND ECONOMIC GROWTH

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### ABSTRACT

The purpose of this research is to study and analyze the influence of regional tax growth on economic growth that is probed to the growth of GDP. The methods used in this research are descriptive and verificative methods. The analysis Unit in this study is a regency and a city in West Java province. The object in this research is the realization report of provincial government and Regency/city of West Java and GDP on the basis of the price applicable by Regency/city during period 2014-2018

### INTRODUCTION

The process of economic growth can be a process of innovating by entrepreneurs so that it needs support in order to benefit and sustainable business.

Economic growth issues can have an impact on various aspects. Dedy Widjaja as chairman of the Indonesian Entrepreneurs Association (Apindo) of West Java in Reni (2015) stating that due to the weakening of Indonesia's economic condition resulted in termination of employment (LAYOFFS), in Cimahi city of West Java There are about 850 officers in layyofs.

According to economic assistant, Pemprov. Jabar, Yerry Yanuar (2014) that economic development in West Java should be further improved. Considering the size of the GDP in the city/district uneven.

Here is the economic structure of West Java according to the business field in 2018 dominated by three main business fields: the processing industry of 42.16 percent; Retail large trades; Car repair, motorcycles amounted to 14.87 percent; Agriculture, forestry and fisheries amounted to 8.67 percent.

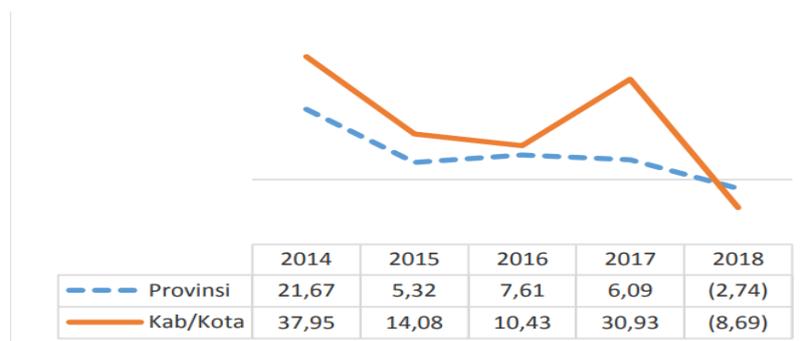
**Figure 1.**  
GDP growth source by business field year 2016-2018.



**Source:** Economic development of West Java Quarter IV-2018 BPS Jabar

In the APBD of West Java province in 2017, the target PAD amounted to Rp. 16.524, 12 billion or projected down by 3.04 percent compared to the realization of PAD year 2016. This decline implies that the provincial government of West Java is pessimistic in earning revenue sourced from the PAD.

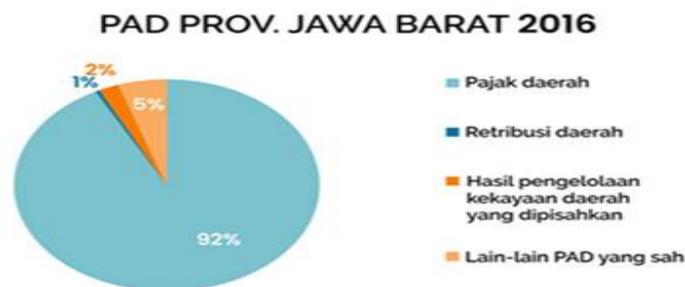
**Figure 2.** Rate comparison PAD West Java province and Total Regency/City 2014-2018



**Source:** Regional Financial statistics of provincial government and Regency/City of West Java 2018

In 2016 the regional tax contributed 92% to the regional original revenue.

**Figure 3.** Composition of PAD in West Java Province



**Source:** Tax Profilein West Java Province

The regional tax contributions show the importance of local government's special attention in managing local taxes.

### **OBJECTIVE OF THE STUDY**

The research aims to determine whether local taxes have a direct effect on the economic growth proscribed by the growth of the GDP.

### **LITERATURE REVIEW**

Mahmudi (2016) stated that with a greater level of financial independence means that the region will no longer depend heavily on the assistance of the central and provincial governments through the balance Fund. The dependence of funds from the center means barriers in developing and building areas. If local governments are able to manage the area's wealth to increase PAD, then the area will evolve and progress.

According to law No. 33 of 2004 on financial balance between the central and local governments. Regional genuine income (PAD) is the income earned by the region imposed by local regulations in accordance with the legislation. PAD sourced from:

- 1) local taxes;
- 2) Retribution area;
- 3) Results of the wealth management of segregated areas;
- 4) Other legitimate PAD.

