

## **CHAPTER TWO LITERATURE REVIEW**

### **A. Outline of Theory and Decline Hypothesis**

#### **1. The Concept of Local Revenue**

According to the study (K, 2012) explained that the Local Revenue (PAD) is based on article 157 paragraph a of Law Number 32 Year 2004 on Central Government suggests that local governments in taking care of their own household needs to be given the sources of income or receipts of local finance for finance all activities within the framework of the implementation of the tasks of administration and development for the welfare of society as a fair and equitable, that component is derived from the results of local taxes, levies Results, wealth management area results that are separated and Other Local Revenue results are valid. The fourth component of Local Revenue is also the financial resources of the region; therefore, the original income is one component of local financial resources. Local Revenue sources are part of regional financial levied under the laws and regulations in the area.

Local Revenue importance as a source of local finance, autonomous regions must have the finances and ability to dig up the financial resources of its own, manage and use their own finances are sufficient to finance the implementation of a local authority. Dependence on central assistance should be as minimal as possible so that the Local Revenue should become part of the largest financial resources supported by the policies of central and local

financial balance as a fundamental prerequisite in the system of administration of the State (Koswara, 1999: 23) in (K, 2012).

Sources of local revenue derived from: Local Taxes, Levies local, regional wealth management results were separated, Other Local Revenue legitimate. While, The Fund Balance is consists of DBH, General Allocation Fund, and the Special Allocation Fund (Safitri, 2009) in (Atmaja, 2011).

## **2. Sources of Regional Income**

Law Number 32 Year 2004 on Regional Government hinted that the local government in taking care of their own households is given the sources of income or financial reception area is to finance all the activities in the framework of the implementation of the tasks of government and development for the welfare of society as a fair and prosperous.

### **a. Local Revenue (PAD)**

With Local Revenue, it can be used as an important indicator to assess the degree of independence of Local Government in the field of finance.

As for the sources of Local Revenue (PAD) consisting of:

#### **1) Results of Local Taxes**

Local Tax is one of the key elements that have contributed greatly to the Local Revenue (PAD). Definition taxes are dues of the people to the state treasury, the shift of wealth (from the sector private to the government sector) by law (enforceable) does not receive the services

of reciprocity which can be directly appointed and is also used for general expenses (Soemitro, 1965: 19) in (Kusumastuti, 2002).

In Munawir (1990) some experts also provide an understanding of different, but still in the same meaning and purpose of the tax, some definitions are:

- a) According to Soemitro, tax is people's payment due to the state treasury (the transition of wealth from the private sector to government sector) by the legislation (Enforceable) without getting the service of lead (Tegen Prestatie) which directly appointed and used to finance the general expenses. In other words, the tax is a wealth of transition from people to state treasury, to finance the regular expenses and its surplus can be used for public saving which is a main source to finance the public investment.
- b) According to Soemamidjaja, tax is obligatory contribution in the form of money or goods levied by the authorities based on the norms of law, in order to cover the cost of production of goods and services collectively to achieve common prosperity.
- c) According to Djajadiningrat, tax is an obligation to give up some of the wealth to the state caused by a state, events and actions that give a certain position but not as punishment, according to the regulations set by the government and can be

enforced, but there is no merit forth from the country directly to maintain the general welfare.

In Law No. 34 of 2000 on the amendment of Law No. 18 of 1997 on Local Taxes and Levies Article 1 (6) is a local tax, hereinafter called the tax is obligatory contribution made by an individual or entity to areas without direct payment are balanced, which can be imposed by legislation that applies, which is used to finance the implementation of local government and regional development.

According to Law No. 28 Year 2009 on Regional Taxes and Levies in Article 1 (10) is a local tax, hereinafter called the tax is a mandatory contribution to the regions that are owed by individuals or entities that are enforceable under the Act, by not getting the rewards directly and used to the area for the purposes of the overall prosperity of the people.

Local tax based on the level of local government, local taxes and local taxes Provincial District / City level. In accordance with Act No. 28 Year 2009 concerning on Regional Taxes and Levies, the types of taxes are (Frediyanto, 2010):

- a) Regional Tax Level I (province), consisting of:
  - (1) The vehicles tax and the vehicles fuel tax, tax collection and utilization of underground and surface water.
  - (2) Taxes of vehicle title transfer fee and Customs of Vehicle.
  - (3) Taxes of materials motor vehicle fuel.
  - (4) Water taxes.

