

CHAPTER I

INTRODUCTION

1.1 Background

In the past, we know that the regions in Indonesia were highly depended on the central government in the activity of planning, managing and developing its regions. This dependency led to the lack of creativity from the regional government in managing the natural resources. To overcome this problem, it is necessary for the regions to have regional autonomy. Because, if there is no regional autonomy, any activities that related with planning, managing and developing the region will be governed by the central government. This can lead to the lack of ineffectiveness and inefficiency in managing the resources that own by the regions. With the existence of regional autonomy, the region has the authority in making local policies to provide and improve the services which related to the welfare of the society. Regional autonomy can also increase the wealth distribution of each region in Indonesia.

At the beginning of Independence Day, the regional autonomy actually had also been declared. This can be reinforced by the 1945 Constitution in article 18 which states that "The division of the Indonesian region based on large and small scale area with the structure of its government is decided and regulated in the Act or Law, by considering the principal of consultation in the government system of the state, and right of original in the special region", but because constrained by several factors and reasons, the regional autonomy was well implemented after the New Order era.

To expedite the implementation of this regional autonomy, the Law No. 32 year 2004 was issued. This was happened because there was a development of situation, the state administration and the demands from the regional autonomy itself. If regional governments can implement regional autonomy well, then it will give benefit and advantage to the region itself. One of the benefit is it can increase the regional revenue of the region.

The sources of regional revenue include Regional own revenue (PAD), Balancing Funds and Other Legal Revenues. Regional Own Revenue or called PAD is the revenue that is received by the region within its own territory which is collected according to the Regional Regulation in accordance with the implemented laws and regulations (Article 1 of Law Number 33 Year 2004). The sources of regional own revenue include regional taxes, regional retribution, the result of separated regional wealth management, and other legal PAD. Every Regional Government is expected to increase their Regional Own Revenue. Because by having a large amount of Regional Own Revenue, the Regional Government can financed their own Regional Expenditure. This expenditure will affect the development of the region. The regional government can increase the facilities that can be used and enjoyed by the society. Moreover, the increasing of Regional Own Revenue is expected to increase the regional government capital expenditures, which later will affect the public services, so the quality of public services will be getting better in the future. Lastly, the increasing in regional own revenue is also expected to encourage greater accountability, improve the regional financing, and also minimize the source of funding from central government transfers that directly increase regional independency.

Based on the explanation above, there are four component of regional owned revenue; regional taxes, regional retribution, the result of separated regional wealth management, and other legal regional owned revenue. The largest components of regional owned revenue are regional taxes and regional retribution. In addition to this, this research will take two objects of the Regional Own Revenue they are Regional Tax and Regional Retribution. This is because those two sources of Regional Own Revenue are the largest contributor to the regional income.

Regional Tax is the largest contributor of a regional own revenue followed by the regional retribution. We all know that tax is an obligatory contribution of the society to the country or state. This contribution will be used to finance the government activities. Therefore, the regional taxes also have contribution in financing the regional development. Without the regional taxes, the need for funds to develop the region will be difficult to fulfill because we already know that most of our country's income is derived and obtained from the tax with an average contribution 77.6% (National Budget 2017). Therefore the issue of this tax should be handled properly and appropriately in order for the tax fee or retribution can be utilized maximally.

The regional owned revenue of the provincial government throughout Indonesia from year 2014 to 2016 is increased from year to year. It can be seen through the table below:

Table 1.1
Actual Revenue of Provincial Government throughout Indonesia
by Types of Revenue (Billion Rupiahs), 2014-2016*

