The Influence of Local Tax, Local Retribution, General Allocation Fund, and Special Allocation Funds on Capital Expenditure

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Abstract: The purpose of this study was to determine the influence of local taxes, Local Retribution, general allocation fund, and special allocation funds on capital expenditure. This study includes 25 Districts and 8 Cities in 2013-2017. Analysis techniques used in this research is multiple linear regression to the data of observation as much as 100. The results of the study showed that the local tax general allocation fund and special allocation funds had significant positive influence on capital expenditure. Only Local Retribution had insignificant capital expenditure. This shows that there is still the dependence of local governments to transfer funds from the central government. The determinant coefficient showed 84.3 percent Capital expenditures could be explained or controlled by the Local Taxes, Local Retribution, General Allocation Fund and Special Allocation Fund while remaining 15.7 percent is explained or influenced by other variables outside our model.

1 INTRODUCTION

The implementation of local government is following the mandate of the 1945 Constitution, that is, the local government can regulate and manage its government affairs to realize a just and prosperous Indonesian society through improved living standards, intelligence and the welfare of the whole people to achieve national development. In Law of The Republic Indonesia Number 32 Year 2004 explained the division and formation of regions of the Republic of Indonesia, which is autonomous and applies the principle of decentralization. Local autonomy is a manifestation of the delegation of authority and responsibilities from the central government to local governments where the local government has the authority to regulate its regions both from the financial sector and from the non- financial sector.

Local Governments are expected to be able to manage their own finances through the Local Expenditure Budget which is determined by local regulations. Preparation of the provincial budget begins with making agreements between the executive (Local Government) and legislative (City Council) on public policy Local Budget and Budget Priorities, which will serve as guidelines for the preparation of the budget revenue and expenditure. The executive makes a draft of the Local Expenditure Budget by the general policy of the Local Expenditure Budget and the budget priorities, which are then submitted to the legislative council to be studied and discussed together before being established as a Local Unity (Haryanto, et al. 2007).

The problem faced by the Local Government in public sector organizations is about budget allocation. Budget allocation is the sum of fund allocations for each program. With limited resources, the Local Government must be able to allocate the revenue obtained for productive local expenditure. This is supported by a statement (Felix, 2012) which states that local governments should be able to allocate capital expenditure that is higher than routine spending. Local spending is an estimate of the local expenditure burden that is allocated relatively and evenly so that it can be relatively enjoyed by all groups of people without discrimination, especially in the provision of public services (Halim, 2007).

During this time, the Local Government uses more local income for operational spending needs rather than capital expenditure. Operational Expenditures are Local Government expenditures consisting of personnel expenditure, goods and services expenditure, interest expenditure, subsidy expenditure, and grant expenditure. When viewed in terms of benefits, budget allocation to the capital expenditure sector is advantageous and productive in providing services to the public. Improving the

quality of public services can be enhanced through improving the quality of management, namely by efforts to minimize the gap between service levels and consumer expectations (Bastian, 2006).

Capital expenditure is a component of direct spending in the government budget that produces *output* in the form of fixed assets. Capital expenditure is generally allocated, can be used as a means of local development, such as the development and improvement of the education, health and transportation sectors, so that people can enjoy the benefits of local development. According to Mardiasmo (2009) stated that the higher the level of capital investment is expected to deny the public participation rate with the event. The development of industrial infrastructure has a real impact on local tax increases because meeting the quantity and quality of services and public facilities will make the community feel comfortable and be able to run their business efficiently and effectively to increase their participation in growth. With the rapid development of development, is expected that an increase in local independence in financing its activities, especially in terms of finance, with the rise in productivity of the people who are in the area will have an impact on the local economy along with increasing per capita income.

The development of industrial infrastructure and providing facilities to increase investment will have a positive impact by increasing the Local Original Revenue so that it can reduce the dependence of the Local Government on the Central Government. Local Original Income consists of local taxes, local retribution, the results of the management of separated local assets, and other legitimate local original income (Kawedar, et al. 2008). In Law of The Republic Indonesia Number 34 Year 2000 on taxes and retribution, it is mentioned that the local tax is obligatory contribution made by the individual or entity to areas without direct payment balance, which can be imposed by legislation applicable, which is used to finance the local administration and local development. Local tax for each districts/city be seen from the post Local Revenue in the Realized Budget Report. Sources of local income include, Motorized Vehicle Tax, Motorized Vehicle Transfer Fee Tax, Motorized Vehicle Fuel Tax, Surface Water Tax, and Cigarette Tax.