(5) Cigarette taxes.

b) Regional Tax Level II (district/city), consisting of:

(1) Hotel Taxes

(2) Restaurant Taxes

(3) Entertainment Taxes

(4) Advertisement Taxes

(5) Street Lighting Taxes

(6) Collection Excavated Material Taxes class

(7) Parking Taxes

## 2) Results of Levies

The sources of income other important areas are levies. Levies are dominated for a reception area. Based on Law No. 34 of 2000 which meant the levies are local taxes as payment for services or certain special permits provided and / or provided by local governments for the benefit of the individual or entity (Datu K, 2012).

Prakosa (in Atmaja, 2011) said that the Levies are local taxes as payment for services or granting certain permissions are specifically provided or granted by the regional government for the benefit of private persons aau body, so that it can be concluded that the levies are retribution levied because of the existence of a fringe benefits provided by local governments levy collector.

From the definition of the levy it can be argued that some of the characteristics inherent in the notion of retribution: First; Levies

collected by the state in this regard that all local revenue collection areas of public revenue, Second; in the collection there are economics. And Third coercion; Levies imposed on any person / entity who uses the services were prepared countries (Datu, 2012).

Frediyanto (2010) The types of levies according to Law No. 28 of 2009 can be grouped into three (3) categories, namely general service levies, fees and charges licensing of certain services.:

a) Public service levies that services provided or given to local government interests and public benefit purpose and can be enjoyed by private persons or entities. Common types of levies are:

- (1) Health Care Levies
- (2) Service Fees Waste / Hygiene Levies
- (3) Reimbursement Identity Card and Civil Certificate Levies
- (4) Funeral Service Fees and Aching Corps Levies
- (5) General Services of Roadside Parking Levies
- (6) Levy of Market Services
- (7) Levy of Vehicle Testing
- (8) Levy Inspection of Fire Extinguishers
- (9) Replacement Levy of Reprinting Maps
- (10) Retribution Supply / Suction Latrine
- (11) liquid waste management levies
- (12) Levy of Educational Services
- (13) Retribution of Telekom Towers Controlling

b) Business service levies are local taxes as payment for services supplied a special effort and / or provided by local governments for the benefit of private persons or entities. Types of charges for services such as:

- (1) Retribution of a Wealth Usage Area
- (2) Retribution of Wholesale Markets/Shopping
- (3) Retribution of Auctions
- (4) Retribution of Terminal Charges
- (5) Retribution of Special Place for Parking
- (6) Retribution of Venues, Home stays and Villas
- (7) Retribution of Slaughterhouses
- (8) Retribution of Port Services
- (9) Retribution of Recreation Places and Sport Areas
- (10) Retribution of Water Crossings
- (11) Retribution of Sales Business Production Area

c) Licensing Certain Levies are local taxes as payment for the provision of certain special permission granted by the local government for the benefit of private persons or entities. Licensing levy certain types namely:

- (1) Retribution of Building Permits
- (2) Retribution Sale of Alcoholic Beverages
- (3) Retribution of Nuisance Permits
- (4) Retribution of Route Permits

### (5) Retribution of Fishery Business License

Levies are more relevant than the tax on short-term interests. This is based on the relationship it directly to the public. Society will not pay if the quality and quantity of public services is not an increase.

### 3) Results of Regional Wealth Management Separated

To meet the financing needs of household's relatively large area, then the area is also provided sources of income in the form of wealth management outcomes separated areas in accordance with the Act No.32 of 2004. The management of that wealth comes from a local company established under Law Invite the whole or a part of capital riches separated areas (Datu, 2012).

Local Company category is divided into two, namely: First; PAD Company which is a company incorporated enumerated by the region itself. Second; Companies from the area supervisor. The purpose of forming a local company is to donate the local economy and increase the income of the area. BUMD business field covers various aspects of the service by prioritizing the provision of services to the community, organizing public services and contribute to the economy of the whole region should be implemented based on the principles of sound corporate economy (Financial Notes Proposed Budget 1995/1996 in Kusumastuti, 2002).



