The Effect of Local Tax, Fiscal Decentralization and Capital Expenditure on Budget Implementation

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The Effect of Local Tax, Fiscal Decentralization and Capital Expenditure on Budget Implementation

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Abstract:- The phenomenon of budget implementation in Indonesia is still an important concern of several previous studies. This condition is caused by the implementation of the budget is one indicator of local government performance appraisal. This study aims to examine and analyze the effect of local tax, fiscal decentralization, and capital expenditures on budget implementation. This study uses a sample of all local governments in Indonesia during 2019-2020 using the purposive sampling method. This study uses eviews version 11 to test the hypothesis. The results of this study found that local tax have no significant effect on budget implementation, while fiscal decentralization and capital expenditures have a positive and significant effect on budget implementation. The contribution of this study to local government policies to achieve economic stability, local governments need to manage regional revenues and regional expenditures efficiently, effectively, and economically.

Keywords:- *local tax, fiscal decentralization, capital expenditure, budget implementation.*

I. INTRODUCTION

Budget implementation is still the concern of various previous researchers because budget implementation shows the ability of local governments to carry out budget planning to improve people's welfare. Rakhman (2019) explains that budget implementation is a comparison between the realization of the budget and the total budget. This condition shows how much the local government can execute the expenditures that have been budgeted. Mahmudi (2019) explained that the budget implementation process is a local government accounting system that aims to increase efficiency, support daily routine operations, improve the quality of financial reports, decision making, financial accountability, and protect local government assets.

Sourced from CNBC Indonesia in 2020, it can be seen that the implementation of the budget is still very low even though the budget is in the context of national economic recovery. Some expenditures whose budget implementation is still very low in the national economic recovery are related to health spending. If we look at the Rp30,4 trillion allocated health budget ceiling, it can be seen that the implementation has only reached Rp13,3 trillion. Furthermore, for the expenditure of social safety nets or social assistance from the budget ceiling of Rp.22,8 trillion, but the implementation has only reached Rp. 11,7 trillion, or about 51%. In terms of economic support, from the allocation of Rp19,24 trillion, it can be seen that the implementation was only Rp. 2.6 trillion until the end of September or only reached 13,7%. This condition indicates that there are various obstacles to improving budget implementation.

Important factors that can be used to improve budget implementation are local taxes, fiscal decentralization, and capital expenditures. Local tax are mandatory contributions made by individuals or entities to local governments without direct remuneration that can be appointed, which can be imposed based on applicable laws and regulations (Darwin, 2010). This condition indicates that individuals or entities are obliged to deposit contributions to the local government. Mardiasmo (2011) explains that local tax are mandatory contributions to regions that are owed by individuals or entities that are coercive under the law, with no direct compensation and are used for regional needs for the greatest prosperity of the people. Ningsih (2017) explains that local tax has a positive contribution to increasing local expenditure.

Local tax has a positive impact on budget implementation. This means that the contributions paid by individual or corporate taxpayers to the regions will be used to meet regional expenditure needs. Nugroho & Kurnia (2020) explained that local tax paid to local governments can increase local income. The same condition was also found by Lampunu & Mintarsih (2020), Ramdhan (2019), and Iqbal & Sunardika (2018) that local tax can increase local income. The implication is that local income is then used to finance local expenditures. Sunarto & Sunyoto (2016) explained that local tax as contributions that are mandatory to be paid by individuals or entities to the region can increase the independence of the region. This condition indicates that an independent region represents a high level of local tax revenue and is well managed to finance local expenditures. Jatmiko & Farhan (2016) explain that local tax has a positive contribution to the financial performance of local governments.

The second important factor influencing budget implementation is fiscal decentralization. Fiscal decentralization shows the degree of contribution of local original revenues to total local revenues (Mahmudi, 2019). This condition indicates that the higher the contribution of local revenue, the higher the ability of local governments to implement decentralization. However, if local governments receive more grants or transfers from the central government, then local governments tend to waste by spending that does not reflect the needs of their local residents, so that fiscal decentralization is considered less effective (Ashwort et al., 2013; Rodden, 2003). This condition shows that when local expenditure is sourced from local taxes, the potential for effective utilization is higher than sourced from grants or central government transfers.

