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Research Article

Regional Fiscal Independence: Analysis of the Influence of Regional Taxes, Regional Levies, and General Allocation Funds on Regional Government Financial Performance

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Abstract
This study aims to analyze the effect of Regional Taxes, Regional Retributions, and General Allocation Funds (DAU) on the financial performance of local governments in districts/municipalities of Central Java Province during 2012–2014, as well as to review the findings from an Islamic perspective. The research population consisted of 29 districts and 6 municipalities, using secondary data from the Central Java BPS official reports on APBD realization. The analytical method employed was multiple linear regression with SPSS v.21. The results indicate that (1) Regional Taxes have a positive significant effect on local government financial performance, (2) Regional Retributions also have a positive significant effect, and (3) General Allocation Funds have a negative significant effect. Simultaneously, the three variables significantly influence local government financial performance. From an Islamic perspective, these findings align with the principle of fiscal independence and distributive justice, emphasizing the importance of local resource management in a transparent, accountable, and responsible manner.

Keywords: Regional Tax, Regional Retribution, General Allocation Fund, Financial Performance

JEL Classification: H71, H72, H77

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1. Introduction
Halim (2007) Broad autonomy authority requires regional governments to improve public services and welfare in a democratic, fair, equitable, and sustainable manner. With the implementation of regional autonomy authority, it is hoped that all regions in Indonesia will be able to carry out all government and development affairs in their regions by relying on their Regional Original Income (PAD).

In an effort to encourage the development of a region, the government provides opportunities for regions to carry out their own autonomy by issuing Law Number 9 of 2015 concerning Regional Government, in the Law Article 1 paragraph 6 states that regional autonomy is the right, authority, and obligation of autonomous regions to regulate and manage their own government affairs and the interests of local communities in the system of the Unitary State of the Republic of Indonesia.

Regional Original Income is income that originates from economic activities themselves. Regional Original Income is the right of the regional government that is recognized as an increase in the value of net assets obtained from Regional Taxes, Regional Levies, Results of Management of Separated Regional Assets and Other Legitimate Regional Original Income, as stated in Law Number 23 of 2014 concerning Regional Government in Article 285 paragraph (1).

Within Regional Original Revenue (ROI), Regional Taxes and Regional Levies play a crucial role in financing regional autonomy. In its implementation, objects of regional original revenue must have a clear legal basis for collection. Regional Taxes and Regional Levies are regulated by Law Number 28 of 2009 concerning Regional Taxes and Regional Levies. Their implementation in the regions must be regulated by Regional Regulations. Regional governments are prohibited from levying fees outside those stipulated in statutory regulations (Halim & Kusufi, 2017).

Mahmudi (2016) Measuring financial performance is important to assess the accountability of local governments in managing regional finances and to provide information on local government financial performance that is useful in decision-making and to demonstrate accountability in reporting on resources managed by the government.

In previous research conducted by (Rukmana, 2013) showed that partially the regional tax variable has a significant effect on the financial performance of the Riau Islands province, while regional levies have no significant effect. Partially, the balancing fund variable has a significant effect on the financial performance of the Riau Islands province, and simultaneously all three variables have a significant effect on the financial performance of the Riau Islands province.

Nanda (2015) has researched the Influence of Regional Taxes, Regional Levies and General Allocation Funds on Regional Financial Performance in Regency/City Governments throughout the Riau Islands Province in 2009-2013, concluding that Regional Taxes and General Allocation Funds partially influenced Regional Financial Performance in Regency/City Governments throughout the Riau Islands Province in 2009-2013. While Regional Levies partially had no influence.

2. Literature Review and Hypothesis

Regional autonomy

Bastian (2006) Regional Autonomy is the authority of autonomous regions to regulate and manage the interests of local communities according to their own initiatives based on the aspirations of the community in accordance with laws and regulations. From the explanation above, it can be concluded that Regional Autonomy is the implementation of authority delegated by the central government to regions in their freedom to manage and regulate the resources owned by the region, based on the aspirations of the community in accordance with applicable regulations in order to create a just and prosperous government for the benefit of the community. With the implementation of regional autonomy, it is hoped that the quality and competitiveness of autonomous regions will increase and can also have an impact on the progress and welfare of their communities.