Local retribution are an essential source of local income to finance local government and local development. In Law of The Republic Indonesia Number 34 Year 2000 stated that local retribution, in the future referred to as retribution, are local retribution as payments for particular services or permits that are expressly provided or provided by the Local Government for the benefit of individuals or entities. The ability of regions to grant funding from areas is highly dependent on the ability to realize economic potential into forms of economic activity capable of creating revolving funds for sustainable local development (Darwanto and Yustikasari, 2007). Opinion (Yossi, et . Al., 2015) states that Local Tax and Local Retribution do not influence Capital Expenditures. The granting of authority from the Central Government to the Local Government is balanced with the transfer of funds, facilities and infrastructure as well as human resources. The removal of these funds manifests a balanced fund which consists of the Special Allocation Fund, the General Allocation Fund and the Revenue Sharing Fund that has been explained in Law of The Republic Indonesia Number 33 Year 2004 concerning financial balance between the Central Government and the Local Governments.

Special Allocation Funds are and an originating from the State Revenue Budget, which is allocated to specific regions to help to fund special activities which are local affairs and following national priorities. The use of Special Allocation Funds is more directed at investment activities in the development, acquisition, improvement, and improvement of physical facilities and infrastructure with a long economic life, including the procurement of supporting physical facilities, and excluding capital inclusion. With the allocation of Special Allocation Fund is expected to affect capital expenditure, as Special Allocation Funds tend to be added to the fixed assets owned by the government to improve public services. Research conducted (Sumarmi, 2009) states that the Special Allocation Fund has a positive and significant effect on capital expenditure in this research area, which is also in line with research conducted by Sudika and Budiartha (2017).

General Allocation Funds are several funds allocated to each Autonomous Region (Province and Districts/City) in Indonesia each year as development funds aimed at equitable distribution of financial capacity between regions to fund the needs of the Autonomous Region in the context of implementing decentralization. Studies conducted by Legrenzi and Milas (2001) to find empirical evidence that funds transfers in the long-term effect on capital spending and a decrease in the number of transfers of funds can cause a reduction in capital expenditure spending. The same thing also expressed by Holtz-Eaken et al. (1985) which states that there is a close relationship between transfers from the Central Government and

local government spending. This opinion is supported by the research conducted (Tuasikal, 2008) states affect the General Allocation Fund Capital Expenditures. This study aims to analyze the effect of Local Taxes, Local Retribution, General Allocation Funds, and Special Allocation Funds on Capital Expenditures in Districtss/Cities in North Sumatra Province from 2013 to 2017. Capital expenditure has an essential role in running the government system, namely, to improve public welfare and as a form of *good governance.*

Research on the General Allocation Fund and Special Allocation Fund is already done, with more adding a variable previous research that details the variables Local Own-Source Revenue Revenue into Local taxes and Retribution and accompanied with the use of the latest data, the researchers wanted to know whether the unique variable will affect capital expenditure and whether the findings of this study are consistent with previous studies or even provide new results.

Problem Formulation:

1. Does the Local Tax Influence on Capital Expenditures in the Districtss/Cities in North Sumatra Province from 2013 to 2017?
2. Does the Local Retribution Influence on Capital Expenditures in the Districtss/Cities in North Sumatra Province from 2013 to 2017?
3. Does the General Allocation Fund Influence on Capital Expenditures in Districtss/Cities in North Sumatra Province from 2013 to 2017?
4. Does the Special Allocation Fund Influence on Capital Expenditures in Districtss/Cities in North Sumatra Province from 2013 to 2017?
5. Do Local Taxes, Local Retribution, General Allocation Funds, and Special Allocation Funds simultaneously Influence on Capital Expenditure in the Districtss/Cities in North Sumatra province from 2013 to 2017?

2 LITERATUR REVIEW

2.1 Capital Expenditures

According to Government Regulation Number 71 Year 2010, Capital Expenditures are budget expenditures for the acquisition of fixed assets and other assets that provide benefits over one accounting period. Capital expenditure is intended to get the local government's fixed assets, namely equipment, buildings, infrastructure, and other fixed assets.

Capital expenditure is one component of direct expenditure used to finance investment needs. Capital expenditure is a local government spending that benefits exceed one fiscal year and will add a wealth of assets or regions and will further add to shopping routine such as operating and maintenance costs.