Weingast (2014) explains that local governments that receive transfers from the central government or grants tend to experience a decrease in local government accountability and are not in accordance with the principle of tax benefits. Cassette & Paty (2010) explained that local governments that

III. RESULTS AND DISCUSSIONS

Descriptive statistics aim to describe the variables used in this study related to the minimum, maximum, mean, standard deviation values. The following table shows the results of the descriptive statistical test of this study variable.

	Min.	Max.	Mean	Std.dev.
BUDI	17,34	43,94	29,00	6,12
LOCT	14,40	80,16	42,08	8,82
FISD	5,20	70,02	35,27	15,87
CAPE	1,20	41,52	11,79	8,55

Notes: BUDI (Budget Implementation), LOCT (Local Tax), FISD (Fiscal Decentralization), CAPE (Capital Expenditure).

Table 2. Descriptive Statistics

Source: data obtained by researcher, 2021

The table shows that budget implementation (BUDI) has a minimum value of 17,34%, a maximum of 43,94, a mean value of 29%, and a standard deviation of 6,12%. This condition shows that the implementation budget of all local governments in Indonesia that meet the criteria for this study sample is still low because it has not reached 50%. This can happen because 2019 and 2020 are years of the emergence of the Covid-19 phenomenon that can affect the financial stability of local governments.

The minimum value of the local tax variable (LOCT) is 14,40%, the maximum value is 80,16%, the mean value is 42.08%, and the standard deviation is 8,82%. This condition also shows that local taxes are not optimally collected by local governments. The fiscal decentraization (FISD) variable has a minimum value of 5.20%, a maximum value of 70,2%, a mean value of 35,27%, and a standard deviation of 15,87%. This condition indicates that local governments have not yet achieved high fiscal decentralizatio. Furthermore, the capital expenditure (CAPE) variable has a minimum value of 1,60%, a maximum value of 41,52%, a mean value of 11,79%, and a standard deviation of 8,55%. This condition also shows that capital expenditure is not optimal.

This study uses correlation values to determine the degree of closeness between variables. Therefore, the following table shows the correlation values between the variables in this study.

	BUDI	LOCT	FISD	CAPE
BUDI	1,000			
LOCT	0,113	1,000		
FISD	0,160	-0,279	1,000	
CAPE	0,519	0,123	-0,118	1,000

Notes: BUDI (Budget Implementation), LOCT (Local Tax), FISD (Fiscal Decentralization), CAPE (Capital Expenditure).

Table 3: Correlation

Source: data obtained by researcher, 2021

The table shows that the highest correlation value is found in the capital expenditure (CAPE) and budget implementation (BUDI) variables. The correlation value is 0,519 with a positive coefficient. This condition indicates that the higher the capital expenditure (CAPE), the higher the budget implementation (BUDI). Conversely, the lower the capital expenditure (CAPE), the lower the budget implementation (BUDI). Meanwhile, the lowest correlation value is found in the local tax (LOCT) and budget implementation (BUDI) variables. The correlation value is 0,113 with a positive coefficient. This condition indicates that the higher the local tax (LOCT), the higher the budget implementation (BUDI). On the other hand, the lower the local tax (LOCT), the lower the budget implementation (BUDI).

Before testing the hypotheses of this study, we first tested the classical assumptions consisting of multicollinearity, heteroscedasticity, and autocorrelation tests. If the results of the classical assumption test have passed, it will be continued with hypothesis testing. The following is a table of classical assumption and hypothesis test results.