Regional Tax

Sugianto (2008) Regional Tax is a mandatory contribution made by individuals or bodies to the region without direct compensation that is equal, can be enforced by applicable laws and regulations used for the administration of government and regional development. Meanwhile, according to Law Number 28 of 2009 Article 1 paragraph (10) concerning Regional Taxes and

Regional Retributions, Regional Tax, hereinafter referred to as Tax, is a mandatory contribution to the Region owed by individuals or bodies that is mandatory based on the Law, without receiving direct compensation and is used for Regional needs for the greatest prosperity of the people.

Regional Retribution

Sugianto (2008) Regional levies are regional levies as payment for services or granting certain permits specifically provided and/or granted by the regional government for the benefit of individuals or bodies. Regional levies also have objectives, namely the objectives of regional levies are basically the same as the objectives of tax collection carried out by the state or regional government. The objectives of the collection are, the main objective is to fill the state or regional treasury to meet routine needs, and the additional objective is to regulate the prosperity of the community through services provided directly to the community.

General Allocation Fund

Definition of General Allocation Fund in Law Number 33 of 2004 Article 1 paragraph 21 concerning Financial Balance between the Central Government and Regional Governments and Government Regulation (PP) Number 55 of 2005 concerning Balancing Funds states that the General Allocation Fund (DAU) is a fund sourced from APBN revenues allocated with the aim of equalizing financial capabilities between regions to fund Regional needs in the context of implementing decentralization. The general allocation fund is part of the Central Government's balancing fund to Regional Governments which is provided annually which is taken from the State Revenue and Expenditure Budget (APBN), where the amount of funds provided is determined by the needs of the region and the potential of each region (Sidik, 2022).

Research Conceptual Framework

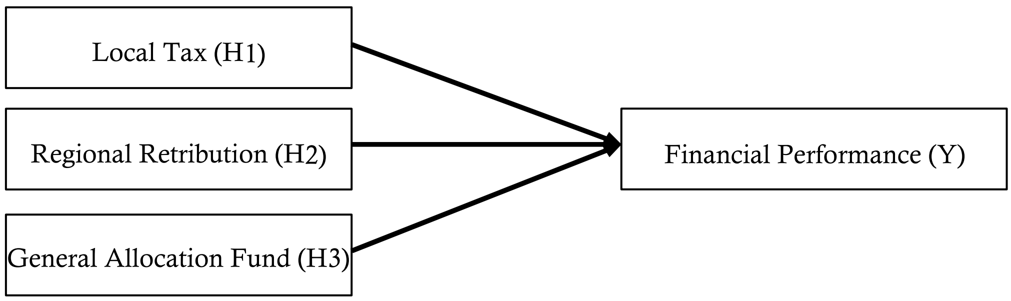

Figure 1. Research Concept Framework

Regional Taxes on Regional Government Financial Performance

According to Law Number 28 of 2009, Regional Taxes are mandatory contributions from individuals or entities that are mandatory and used for regional interests. Regional Taxes, as one of the main sources of Regional Original Revenue (PAD), play a crucial role in improving the financial performance of regional governments (Rukmana, 2013). Research by Alfarisi (2015) and Rukmana (2013) shows that Regional Taxes have a significant impact on financial performance, as the success of development and public services is highly dependent on the optimization of tax revenue. With its various types, such as Hotel and Entertainment Taxes, Regional Taxes are a major force in accumulating Regional Original Revenue (PAD). The higher the tax revenue, the better the regional financial performance. Based on this description, the research hypothesis can be formulated as follows:

H1: Regional Taxes Affect Regional Financial Performance

Regional Retributions on Regional Government Financial Performance

According to Law Number 28 of 2009 Article 1 paragraph 64, Regional Retribution is a regional levy as payment for certain services or permits provided by the regional government for the benefit of individuals or organizations. This levy is divided into three types, namely general service levies, business service levies, and certain licensing levies. As part of the Regional Original Income (PAD),

regional levies are an important indicator in assessing regional financial performance, because they reflect the ability of regional governments to explore development financing sources. Research by Alfarisi (2015) shows that regional levies have a significant influence on financial performance. Although their contribution is not as large as regional taxes, levies remain an important source of regional original income. The higher the levy revenue, the better the regional government's financial performance. Based on this, the research hypothesis can be formulated as follows:
H2: Regional Retributions Influence Regional Financial Performance