Local Company or local government position is very important and strategic as one of the institutions belonging to the area in increasing acceptance of PAD. Regional governments could also undertake efforts to increase revenue by optimizing the role of enterprises that are expected to function as a primary driver. This type of income includes the following income:

- a) Equity in net earnings of companies owned by regional
- b) Section profit financial institution bank
- c) Equity in net earnings of non-bank financial institutions
- d) The share in income on the statement of capital / investment.

#### 4) Others Local Revenue (PAD) Lawful

These revenues are derived from the reception area outside of taxes and levies or other legitimate local government-owned and supplied to allocate reception area. According to Law No. 33 of 2004 explains the original Revenue Regional legitimate, provided for budgeted reception area is not included in these types of local taxes, and wealth management outcomes separated areas.

According to Datu Indra K, this revenue type includes objects as follows:

- a) Proceeds from sales of regional assets that are not separated
- b) Acceptance Gyro services
- c) Interest income

- d) Fine delay in the execution of work
- e) Receipts for compensation for damage / loss of regional assets

(Datu K, 2012).

a) Balance Fund

According to Law No. 33 In 2004, the Balance Funds are funds from the state budget allocated to the regions to fund the needs of the region in implementing of decentralization. Balance Funds consists of revenue-sharing, allocation of funds General and Special Allocation Fund (Feriyanto,2010).

1) Revenue-Sharing Fund

Revenue-Sharing (DBH) is a fund sourced from APBN allocated to the regions with the potential of producing area noticed a certain percentage to fund the needs of the region in the implementation of decentralization. DBH include:

- a) Tax revenues, which are comprised of: land and building tax (PBB), fees for acquisition of land and buildings (BPHTB), the personal income tax.
- b) Acceptance of Non-Tax (SDA), which consists of: forestry, mining, oil and gas sector, and natural fisheries sector.

## 2) General Allocation Fund

Funds sourced from APBN allocated to bring equality among the regions financial ability to finance expenditure in the framework of decentralization. General Allocation Fund (DAU) an area allocated on the basis of fiscal gap and basic allocation. General Allocation Fund (DAU) allocation for regional fiscal potential is great but small fiscal needs would acquire relatively lower allocation. Conversely, a small area of fiscal potential, but needs a large fiscal will receive a relatively higher General Allocation Fund (DAU).

General Allocation Funds granted to all counties and cities for the purpose of filling the gap between capacity and fiscal needs, and is distributed by a formula based on certain principles which generally indicates that the poor and underdeveloped regions must receive more than richer regions. In other words, an important goal DAU allocation is to ensure equal distribution of public service delivery capabilities between the Local Government (Atmaja, 2011).

## 3) Special Allocation Fund

Special Allocation Funds allocated to help finance certain needs, which is a national program or activity which does not exist in other area. In other words, DAK is intended to help finance specific activities certain areas that are regional affairs and in accordance with national priorities. Infrastructure is the basic services that society has not reached a certain standard or to accelerate development of the

region. DAK also come from the state budget and allocated to the district / city to finance the specific needs of particular importance, depending on the availability of funds from the state budget (Atmaja, 2011).

### **3. The Relations between Total Population and Local Revenue (PAD)**

The Total population is essential to economic development is the driving force and executive in the economy as well as the workforce. Residents of an area can be seen from the positive and negative sides. The positive side where a large population can encourage the development itself, therefore the population factor is very important in the development plan, so that development be realistic. In the other hand, the negative impact of the population is the growing number of social and economic services to fulfill the rights of those whose numbers increase.

The Total Population is one of the deciding factors in income between regions. The addition of a population is an important element in stimulating economic growth and development. Large population is an asset for national development, but also a burden. Be an asset if it can increase national production. And become a burden if the quality, structure and distribution do not fit to become a burden on the working population effectively. Adam Smith (Santoso and Rahayu 2005 in Atmaja, 2011) Explaining that, supported by empirical evidence, a high population growth will be able to raise output by adding levels and market expansion both in domestic market and abroad.

#### **4. The Relations between Government Spending and Local Revenue (PAD)**

Implementation of a regional development program requires the participation of all elements of society. Local government's role is as a facilitator would require the support of factors including the budget. Those spending are partially used as other partial development funding for local infrastructure development. The spending increase aggregate spending and economic activity levels. Infrastructure development and provision of various facilities made to increase the attractiveness of the investment. Given adequate public service facilities will stimulate people to be more active in their work so that the productivity of the community and local investment be increased, which will result in an increase in Local Revenue.

