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## THE EFFECT OF REGIONAL TAXES, RETRIBUTION AND PROFIT-SHARING FUNDS ON INFRASTRUCTURE CAPITAL EXPENDITURES IN ACEH, INDONESIA

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### KEYWORDS

local taxes, retribution, profit sharing fund, capital expenditure.

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### ABSTRACT

This research is a causality study that examines the effect of local taxes, levies, and profit-sharing funds on the Aceh government's capital expenditure. Secondary data that is analyzed in this study is the local government financial statements which are a form of budget realization reports (LRA) of district/city revenues and expenditures from 2013 to 2017 from the Audit Board (BPK) as Aceh representatives. Data from 23 districts/cities within a period of 5 years starting from 2013-2017 were analyzed so that 115 units of analysis were obtained. This study used multiple linear regression models in analyzing the data. The study found that; Local government taxes affected capital expenditure in 2013-2017 for the Aceh government. The Regional Retribution and Profit-Sharing Fund (DBH) has no effect on capital expenditure. However, local taxes, levies, and profit-sharing funds simultaneously affected infrastructure capital expenditure in Aceh in the 2013-2017 period. Based on the results of the study, it can be concluded that local government taxes have a significant influence on capital expenditure in Aceh in the 2013-2017 period. Therefore, the Aceh local government can consider more appropriate tax policies to increase capital expenditure and increase infrastructure development in Aceh.

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## INTRODUCTION

Aceh is one of the regions that has received decentralization to achieve a financial balance between the central government and regional governments to improve the economy (Hindari, 2022). Decentralization is the authority transfer from the central government to the regions, accompanied by the transfer of financing sources previously held by the central government (Hastuti, 2018). Because of the decentralization received, Aceh is expected to be able to manage its finances through the Regional Revenue and Expenditure Budget (APBD), which a Regional Regulation stipulates. The Aceh government is also given the authority to collect regional taxes and levies (tax assignment) and the provision of revenue sharing as well as financial assistance (grants) or known as the Balancing Fund, such as profit-sharing fund (DBH). However, public awareness of paying taxes still needs to improve in Banda Aceh. Many hotel, restaurant, and billboard entrepreneurs in Banda Aceh need to pay taxes. As reported by the Financial Management Agency (BPK), 43 of the three types of businesses were in arrears of IDR 1.2 billion in regional taxes from 2009 to 2016 in Banda Aceh (Serambinews.com, 2015). The retribution payment experiences the same. As happened in Pidie Regency, more than ten cellular phone operator companies (cell phones) that built transmission towers in Pidie Regency have yet to pay the levy for cell phone towers in 2015 (Serambinews.com, 2015). Due to such a reality, researchers are interested in examining the effect of regional taxes, levies, and revenue-sharing by the Aceh government

on infrastructure capital spending. The increase in infrastructure capital spending hopefully leads to Aceh's economic improvement.

Several previous studies on local taxes, regional levies, and capital expenditures exist. (Sudika & Budiarta, 2017) state that local taxes influence capital expenditures, while regional levies have no effect on capital expenditures in Bali Province for the 2010-2014 fiscal years. Another study conducted (by Lestari & Rahayu, 2015) shows that local taxes influenced regional capital expenditures in West Java in 2011-2013. Furthermore, research conducted by (Handayani et al., 2015) shows that the variables of local taxes, regional levies and profit-sharing funds jointly affect capital expenditures. Partially, the variables of regional taxes and regional levies do not affect capital expenditures. In contrast, the variable of profit-sharing funds affects capital expenditures. However, little previous research has focused on infrastructure spending. Therefore, the researchers examine the effect of regional taxes, levies, and revenue-sharing on infrastructure capital expenditures in Aceh. It is due to the taxes, levies and revenue-sharing directly affecting the community as taxpayers and regional levies payers.

This study aims to determine the effect of regional taxes on capital expenditures, regional levies on capital expenditures, and the effect of profit-sharing funds on capital expenditures. In addition, the researchers would like to know the effect of regional taxes, regional levies and DBH jointly on capital expenditures. The authors argue that local taxes, regional levies and DBH affect capital expenditures in Aceh province.

## **METHOD**

This causality study examined the effect of taxes, levies, and profit-sharing funds on the Aceh government's capital expenditures. The secondary data obtained was the local government financial report in the form of a budget realization report (LRA) of city revenues and expenditures from 2013 to 2017 from the Financial Audit Agency (BPK) as a representative of Aceh. One hundred fifteen units were analyzed from 23 cities in the five years from 2013 to 2017.

The multiple linear regression model analyzed the data, a statistical technique used to examine the effect of two or more independent variables on the dependent variable and to determine the effect of the dependent variable simultaneously and partially on the independent variable.

This quantitative study used secondary data in the form of a district/city budget realization report in Aceh. The secondary data were analyzed using the Statistical Package for the Social Science (SPSS) version 21 program.