Waluyo (2013) explains that from an economic standpoint, taxes are the government's acceptance used to direct people's lives to prosperity. The tax receipt according to Hutagaol (2007) is a source of acceptance that can be obtained continuously and can be developed optimally according to the needs of government and community conditions.

The law No. 28 of 2009 explains that regional tax hereinafter referred to as tax is the mandatory contribution to the area owed by a private person or a forced body under the law, by not obtaining direct remuneration and use for regional purposes for the maximum prosperity of the people. Regional tax classification can be divided into two namely provincial and local tax district and municipal taxes.

Peacock and Wiseman in Mangkoesobroto (1993) stated that increased tax revenues would increase growth through development spending or capital. That is, if government acceptance of the tax sector increases, then the government will use the increase in the tax revenues to increase the spending on development spending or capital that will impact the increase in economic growth.

The economic growth according to Sukirno (2011) is the development of activities in the economy that causes goods and services that are produced in the society increases. While according to Murni (2013) is a condition in which the development of the GNP reflects the growth of the output per capita and the increasing standards of living people.

According to Samuelson (2004) Several factors that have long been viewed by economic experts as an important source that can realize economic growth are as follows:

- 1) Human Resources
- 2) Natural Resources
- 3) capital formation
- 4) technological Change and innovation

In the economic statistics of West Java Bank Indonesia (2017) gross Regional domestic product (GDP) is stated that GDP or PDRB is essentially the amount of added value generated by all business units within a particular region, or is the sum of the final value of goods and services produced by all economic units in an area. Badan Pusat Statistik (2018) describes to measure the economic growth of an area are divide regional revenue year by year using the following calculations:

$$Laju\ Pertumbuhan\ PDRB = \frac{PDRB_t - PDRB_{t-1}}{PDRB_{t-1}} \times 100\%$$

Explanation :  
 GDP<sub>t</sub> : GDP current year  
 GDP<sub>t-1</sub> : GDP previous year

**RESEARCH MODEL**

In the research model (Fig 4) Independent variables are local tax growth and economic growth as dependent variable which is proxies by GDP growth based on the above, the research model can be described as follows:



#### Figure 4 : Research Model

#### HYPOTHESIS

Hypotheses can be expressed as a temporary answer to problems that are still preconceived. Hypotheses is a temporary truth, which will be tested truthfulness with the data collected through research hypothesis of this research is the regional tax growth affects the economic growth of districts and cities in West Java province during the period 2014-2018

#### RESEARCH METHODOLOGY

According to Zulganef (2018), research methods are systematic ways that are used to obtain information or knowledge. The methods used in this research are descriptive and verificative methods. While the variables examined in this study were local tax growth and economic growth.

Validity and reliability tests with  $\alpha = 5\%$  are used to evaluate data quality. Then simple linear regression is used when data is valid and reliable. The regression equation used to describe the number of independent variable changes to the dependent variable is as follows:

$$\hat{y} = a + bx$$

Explanation:

- $\hat{y}$  = Economic Growth
- X = Local Tax Revenue
- a = Constanta
- b = Regresion Coefficient

After regression testing, researchers conducted hypothesis testing using test-t and calculated coefficient of determination to evaluate the influence of regional tax growth on economic growth.

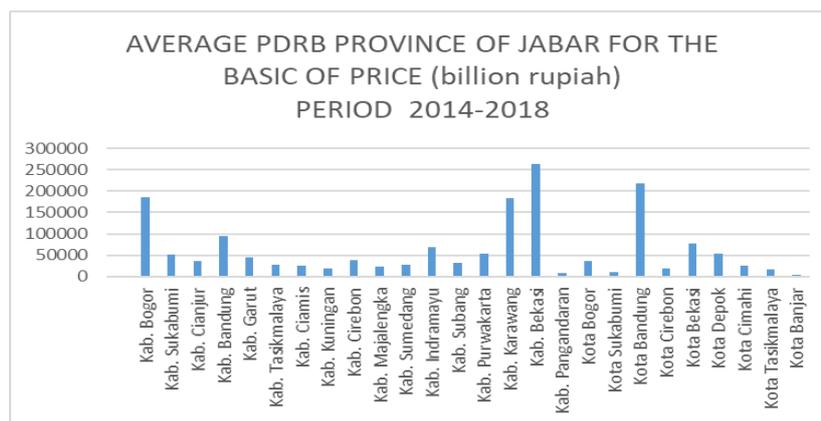
#### DATA ANALYSIS&INTERPRETATION

The population and samples in this study were 27 regencies and towns in the province of West Java. The Data used in this study was the growth of local tax revenues and economic growth which was proxies by GDP during the period 2014-2018.