According to Wong in (K, 2012), infrastructure development have an impact on local tax increases. Taxes and charges are components of PAD in increasing the added value obtained from optimal growing industry sector. The industrial sector came from capital expenditures. Capital expenditures are capital expenditures including land, capital expenditure buildings, roads and bridges capital expenditures, capital expenditures generation tools, capital expenditures heavy equipment and other capital expenditures.

#### **5. The Relations between Gross Regional Domestic Product and Local Revenue (PAD)**

The relationship between GRDP with Local Revenue (PAD) is a relationship that is very functional, because Local Revenue (PAD) is a

function of GRDP. The increase that occurred in GRDP effect on increasing the amount of revenue local governments in implementing development programs that will increase local government services to the public so that also increase the productivity of the region. With increasing government revenues will boost public services in hopes of improving productivity levels of society so that economic growth again increased, including the level of income per capita which is ultimately encourage people in the community's ability to pay taxes and other levies.

## **B. Previous Studies**

Several studies have been conducted with a discussion of the analysis of the factors that affect Local Revenue in the districts/cities of Riau province is as follows:

1. Pahala Bellarminus Lumban Tobing in 2015 conducted a study entitled *Analisis Pengaruh Jumlah Pekerja, Pengeluaran Pemerintah dan Produk Domestik Regional Bruto terhadap Pendapatan Asli Daerah tahun 1999-2013 : Studi pada Malang Raya*. The analytical method used is the Panel Data with multiple linear regression analysis. The results of the study explained that government spending in the form of direct spending is effective, in improving the Local Revenue. The development of infrastructure such as roads, education and improvement of Human Resource, which is part of the direct expenditure, is very important in promoting the Local Revenue. In terms of Gross Regional Domestic

Product, showing its influence in the improvement of Local Revenue. The more number of GRDP will effect to increasing the Total of Local Revenue. Because GRDP is an indicator of economic growth. And on the side of Population showed less effective in improving the Local Revenue, because the more number of working people is not necessarily effect to increase the Local Revenue.

2. In Indra Rindu Datu K. research on 2012 entitled *Analisis Faktor yang Mempengaruhi Pendapatan Asli Daerah (PAD) di Makassar tahun 1999-2009* by using multiple regression analysis method 2 SLS, explained that the realization of the development of the Local Revenue in Makassar continue to increase. From the empirical results that show that government spending was positive and significant impact towards Local Revenue, as well as the GRDP of Makassar was positive and significant impact towards Local Revenue. This is because the balance that occurs in government spending to improve infrastructure and infrastructure that support an increase in the Local Revenue.
3. Eni Aryanti and Iin Indarti do research entitled *Pengaruh Variable Makro terhadap Pendapatan Asli Daerah periode 2000-2009 di Kota Semarang*. The method used in this research is Multiple Linear Regression Analysis, with the result that the Macro variables used in the form of the GRDP and inflation shows that the GRDP variable was positive influence towards Local Revenue in Semarang and variable inflation does not affect the Local Revenue Semarang because the inflation rate is required in

consideration of amendments such as tariffs by setting the tax rates and levies that are flat, although the tax rate and levy are set high or low it is not striving towards acceptance of the original income Semarang. Because the rate of inflation just as useful as consideration rates change. This condition causes the inflation variable that should negatively affect to the acceptance of the Local Revenue, became influential in the city of Semarang.

4. Arief Eka Atmaja in his research on 2011 conducted a study entitled *Analisis Faktor-Faktor yang Mempengaruhi Pendapatan Asli Daerah (PAD) Di Kota Semarang*. The method used was Ordinary Least Square (OLS). From the results of his research explained that the variables used is Regional Spending, population and the GRDP summed together these variables affect the Local Revenue. Individually, the variables such Regional Spending , Total Population and the GRDP may influence Local Revenue, which has the greatest influence on Local Revenue in Semarang is Total Population. This is evidenced by the highest regression coefficient 5,742.
5. Diyah Kusri in 2015 conducted a study entitled *Analisis Pengaruh Belanja Langsung, Produk Domestik Regional Bruto dan Jumlah Penduduk Terhadap Pendapatan Asli Daerah (Studi Kasus Sekabupaten/Kota di Provinsi Sumatera Selatan tahun 2010-2014)*. The model used in this study is the Panel Data Regression. The results of this study explained that the direct expenditure of local governments was



significant and positive effect towards Local Revenue. This indicates that the respective district/city in South Sumatra took a positive policy in the development potential and attractiveness of the area by doing physical development. Gross Regional Domestic Product Also has a positive and significant effect to the Local Revenue. This happens because the movement of GRDP is dominated by primary and tertiary sectors. While, North Sumatera Province is rich in Natural Resource.