Taxes, levies and DBH are independent variables in this study. The dependent variable is capital expenditure. According to (Sigit Hermawan & Amirullah, 2021), the formulation of multiple linear regressions from this research is as follows:"

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Where:

- Y = Capital Expenditure;
- a = Constant;
- b = Regression Coefficient;
- X<sub>1</sub> = Local Tax;
- X<sub>2</sub> = Regional Retribution;
- X<sub>3</sub> = Profit Sharing Fund; and
- E = Error Term.

## RESULT AND DISCUSSION

The study sample was 115 units obtained from 23 cities in Aceh, Indonesia. The period of this research was five years, from 2013 to 2017. The following is a descriptive table of research data.

**Table 2. Descriptive**

Variable	Minimum	Maximum	Average	Std. Deviation
Taxes	1.883.286.090 (Bener Meriah 2013)	70.931.534.361 (Banda Aceh 2017)	13.669.951.192	13.669.951.192
Retribution	881.390.909 (Southeast Aceh 2017)	120.224.580.918 (North Aceh 2014)	13.402.204.900	13.402.204.900
DBH	12.477.315.997 (Subulussalam 2016)	511.392.051.995 (North Aceh 2013)	44.072.663.739	44.072.663.739
Capital expenditure	62.345.673.049 (Sabang 2013)	512.060.288.509 (Southeast Aceh 2016)	248.277.174.445	248.277.174.445

### Classic Assumption Test

There are four processes to examine classic assumption;

#### 1. Data Normality Test

Data distribution normal or close to normal is a good regression model. The data analyzed shown that capital expenditure has an Asymp value. Sig(2-tailed) 0.436, which was above 0.05 (0.436 > 0.05). The results higher than a 0.05 level of confidence described a normal distribution pattern; the regression model follows the assumption of normality.

#### 2. Multicollinearity Test

The researchers examined the value of VIF (Value Inflation Factor) and tolerance value to determine the multi-collinearity in the data. If the tolerance value <0.10 or VIF>10, multicollinearity occurs. However, there is no multicollinearity if the tolerance value is > 0.10 or VIF <10. The regression model is free from multicollinearity between independent variables

#### 3. Heteroscedasticity Test

The data shows the variables of Taxes, Levies, and DBH are free from heteroscedasticity in the capital expenditures which the significance value is sig > 0.05. So, it was concluded that there was no heteroscedasticity problem in this regression model.

#### 4. Autocorrelation Test

It was declared free from autocorrelation interference if  $DW > dU$  and  $DW$  is less than  $4-dU$ . The data indicated that the Durbin-Watson value is 2.366 where  $2.366 > 1.7496$ , which led to the conclusion that there was an autocorrelation in the regression model. Therefore, the Cochrane-Orcutt method was used to eliminate autocorrelation.

### Multiple Linear Regression Analysis

Multiple linear regression was used to examine the effect of regional taxes, retribution and DBH on an infrastructure capital expenditure. The data is explained in the table below.

**Table. Multiple Linear Regression Analysis**

Variable	Coefficient	T - Value	Sig. Value	Conclusion
Constant	5,252	14,90	0,000	
Regional Taxes ( $X_1$ )	0,215	5,004	0,000	Influenced
Regional Retribution( $X_2$ )	0,068	1,768	0,080	Not influenced
DBH ( $X_3$ )	0,009	0,162	0,872	Not influenced
R = 0,500a	R <sup>2</sup> = 0,250	Adj. R <sup>2</sup> = 0,230		
F-value = 12,225	Sig. = 0,000b			

Variable	Coefficient	T - Value	Sig. Value	Conclusion
Significant at $\alpha = 5\%$ .				

The result of data analyzed by multiple linear regression shown;

$$Y = 5.252 + 0.215X_1 + 0.068X_2 + 0.009X_3 + e.$$

The result interpreted as the constant ( $\alpha$ ) is 5.252, which indicated that taxes ( $X_1$ ), levies ( $X_2$ ) and profit-sharing funds ( $X_3$ ) were considered constant. In addition, the level of capital expenditure was 5.252.

Based on the test results by multiple linear regressions above, the tax regression coefficient is 0.215, which indicates that if the other independent variables remain constant, every 100% increase in the remaining budget will be followed by the increase in capital expenditure by 21.5%.

Furthermore, the regression coefficient for regional levies obtained was 0.068. This indicated that the other independent variables were constant, in which every 100% increase in regional levies, the capital expenditures increased by 6.8%. In addition, the DBH coefficient obtained was 0.009, which indicated that if the other independent variables were constant, every 100% increase in DBH capital expenditures increased by 0.9%.