2.2 Local Taxes

According to Hasbullah (2015), Tax is an embodiment of state obligations and the role of taxpayers to directly and jointly carry out tax obligations for state financing and national development. In Law of The Republic Indonesia Number 34 Year 2000 concerning local taxes and retribution, it is stated that local taxes are compulsory contributions made by individuals or entities to the region without balanced direct benefits, which can be imposed based on applicable laws and regulations, which are used to finance the implementation of the Local Government and local development. Tax collection in Indonesia refers to a self-assessment system, which is a tax collection system that gives the authority, trust, responsibility, to the taxpayer to calculate, calculate, pay and report for themselves the amount of tax that must be paid (Diana and Lilis, 2010).

2.3 Local Retribution

Local user fees are an important source of local income to finance local government and local development. In (Law of The Republic Indonesia Number 28 Year 2009) it is stated that Local Retribution is a local retribution as payment for particular services or permits that are expressly provided and given by the Local Government for the benefit of individuals or entities and Local Retribution is one of the essential sources of local income, in order to finance the implementation of local government.

2.4 General Allocation Fund

General Allocation Funds are several funds allocated to each Autonomous Region (Province and Districts/City) in Indonesia each year as development funds aimed at equitable distribution of financial capacity between regions to fund the needs of the Autonomous Region in the context of implementing decentralization. According to (Nordiawan and Ayuningtyas, 2010) General Allocation Funds are funds aimed at equitable distribution of financial capacities between regions intended to reduce

disparities in financial capabilities between regions through acceptance of formulas that take into account local needs and potentials.

2.5 Special Allocation Funds

Special Allocation Funds are funds sourced from the State Budget which are allocated to specific areas to help to fund special activities, which are local affairs and following national priorities. According to (Nordiawan and Ayuningtyas, 2010) Special Allocation Fund is intended to help finance special activities in specific areas which are local affairs and following national priorities, expressly to finance the needs of essential public facilities and infrastructure that have not reached specific standards or to encourage the acceleration of local development.

2.6 Conceptual Framework

Based on the above theoretical basis and problem formulation, the researchers develop the research framework. The conceptual framework to be studied by the researcher is as the following.
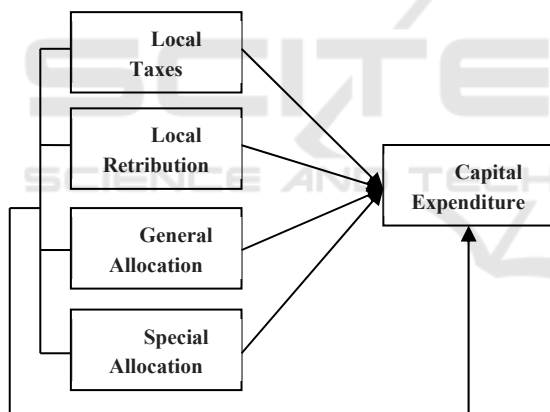
2.7 Hypothesis

2.7.1 The Influence of Local Taxes on Capital Expenditures

Local taxes substantial capital expenditure (Yossi et al. 2015). Local tax is the local original income, which is determined through local regulations. Local taxes can be in the form of hotel charges, restaurant taxes, entertainment tax, advertisement tax, class C excavation tax, parking tax, and street lighting tax. The Local Government has the authority to allocate revenues in the direct expenditure sector or for capital expenditure. From this description, the hypotheses that can be formulated are:

H_1: Local taxes Influence on Capital Expenditures

2.7.2 The Influence of Local Retribution on Capital Expenditures

Improvement of services to the community can be increased if the revenue owned by the Local Government from retribution is also sufficient. Even though the Local Government receives financial assistance from the Central Government, the Local Government must also be able to optimize its local potential to be able to increase Local Own-Source Revenue. Local independence can be realized in one way, namely by increasing Local Own-Source Revenue from the local retribution sector. If local retribution increases, the Local Own-Source Revenue will also increase to increase the allocation of capital expenditure to improve services to the community. From this description, the hypotheses that can be formulated are:

H_2: Local Retribution Influence on Capital Expenditures

2.7.3 The Influence of General Allocation Funds on Capital Expenditures

The General Allocation Fund originates from the State Budget transfers, which are allocated with the aim of equitable distribution of funds between regions to finance their expenditure needs in the context of decentralization. Research conducted by Wandira (2013) found that local independence did not improve; in fact, the opposite happened, namely the dependence of local governments on central government transfers (General Allocation Funds) became higher. (Prakosa, 2004) provides empirical facts where the General Allocation Fund has a positive influence on local government capital expenditure (Sudika and Budiartha (2017)) Show that the General Allocation Fund has a significant effect on the allocation of capital expenditure. This gives a strong indication that the behavior of local spending, especially capital spending, will be strongly influenced by revenue sources (General Allocation Funds). From this description, the hypotheses that can be formulated are:

H_3: General Allocation Funds Influence on Capital Expenditures

2.7.4 The Influence of Special Allocation Funds on Capital Expenditures

Special Allocation Funds are funds sourced from the State Revenue Budget, which are allocated to local

governments to finance special activities which are local affairs and national priorities. Research conducted (Tuasikal, 2008) Special Allocation Funds partially positive effect on capital expenditure. The same thing was said by (Abdullah and Halim, 2004) empirically said that the Special Allocation Fund had a positive and significant effect on capital expenditure. (Sumarmi, 2009) Stated that the Special Allocation Fund significantly influences the Capital Expenditure Allocation. This indicates that there is a relationship between the provision of transfer funds from the central government (Special Allocation Funds) with local government capital expenditure. From this description, the hypotheses that can be formulated are:

H_4: Special Allocation Funds Substantial Capital Expenditures

2.7.5 The Influence of Local taxes, Local Retribution, General Allocation Funds and Special Allocation Funds on Capital Expenditures

The Local Government has the authority to allocate revenues in the direct expenditure sector or for capital expenditure. Local tax is Local Original Revenue whose tariff is determined through Local Regulation. Local independence can be realized in one way, namely by increasing Local Original Revenues from the local retribution sector. If local retribution increases, the Local Original Revenue will also increase to increase the allocation of capital expenditure to improve services to the community. The General Allocation Fund originates from the transfer of the State Revenue Budget allocated for equitable distribution of funds between regions to finance its expenditure needs in the context of decentralization whereas the Special Allocation Fund is a fund sourced from the State Revenue Budget which is allocated to local governments to finance special activities which are local affairs and national priorities.

H_5: Local Taxes, Local Retribution, General Allocation Funds, and Special Allocation Funds Affect Capital Expenditures

3 RESEARCH METHODOLOGY

3.1 Types of Research

This type of research is causal design. This research is a replication of previous research. The difference between this research and previous research lies in the data in the form of Realization Report of the Districts/City government budget in North Sumatra Province for the period 2013-2017.

3.2 Population and Research Samples

Population is "a generalization area consisting of objects or subjects which become specific quantities and characteristics determined by researchers to be studied, and then conclusions can be drawn (Erlina, 2011). The population in this study is the report on the realization of the Districts/City Local Revenue Budget in North Sumatra in 2013-2017 In North Sumatra, there, are 33 Districtss/Cities. The sample, according to Erlina (2011) is "part of the population used to estimate population characteristics." Sampling *is done* by purposive sampling method, which is sampling based on specific criteria.

The criteria used to determine the sample are as follows:

a. Districtss/Cities in North Sumatra Province have submitted Reports the Realization of Local Revenue Expenditures to the North Sumatra Statistics Office (www.sumut.bps.go.id).

b. Districtss/Cities in North Sumatra Province that include Special data, and Capital Expenditures respectively in the realization report of the Local Expenditure Budget from 2013 to 2017.

Based on the considerations mentioned above, the researchers used 14 (fourteen) districts governments and 6 (six) municipal governments as research samples. To obtain a sample of 100 observations where there are 20 Districts/City governments (with details of 14 (fourteen) districts governments and 6 (six) municipal governments) X 5 years of observation.

3.3 Operational Definition of the Variable and Measurement Scale

Variable	Definition	Scale
Local tax (X_1)	Mandatory contributions to Regions owed by individuals or entities that are coercive based in Law of The Republic of Indonesia.	Ratio
Local Retribution (X_2)	Local retribution as payments for specific services or permits that are expressly provided and/or granted by the Local Government	Ratio

General Allocation Funds (X₃)	Funds sourced from the revenue of the State Expenditure Budget allocated for equitable distribution of financial capacity between regions to fund local needs in the context of implementing Decentralization	Ratio
Special Allocation Funds (X₄)	Funds sourced from the State Budget Revenues are allocated to specific areas to help fund special activities	Ratio
Capital Expenditures (Y)	Expenditures used for procurement of tangible fixed assets that have a value of more than 12 (twelve) months for use in government activities	Ratio

4 DATA ANALYSIS MODEL

The multiple linear regression model is a regression model that has more than one independent variable. In this study, there are four independent variables, namely Local Tax, Local Retribution, General Allocation Fund, and Special Allocation Fund. The multiple linear regression model is said to be a good model if the model has an assumption of data normality, and is free from classical statistical assumptions both multicollinearity, autocorrelation and heteroscedasticity.