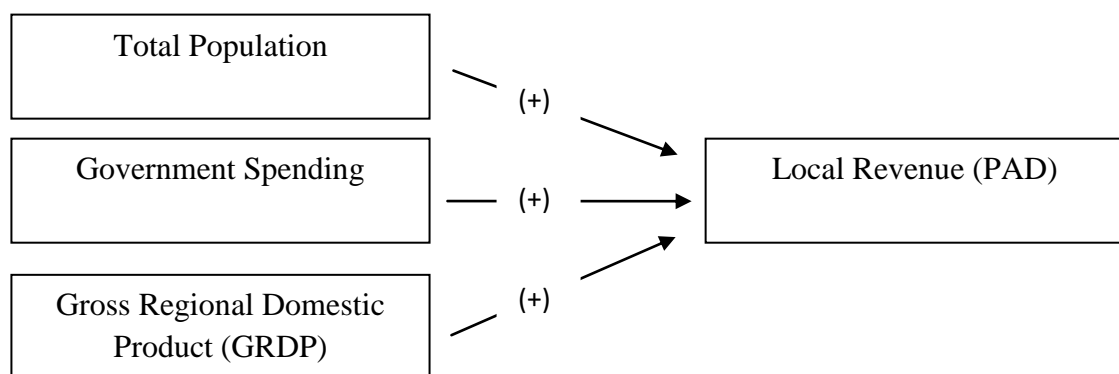
**Table 2.1**  
Previous Studies

No	Author	Variables	Method	Results
1	Tobing, 2015	Local Revenue (Y) Total Population ( $X_1$ ) Gov Expenditure ( $X_2$ ) GRDP ( $X_3$ )	Panel Data with Multiple Linear Regression Analysis	Total Population is not significant to Local Revenue Government Expenditure is positive and significant to Local Revenue GRDP is positive and significant to Local Revenue
2	Datu K, 2012	Local Revenue (Y) Gov Expenditure ( $X_1$ ) GRDP ( $X_2$ )	Analysis Regression Model with 2 SLS	Gov Expenditure was significant and positive effect to Local Revenue followed by GRDP and its effect positive and significant directly towards Local Revenue While, GRDP also was effect significant and positive towards Local Revenue.

3	Aryanti and Indarti, tt	Local Revenue (Y) GRDP ( $X_1$ ) Inflation ( $X_2$ )	Analisis Regresi Linear Berganda	GRDP was effected the increasing of Local Revenue positively.  Inflation was not effect to the increasing of Local Revenue.
4	Atmaja, 2011	Local Revenue (Y) Local Expenditure ( $X_1$ ) Total Population ( $X_2$ ) GRDP ( $X_3$ )	Ordinary Least Square (OLS)	For all variables were effected towards Local Revenue.  As individually, Total Population was having a great effect to Local Revenue.
5	Kusrini, 2015	Local Revenue (Y) GRDP ( $X_1$ ) Direct Expenditure of Local Government ( $X_2$ ) Total Population ( $X_3$ )	Panel Data Model	GRDP has effect significantly to the increasing Local Revenue.  The growth value of Direct Expenditure of Local Government was affected significantly.  Total Population was not affecting to Local Revenue.

### C. Framework

The Tests associated with the development of macro variables, such Total Population, Government Spending and Gross Regional Domestic Product (GRDP) that have a functional relationship with the Local Revenue (PAD). In this study, the framework of reasoning as follows:



**FIGURE 2.1**

Scheme of Framework

### D. Hypothesis

The hypothesis to be tested on the macro variables in this study are:

1. Presumably the positive influence between Total Population towards Local Revenue (PAD).
2. Presumably the positive influence between Government Spending towards Local Revenue (PAD).
3. Presumably the positive influence between Gross Regional Domestic Product (GRDP) towards Local Revenue (PAD).