### The Effect of Local Taxes on Capital Expenditure

Statistical tests result indicated that local taxes influence capital expenditures. These results are supported by previous research that conducted by (Febriyanti & Mildawati, 2017), (Sudika & Budiarta, 2017), and (Lestari & Rahayu, 2015). They found that local taxes have an impact on regional spending. Aceh governments suggested optimizing revenues from all local tax revenues to increase the allocation of capital expenditures. The increase in regional tax revenue will have an impact on the increase in regional income. As a result, the allocation of capital expenditure will increase. Hence it has an impact on the prosperity of the people through development.

The local government's expenditures that impact the community are capital expenditures (Tjodi et al., 2021). Therefore, if the tax revenue received is significant, the capital expenditure should be large to obtain the prosperity of the people. The infrastructure development funding mainly comes from capital expenditures that impact the region's economic growth (Sulaeman & Silvia, 2019). Local governments have a better understanding of the characteristics of their regions; hence the allocation of the capital expenditure budget be more focused and on target (Valle-Cruz et al., 2022).

Local taxes are the regional income source that can be increased by district/city governments in Aceh (Islahuddin, 2014). The government should increase the taxes income through programs that encourage people to pay local taxes (Bíró et al., 2022). The programs eliminate late payment penalties or other incentives following the laws and regulations.

The data in this study was obtained from realizing the local tax budget in the LRA. Local taxes, which consist of various types of taxes, can be examined in further research. Therefore, it shows the types of regional taxes that contributed the most to the allocation of regional expenditures. There was no specific regulation regarding allocating capital expenditures from tax revenues in budgeting regional finances. Regional autonomy transfers the authority to allocate the budget in the APBD to regional heads based on the consultation result with the legislature.

### The Effect of Regional Retribution on Capital Expenditure

The data shows that regional retribution has no significant effect on capital expenditure. The significant level of regional retribution is 0.080, greater than the significant level of 0.05. To sum up, regional retribution does not affect capital expenditure.

This is due to the community's view that levies are part of local government programs, not as regional revenues. As the result, they will pay if the level of service received increases (Queen, 1998). Regional retribution revenues need to be appropriately managed; hence, regional revenues received are still small. The results of this study supported the research of (Sudika & Budiarta, 2017) and (Zulkautsar, 2013) that regional levies do not affect capital expenditure.

This study proves that much regional spending by the Aceh government has not been used optimally to improve the community's welfare. It is because managing regional expenditures, such as the increase in retribution revenue, does not lead to an increase in capital expenditure allocation. The contribution of regional retribution income to original regional income is the lowest one among all other types of income.

Regional retribution income must be "returned" to those who pay the retribution through the infrastructure the retribution payer can use directly (Anggoro, 2017). For example, the garbage retribution, the government can provide garbage cans or cars to take the garbage. The facilities will directly benefit the community by paying the garbage retribution.

The regional government in Aceh province should increase revenue and potential sources to support regional finances. It is suggested that the government record the actual sources of retribution in the regions. The retribution is broadly divided into General Services, Business Services, and Certain Licensing.

#### **The Effect of DBH on Capital Expenditure**

DBH is a potential that exists in the relevant region that can be developed by the regional government to increase regional revenue (Mundiroh, 2019). The amount of DBH received by each district/city was transferred from the central government (23 Law No. 33/2004) (Susanti & Fahlevi, 2016). In the district/city budget realization report, the "DBH-tax and Non-Tax DBH" is not the lowest amount of total income transfer-balancing funds.

Testing the third hypothesis, the data shows that DBH has no effect on capital expenditures. The statistical test indicated that the DBH significance level of 0.872 is greater than the 0.05 level of significance. This result differs from (Handayani et al., 2015) finding that profit-sharing funds influence capital expenditure. The different research periods and shorter years of observation resulted in different research findings. Furthermore, the specific details of the DBH sources allocated to capital expenditures in districts/cities have not been found. In addition, the secondary data that the researcher used was the data from the "budget realization report" obtained from Aceh Audit Agency (BPK). The amount of the Revenue Sharing Fund allocated to the capital expenditure could not be found.

Laws and regulations have regulated the use of DBH received by the regions, such as tobacco profit-sharing funds (Sari, 2011). However, in the district/city budget realization report, only Aceh Singkil Regency stated the tobacco DBH post-budget realization in the Budget Realization Report in Fiscal Year 2017. The other local government budget realization reports only contain DBH posts from taxes and non-tax (resources). In this study, the two posts were combined to see the total profit-sharing funds owned by local governments to examine their effect on capital expenditures.

#### **CONCLUSION**

Hypothesis testing examines the effect of taxes, local government levies and revenue-sharing funds on the infrastructure capital expenditures in Aceh. The following conclusions were drawn: Local government taxes affected local governments' capital expenditures in 2013-2017 at Aceh. Regional levies did not affect regional capital expenditures in 2013-2017. Revenue Sharing Funds did not affect Regional Governments' capital expenditures in 2013-2017. Taxes, local government levies, and

revenue-sharing funds simultaneously affected infrastructure capital expenditures for local governments in Aceh from 2013-2017.

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