The multiple linear regression equation is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

5 FINDINGS

	N	Minimum	Maximum	Mean	Std. Deviation
Local taxes	100	14.65	1329261	8.18E4	361341.575
Local Retribution	100	23.68	274512	4.25E4	62185.574
General Allocation Fund	100	364.685	1316714	7.68E5	371315.660
Special Allocation Fund	100	37.283	245000	6.97E4	43676.432
Capital Expenditure	100	107.534	1104423	3.75E5	316824.466
Valid N (listwise)	100				

Sumber: processed data SPSS, 2019

In the Descriptive Statistics indicates the description of the research variables that shows the minimum value, maximum value, average value, and standard deviation. In this study, the standard deviation value is smaller than the average value so it can *be concluded* that the survey *is distributed* normally.

5.1 Inferential Statistics Analysis.

Inferential statistical analysis has *been done* by doing convensional assumption test. The aim of standard assumption test is to have a useful dataset of enormous importance for applied economic research. The the conventional assumption tests aims of a normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

Normality test is used to determine if a data set is well-modeled, be normally distributed and to compute how likely it is for a random variable underlying the data set to be normally distributed. The empirical distribution of the data should be bell-shaped and resemble the normal distribution.

From the results of processing the data of One-Sample Kolmogorov-Smirnov test, the value of *Kolmogorov-Smirnov* is 0.564 and the Asymp value. Sig-2 Tailed is 0.843 . Significant value greater than 0,05, then H_0 accepted which means that the data residual normal distribution. Data that are normally distributed can also be viewed through histogram graphs and normal PP-plot data graphs.

	Unstandardized Coefficients		Collinearity Statistics	
Model	B	Std. Error	Tolerance	VIF
1 (Constant)	5.214	3.136		
Local taxes	.332	.125	.215	8.215
Local Retribution	.116	.146	.510	3.256
General Allocation Fund	-.035	.314	.226	8.267
Special Allocation Fund	.513	.231	.718	3.236

a. Dependent Variable: Capital Expenditure

Multicollinearity measurement in this study *is seen* from the tolerance value, and variance inflation factor (VIF). If the tolerance value is > 0.1 and the VIF value is < 10, then the regression model is free from multicollinearity problem (Ghozali, 2013). From the table 4 has shown that the data in this study is free from the multicollinearity problems.
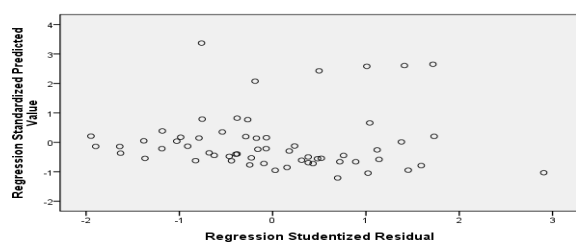
In the *scatterplot* chart, it is seen that the points spread randomly and are spread both above and below the number 0 on the Y-axis. North Sumatra is based on the input of the independent variable Local Tax, Local Retribution, General Allocation Fund, and Special Allocation Fund.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.912ᵉ	.869	.843	.41364	2.114

a. Predictors: (Constant), Special Allocation Fund, Local Retribution, Local taxes, General Allocation Fund

b. Dependent Variable: Capital Expenditure

The autocorrelation test results above show the *Durbin Watson* (dw) statistical value of 2,114. This value will be compared with the value of the researcher's, table using 5% significance, the number of observations (n) of 100, and the number of independent variables 4 (k = 4). So based on the *Durbin Watson* table, it can *be concluded* that there is no autocorrelation, both positive, and negative.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	6.243	2.816		2.124	.244
Local taxes	.365	.067	.770	3.645	.002
Local Retribution	.031	.126	.145	4.814	.024
General Allocation Fund	-.023	.351	-.220	-4.104	.035
Special Allocation Fund	.615	.214	.470	4.325	.000

a. Dependent Variable: Capital Expenditure

Based on Table 4.5, the linear regression equation is obtained as follows:

$$Y = 6.243 + 0.365X_1 + 0.031X_2 - 0.023X_3 + 0.615X_4 + \varepsilon$$

6 CONCLUSIONS

Based on the results of hypothesis testing, it shows that simultaneously Local Tax, Local Retribution, General Allocation Funds and Special Allocation Funds had significant positive influence on the Capital Expenditure in Districts/City Government North Sumatra. Based on the results of hypothesis testing, partially shows that Local Tax, Local Retribution, and Special Allocation Funds had significant positive influence on the Capital Expenditure in Districts/City Government North Sumatra while the General Allocation Fund had significant negative influence on the Capital Expenditure in Districts/City Government North Sumatra.

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