#### *Economic Growth*

Data on economic growth of the regency and city in West Java province which was proscribed with GDP Regency and city in West Java province current year minus GDP district and city previous year against GDP Regency and city in West Java province the previous year.

Here are the average GDP of West Java province by Regency/city during the period 2014-2018:



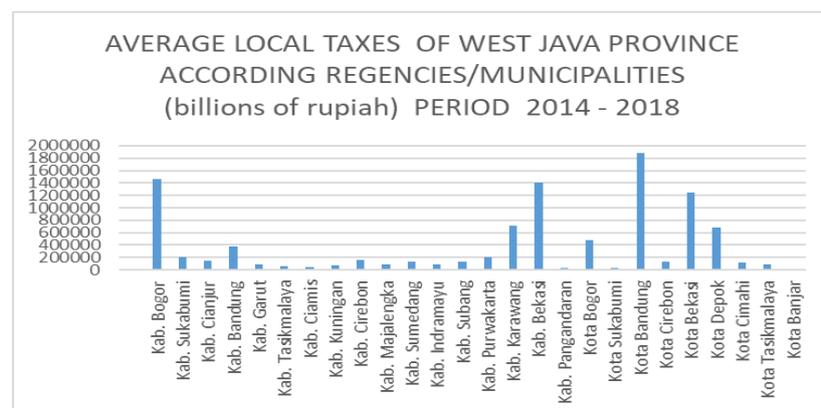
Source:GDP CatalogueCity/Districtin Indonesian

Economic growth is the development of economic activity that causes the growth of the per capita output to be proscribed with the increase in gross domestic Regional product (GDP).Based on average GDP data for 2014 – 2018 known economic growth experienced retarding, the average increase of GDP for a period of 2014-2015 of 10% but for the period 2015-2016 suffered an average decrease of GDP to 9% and tends to stagnate by 9% to 2018.The expectation happenedSustainable economic growth. The city/district which is experiencing the lowest economic growth is the district of Indramayu, while the city/district that experienced the highest growth during the period 2014 – 2018 is the city of Bandung, while the average of the highest GDP is Bekasi regency.

**Local Tax Growth**

Regional tax growth as an independent variable is proscribed with the local tax acceptance of Regency/city in West Java province is currently deducted from local tax revenues/cities in the previous year against the local tax receipt of Regency/city in West Java province in the previous year.

Below are the local tax rates of West Java province by Regency/city, period 2014-2018:



Based on average data of regional tax revenues during 2014 – 2018 known regional tax growth was subjected to fluctuations, there was a rise in average regional tax revenues for the period of 2014-2015 by 17% but for the period 2015-2016 experienced a decrease in the average regional tax revenues to 12%

but had an increase back in the 2016-2017 period by 18%. Hopefully there is a continuous growth of local tax revenues. The city/district which is experiencing the average of the lowest tax revenue is Banjar city while the city/district which experienced the average highest tax receipts during the period 2014 – 2018 is the city of Bandung. The city/district that underwent the highest growth rate during the 2014-2018 period is Majalengka regency, while the city/district which is experiencing the lowest average growth rate during period 2014-2018 is the Indramayu district.

The result of processing eviews 8 software obtained the following data :

**Table 1**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.151364	0.226365	40.42755	0.0000
X	0.004814	0.011877	0.405269	0.6860

**Source:** The result of processing eviews 8 software

The Regional tax receipt variable (X) has a significance value of 0,6860. Because the value of its sig  $0.6860 > 0.05$  then  $H_0$  accepted means there is no influence of regional tax acceptance (X) on economic Growth (Y).

## CONCLUSION

Head of the Department of Economic and Monetary policy of Bank Indonesia (BI) Dody Budi Waluyo (2017) said that the economic growth of West Java province experienced inequality. Data from the Central Statistics agency, 71 percent of West Java's gross regional domestic product was donated by the Regency or city in the north of West Java. Chief representative of BI province West Java Wiwiek Sisto Widayat (2017) added that the development of the southern region of West Java is agriculture, plantation, fisheries, and tourism does not lead to industrialization such as the northern region.

According to Sukirno (2011) Economic growth is the development of activities in the economy that cause goods and services that are produced in the society increases. Based on the results of the descriptive analysis showed that overall the economic growth of the district/city in West Java province during the year 2014-2016 average tends to slow down.