The Relationship between General Allocation Funds and Financial Performance
The General Allocation Fund (DAU) is part of the balancing fund sourced from the State Budget (APBN) and allocated to regions based on the needs and potential of each region. Research results show mixed findings: Nanda (2015) stated that the DAU had no significant effect on financial performance, while Rukmana (2013) and Julitawati et al. (2012) found that the DAU had a significant effect on regional financial performance. These differences in results indicate that although the DAU functions to support fiscal decentralization, high dependence on the DAU can actually indicate low regional fiscal independence. Thus, greater DAU receipts do not necessarily reflect optimal financial performance. Based on this, the research hypothesis can be formulated as follows:
H3: General Allocation Funds on Regional Financial Performance of Districts

3. Data and Method

Types of research
This research is designed as a causal study with a quantitative approach. The aim is to examine how Regional Taxes, Regional Levies, and General Allocation Funds (DAU) as independent variables influence Financial Performance as the dependent variable. This study emphasizes measuring variables numerically and analyzing data using statistical procedures using multiple linear regression analysis.

Data collection
The data used in this study is secondary data. Secondary data are presented in the form of data, tables, diagrams, or related to the research topic. The secondary data in this study collected information in the form of Regional Budget Realization Reports for Regencies/Cities in Central Java Province for the years 2012-2014. In this study, the data source was obtained from the website of the Central Statistics Agency (BPS) of Central Java Province (https://jateng.bps.go.id) And (www.djpk.depkeu.go.id).

Population and Sample
The population of this study covers all district and city governments in Central Java Province for the 2012–2014 period, comprising 29 districts and 6 cities, totaling 35 regions. The study used a census or population study method, thus examining all regions without sampling. This approach is expected to provide a comprehensive picture of the financial performance of districts/cities in Central Java.

4. Results

Normality Test

Table 1. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		105
Normal Parametersa,b	Mean	.0000000
	Standard Deviation	65.87209918
	Absolute	.120

Most Extreme Differences	Positive	.098
	Negative	-.120
Kolmogorov-Smirnov Z		1,232
Asymp. Sig. (2-tailed)		.096

Source: Processed Data (2017)

Multicollinearity Test

Table 2. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
	PD	,260	3,847
1	RD	,242	4,132
	DAU	,856	1,168

Source: Processed Data (2017)

Based on the table above, it can be concluded that there is no correlation between the independent and control variables and the regression model in this study is free from multicollinearity.

Heteroscedasticity Test

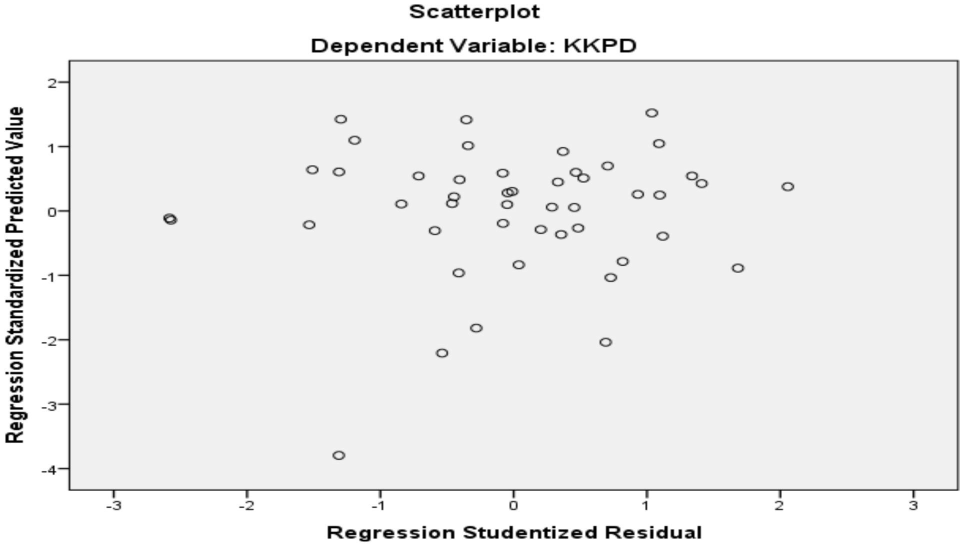

Figure 2. Heteroscedasticity Test – Scatterplot Graph

Based on the figure above, it can be concluded that heteroscedasticity does not occur in the regression model. Therefore, the regression model is suitable for use and then proceed to hypothesis testing.