Independent Variables	Dependent Variable: BUDI Ordinary Least Square (OLS)	
	Coef.	t-stat.
Const.	17,52	4,89***
LOCT	0,08	1,34
FISD	0,09	2,32**
CAPE	0,38	5,14***
F-stat.	10,28***	
Adjusted R^2	30%	
Durbin-Watson	1,93	
Obs.	66	

Notes: BUDI (Budget Implementation), LOCT (Local Tax), FISD (Fiscal Decentralization), CAPE (Capital Expenditure). The results of the multicollinearity test showed that LOCT had a VIF of 1.03 < 10; FISD has a VIF of 1.06 < 10; and CAPE has a VIF of 1.03 < 10. Heteroscedasticity test using Huber-White-Hinkley consistent variance and standard error. The Durbin-Watson value of 1.93 is in the range of 1.54-2.46. ***,****,**** levels of 1%, 5%, 10%.

Table 4: Hypotheses Results

Source: data obtained by researcher, 2021

The table shows that the classical assumption test has been met, so it is continued with hypothesis testing. The results of the study show that the effect of local tax (LOCT) on budget implementation (BUDI) has a coefficient value of 0,08; t-statistic is 1,34 with a significance > 0.05. This condition shows that local tax (LOCT) has no significant effect on budget implementation (BUDI), so **H₁ is not supported**. Nugroho & Kurnia (2020) explained that local taxes paid to local governments can increase regional income. However, the data shows that the contribution of local tax realization to the local tax budget target is not yet low, thus indicating that local tax cannot affect budget implementation. The ability of the regions to meet local expenditure needs is sourced from local tax. Therefore, low local tax result in local governments not being able to fully finance local expenditures.

The results of the study show that the effect of fiscal decentralization (FISD) on budget implementation (BUDI) has a coefficient value of 0,09; t-statistic of 2,32 with a significance < 0,05. This condition shows that fiscal

decentralization (FISD) has a positive and significant effect on budget implementation (BUDI), so that **H$_2$ is supported**. Fiscal decentralization shows the existence of regional independence which is a manifestation of the region's ability to meet its needs. Sutjipto et al. (2019) explains that when regional income increases, it will be followed by an increase in regional spending. This condition occurs because fiscal decentralization illustrates the ability of regions to increase regional revenues, so that regional revenues will be used to meet regional expenditure needs.

The results of the study show that the effect of capital expenditure (CAPE) on budget implementation (BUDI) has a coefficient value of 0,38; t-statistic of 5,14 with a significance < 0,01. This condition shows that capital expenditure (CAPE) has a positive and significant effect on budget implementation (BUDI), so H$_3$ is supported. Sutjipto et al. (2019) explains that capital expenditure is a productive expenditure intended to meet the public's need for public facilities and infrastructure provided by local governments. Local governments that increase capital expenditures aim to improve people's welfare, so that budget implementation will be higher. This condition is due to high budget implementation triggered by higher capital expenditures.

IV. CONCLUSION AND SUGGESTION

The phenomenon of the low implementation of local government budgets is still the concern of several previous studies, so this study aims to examine and analyze the effect of local tax, fiscal decentralization, and capital expenditures budget implementation. The sample of this study used all provincial governments in Indonesia in 2019-2020 using the purposive sampling method. The results of this study indicate that local tax has no significant effect on budget implementation, while fiscal decentralization and capital expenditures have a positive and significant effect on budget implementation.

The important implication of this study is for local government policies to achieve economic stability, so local governments need to manage local revenues and local expenditures efficiently, effectively, and economically to improve public services. In the context of local revenue management, local governments need to find alternative sources of local tax that support local revenues, so that it will have an impact on budget implementation. Furthermore, in the context of local expenditures, regional governments need to ensure fiscal discipline through controlling expenditures and budget allocations in accordance with budget policies and priorities.

This study has important limitations, namely (1) this study has an adjusted R^2 value 30% because of the three independent variables, only two independent variables have a significant effect on the dependent variable, so future studies need to consider other variables that can affect the dependent variable, and (2) this study can only be generalized to the provincial government because the sample used is the provincial government by considering the phenomenon of this study. Therefore, future studies may use a sample of district/city governments.

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