Harrod-Domar in Pure (2013) presents the conditions that must be met so that an economy can achieve strong growth or steady growth in the long term is the need for investment. To create an investment need to increase savings. Therefore, every economic actors always try to save their income to increase the savings.

Schumpeter in Pure (2013) explained that economic advancement is determined by the presence of entrepreneurs (self-employed). The superior Entrepreneur, who has high initiative, ability, and courage to apply new discoveries in production activities.

Based on the results of a descriptive analysis of the city/district that experienced the highest economic growth during the period 2014 – 2018 is the city of Bandung. As the capital city of West Java province of Bandung is known as a city that has a variety of creative industries both culinary, fashion, tourism etc. This is because it is supported by human resources that are productive, creative and innovative. Bandung City also has a natural resource that is supported by the establishment of capital, as well as changes in technology and innovations are adequate.

The city/district that has the highest GDP is the Bekasi regency. Head of Transportation Council of Bekasi City (DTKB) Harun Al Rashid (2018) to convey the development of Bekasi today is no longer just the role of a supporter of Jakarta. However, as a partner territory, Bekasi City also leading to a metropolis. The development of various infrastructure, especially in the field of transportation will give a very significant influence to the development and will change the face of Bekasi city better in the future.

The city/district that experienced the lowest economic growth during the 2014-2018 period is Indramayu County. Currently, the local government is preparing five new industrial areas in Indramayu district. The presence of the area is predicted to bring tens of thousands of jobs. The community hoped that if it was completed, many local residents were absorbed as a workforce. Plt Regent Indramayu Taufik Hidayat (2020) said, five industrial areas that will be built in Tukdana, Balongan, Losarang, Patrol Sub-district, and around Cipali toll road from the border of Subang to Majalengka. Each of the regions has a different industrial center such as in Tukdana which is prepared to be the buffer area of Kertajati airport. If at Balongan Petrochemical and plant expansion. Losarang manufacturing, and Patrol as supporting Port Patimban. Thus, having five industrial areas is expected to boost the community economy.

The average local tax growth of districts in West Java province in 2014-2018 tends to fluctuate. The city/district which experienced average of the highest regional tax revenue growth during the period 2014-2018 is Majalengka Regency, however, based on news derived from radarcirebon.com (2019) Local tax absorption in Majalengka district is still not optimal. Based on the research of Indonesia University, it is known if the local tax potentials in Majalengka are very high, while the city/district is experiencing average growth rate of the lowest regional tax revenue during the period 2014-2018 is Indramayu district. The percentage of Indramayu's local revenue Revenues (PAD) in 2018 decreased. The deputy chairman of Indramayu's budget agency, Abas Abdul Jalil (2019) argues that the potential tax and regional levy, as well as other legitimate income posts PAD, still have the potential to be further improved by the intensification and extensibility programs.

The results of data testing using the Eviews 8 software showed that the local tax growth did not affect the economic growth of the districts in West Java province during the 2014-2018 period. This means that economic growth is experiencing retarding or otherwise not due to the growth of local tax revenues but by other factors such as the availability of human resources and adequate natural resources there is capital formation and technological change and

innovation. The occurrence of slowing economic growth in the city/district of West Java Province caused by slowing down local tax revenues. Reggie et research results. All (2017) indicates local tax, regional and shopping district levy together have no influence on economic growth. Peacock and Wiseman in Mangkoesobroto (1993) stated that increased tax revenues would increase growth through development spending or capital. This means that increasing local tax revenues do not directly affect the economic growth but in mediation by the expenditure of development or capital. The results of the research of Sunarto and Y Sunyoto (2016) Declare significant positive regional taxes on regional independence and regional independence to significant effect on regional economic growth.

### **SUGGESTIONS**

The slowing of economic growth can be experienced by a city/district, a country even the world. The occurrence of economic growth in the region affects the life of the community in such a lot of unemployment due to difficult job field, low welfare level etc. Therefore, a sustainable economic establishment is an important concern for local and central governments. Based on the results of the descriptive analysis can be analyzed further by comparing the city/district with each other because each region has the potential of both human resources and different natural resources. For further researchers should reconsider the research model designed because the results of research conducted does not prove the influence of local tax on economic growth is proxy by the change of GDP because the results of previous research has been influential, influential with moderated by capital expenditure as well as the unaffected so that it is done to enrich the science of scholarship in particular accounting/economics sector public.

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