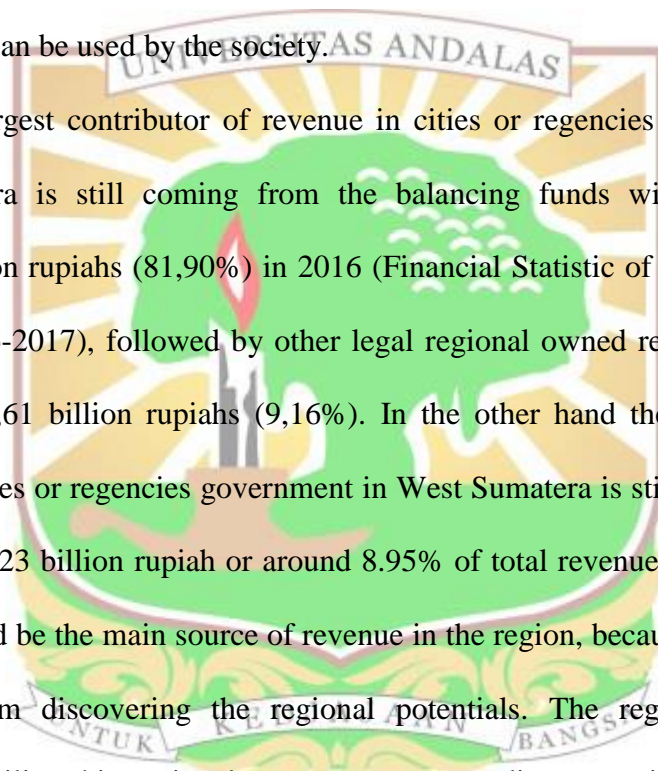
No	Types of Revenue	2014	2015	2016
1	Regional Owned Revenue	121,451	127,497	140,994
a.	Regional Taxes	103,088	107,892	120,198
b.	Regional Retribution	1,705	1,690	1,800
c.	The result of separated regional wealth management	2,972	3,224	3,595
d.	Other legal regional owned revenue	13,685	14,692	15,401
2	Balanced Budget	68,883	61,589	153,767
a.	Tax Shares	17,482	13,330	22,176
b.	Non-Tax Shares	15,406	9,359	8,491
c.	General Allocation Funds	34,122	35,289	38,538
d.	Special Allocation Funds	1,873	3,610	44,592
3	Other Legal Regional Owned Revenue	42,944	53,620	28,659
AMOUNT/TOTAL		233,277	242,706	275,571

**Source : Regional Government Financial Statistics 2014-2016*

In fact, the largest contribution to regencies and cities government revenues is still sourced from the balancing funds, which in the realization of 2016 APBD, it contributes 63.52% of total revenues. While the regional incomes from regional own revenues are still relatively small, only 11.91% in 2016 APBD. There are several factors causing the small contribution of PAD to total regency and city revenue. First, there is still a potential source of revenue that can be dig by the Regency and City Government, but the authority is not in the Regional Government's hand. Second, the local enterprises generally do not operate efficiently. It can be reflected from their generated net income. Third, the low level of living and economy of society, it is reflected by the income per capita of the region. The last is the lack of Regional Government capacity in exploring the alternative sources of income.

West Sumatera itself is a region with so many resources and natural wealth. It can be reflected through the tourism destination that it has. West Sumatera is one of the main tourism destinations in Indonesia. The tourism facilities in this province are already developed so it will engaged more tourist to come to this province. The government always try to explore West Sumatera Province's potential in order to gained more revenue, so it will increase the income or regional own revenue. By gaining more revenue they can build more facilities that can be used by the society.

The largest contributor of revenue in cities or regencies government in West Sumatera is still coming from the balancing funds with the amount 15.407,1 billion rupiahs (81,90%) in 2016 (Financial Statistic of West Sumatera Province 2016-2017), followed by other legal regional owned revenue with the amount 1.722,61 billion rupiahs (9,16%). In the other hand the regional own revenue of cities or regencies government in West Sumatera is still low, with the amount 1,683.23 billion rupiah or around 8.95% of total revenue. Regional own revenue should be the main source of revenue in the region, because this revenue is gained from discovering the regional potentials. The regions have full authority to utilize this regional own revenue according to regional needs and priorities. Because the low amount and percentage of this regional own revenue, it reflects that the level of regional independency still needs to be improved. Considering the difference between the amount of balancing funds and the regional own revenue in West Sumatera that's why the researcher is interested to take regional taxes and retributions that are sources of regional own revenue as a matter to be examined in calculating the contribution of those two things towards



capital expenditure which is one of the expense that is categorized in direct expense section.