Autocorrelation Test

Table 3. Autocorrelation Test

Model	Durbin-Watson
1	1,182a

Source: Processed Data (2017)

From the processed results, table 4.5 shows a Durbin Watson (DW) value of 1.340 and is between -2 and +2 or -2 > 1.182 < +2. Therefore, it can be concluded that there is no autocorrelation.

Hypothesis Testing
Individual Parameter Significance Test (t-Statistic Test)

Table 4. Significance Test of Individual Parameters (t-Statistic Test)

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	259,010	24,775		10,455	,000
	PD	8,758E-010	,000	,757	7,781	,000
	RD	1,235E-009	,000	,166	1,644	,103
	DAU	-1.828E-010	,000	-,314	-5,848	,000

Source: Processed Data (2017)

Partially, Regional Taxes are proven to have a significant positive effect on financial performance, Regional Retributions have no significant effect, while General Allocation Funds have a significant negative effect.

5. Discussion

The Influence of Regional Taxes on Government Financial Performance

Based on Table 4, Based on the established hypothesis, it can be said that Regional Tax has a significant positive effect on financial performance. This study shows that the higher the level of regional tax, the higher the financial performance. The financial performance of a local government is indicated by the ratio of total local revenue (PAD), which includes local taxes, to total revenue generated. The higher or better the financial performance of the local government, the better the regional government's financial performance. If the majority of total regional revenue comes from PAD, the government's financial performance can be considered good in optimizing revenue. If the opposite is true, the local government's financial performance can be considered poor or suboptimal.

The Influence of Regional Retributions on Government Financial Performance

Based on Table 4, based on the values above, it can be concluded that H2 is rejected and H0 is accepted, this indicates that regional levies do not affect the financial performance of local governments. This result is in line with research conducted by (Rukmana, 2013) that regional levies do not affect the financial performance of the Riau Islands provincial government. However, it differs from research conducted by (Alfarisi, 2015) where regional levies have a significant positive effect on financial performance in districts/cities in West Sumatra province, this difference may be caused by differences in the number of objects and research periods. Regional levies themselves are one of the important sources of local revenue. The government should concentrate on continuing to increase revenue from regional levies that have great potential by exploring sources of regional levies that have not been optimized properly.

The Influence of General Allocation Funds on Government Financial Performance

Based on table 4, based on the hypothesis shows that Ha is accepted, where the General Allocation Fund (DAU) has a significant negative effect on financial performance. The General Allocation Fund (DAU) is one part of the balancing fund, namely funds sourced from APBN revenues allocated with the aim of equalizing financial capacity between regions to fund their regional needs. In accordance with research conducted by (Rukmana, 2013) the Balancing Fund partially has a significant effect on financial performance. Likewise, research conducted by (Julitawati et al., 2012) the influence of the General Allocation Fund (DAU) as part of the Balancing Fund on the financial performance of district/city governments in Nanggroe Aceh Darussalam Province.

The research results show that the General Allocation Fund (DAU) influences the financial performance of district/city governments in the province. This indicates that the higher the balance of funds from the general allocation fund, special allocation fund, and revenue-sharing funds, the greater the regional government's dependence on the central government, resulting in low and suboptimal financial performance.

6. Conclusion

The research results show that Regional Taxes have a significant positive effect on financial performance, while Regional Levies have no significant effect. Meanwhile, the General Allocation Fund has a significant negative effect, indicating high regional dependence on the central government, resulting in suboptimal financial performance.

Managerial Implications

Regional governments need to improve the effectiveness of regional tax collection, the primary source of local revenue (PAD), and explore the potential of regional levies, which are currently underutilized. Furthermore, dependence on the General Allocation Fund (DAU) needs to be reduced by strengthening fiscal independence through regional revenue innovation and transparent and accountable budget management.

Recommendation

Regional governments are advised to expand the tax base by increasing taxpayer compliance and improving the collection system, while optimizing potential levies through improved public service quality and efficient licensing management. Furthermore, strategies are needed to reduce dependence on the General Allocation Fund by encouraging innovation in regional revenue sources and strengthening financial management based on transparency and accountability.

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