Capital expenditure is the cost incurred to purchase fixed assets, and additional components of existing fixed assets. Capital expenditures aim to obtain the benefits, increase the expense, capacity, and extending the useful life of the fixed assets that worth more than a year.

The capital expenditure in regencies and cities government in West Sumatera is the largest contributor of the expense in Direct Expenditure Section. The amount is up to 4,215,504,276.48 (in thousand rupiahs) (APBD / Regional Budget 2016). The allocation of capital expenditure is very depended on regional revenue sources. Each region has different tax imposition base, it is depend on the regional government policy. For regions with sufficient economic conditions, the tax that can be collected will be in big amount. But for a developing region, the Regional Government can only collect a limited amount of taxes. It also happens in regional retribution. The regional retribution is different for each region. The ability of regions to provide funding which collected from the regions, really depends on the ability to realize these economic potentials into forms of economic activity that are capable of creating turn over funds for the development of sustainable region (Darwanto and Yustikasari, 2007).

The main factor for the region to encourage the economic growth is by increasing the investment that can be done by improve the availability of adequate infrastructure, both quality and quantity, and create legal certainty. In order to improve the regional independency, the regional government is required to optimize their potential revenue and one of them is to provide a larger

proportion of capital expenditure for development in productive sectors in the region (Harianto and Adi, 2007).

In this fiscal decentralization era, where the regional government given the authority by the central government to discover the sources of income and determine the routine expenditures and also regional investments, the increasing of public services is expected to occur. The increasing in this type of service is predicted to increase the attractiveness for investors to invest some investment in the region. This expectation can be realized if there are some serious efforts of the government by providing various supporting facilities. Therefore, from various types of regional budget, the regional government allocated funds in the form of capital expenditure budget in APBD to add fixed assets. The allocation of fund for capital expenditure is based on regional needs for facilities and infrastructure, both for the fast and swift implementation of government tasks and for public facilities.

1.2 Problem Statement

1. Whether the Regional Tax partially effected the Capital expenditure at Regency and City Government in West Sumatera?
2. Whether the Regional Retribution partially effected the Capital expenditure at Regency and City Government in West Sumatera?
3. Whether the Regional Tax and Regional Retribution simultaneously effected to the capital expenditures at the Regency and City Government at West Sumatra?

1.3 Research Objectives

The objectives of this research are:

1. To test and know the effect of Regional Tax to the Capital Expenditure budget to the Regency and City Government at West Sumatra,
2. To test and know the effect of Regional Retribution to the Capital Expenditure budget to the Regency and City Government at West Sumatra,
3. To test and know the effect of Regional Tax and Regional Retribution to the Capital Expenditure budget on Regency and City in West Sumatra.

1.4 Research Benefit

The benefits of this research are:

1. For the Researcher
For the researcher, the benefit of this research is to add and develop researcher's knowledge especially about the effect of Regional taxes and Regional retribution to the capital expenditure.
2. For the Government
For the Regional Government the benefit of the research is to contribute the information regarding the management of regional finances especially in the form of regional taxes, retributions, and its effect on the capital expenditure so that the Regional Government can utilize the potential of their region optimally.
3. For Science
The result of this study is expected to be used as a reference for other studies and research.

1.5 Writing Systematic

The writing systematic in this research is divided into five chapters. The first chapter is an introduction. This chapter describes the background of problems, problem formulation or problem statement, research objectives, research benefits and systematics of research writing. The second chapter is the literature review. This chapter contains the concept and theory of regional tax, regional retribution and capital expenditure as well as review of previous research and also the hypotheses. The next chapter is chapter three which contained the research method. This chapter describes the design of the research starts with the type, population and sample of research, and then the types and sources of data and methods of data collection as well as data analysis methods.

Then the next is the analysis and discussion which contained in chapter four. This chapter describes the results of research and analysis that has been done. It begins with a description of West Sumatra province as well as analysis of the tests that have been conducted. It starts with the normality test, multicollinearity test, autocorrelation test and also hypothesis testing and finished with the result of data analysis (hypotheses verification). The last chapter is chapter five. This is the closing chapter. This chapter describes the conclusions as well as the limitations that have been found during the research and the suggestion for the next similar researches.