

**THE IMPACT OF LOCAL TAXES, REGIONAL RETRIBUTIONS, AND OTHER LEGITIMATE ORIGINAL LOCAL GOVERNMENT REVENUES ON THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENT WITH ECONOMIC GROWTH AS A MODERATING VARIABLE IN THE GOVERNMENT OF NORTH SUMATERA PROVINCE**

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**ABSTRACT**

*The research intends to determine and analyze the impact of local taxes, regional retributions and other legitimate original local government revenues effects simultaneously and partially on the financial performance of local governments in regency / municipal governments in North Sumatra Province and to find out and analyze whether the economic growth variable as a moderating variable can strengthen and weaken the relationship between local taxes, regional retributions and other legitimate local government with the financial performance of local governments in the District / City Governments in North Sumatra Province. This type of research is descriptive quantitative and the objects of this research are all districts and cities in North Sumatra Province. The data used is secondary data obtained from the Directorate General of Fiscal Balance and the Central Bureau of Statistics for the period 2015-2019. By using a quantitative approach, data analysis, and also simple regression analysis model. The results of the research simultaneously show that local taxes, regional retributions and other legitimate original local government revenues have a substantial impact on the financial performance of local governments. Partially, regional retributions have a significant impact on the financial performance of local governments; local taxes and other legitimate original local government revenues do not have a notable impact on the financial performance of local governments. The moderating variable is able to moderate local taxes and other legitimate local government revenues, yet it is unable to moderate regional retributions on financial performance.*

**Keywords:** Local Taxes, Regional Retributions, Other Legitimate Original Local Government Revenues, Financial Performance, Economic Growth

**PRELIMINARY BACKGROUND**

Financial performance Regional government according to Mahsun (2013) is the level of achievement of the results of the financial performance of the local government, which consists of the budget and its realization in realizing the goals, objectives, vision and mission of the regional government. One of the instruments that can show the financial performance of a regional government is the regional revenue and expenditure budget (APBD). Therefore, local governments must make real and structured efforts to produce an APBD that is able to reflect the needs of the community in accordance with the potential of their respective regions. The government is expected to be better able to explore financial sources, especially to meet the financing needs of government and development in the region through Regional Original Income (PAD).

**Figure 1 Percentage of Financial Performance**



Source: Data processed by Researchers ([www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id))

From the picture above, it can be seen that the financial performance of the North Sumatra Provincial Government has fluctuated, with the highest performance in 2019. This is due to differences in local revenue and total revenue from each district / city each year, from 2015 to the year. 2019. This is reinforced by Law Number 33 of 2004 concerning the financial balance between the central and regional governments, sources Regional Original Income (PAD) consists of regional taxes, regional levies, the results of regional wealth management and other legal regional income. Income Regional Original (PAD) is the main source of regional financing and expenditure. The ability of a region to extract Regional Original Revenue (PAD) will affect the development and development of the area, thereby minimizing dependence on the central government.

Apart from regional original income (PAD), one of the components that is an integral part of the APBD at the provincial, city and regency levels is regional taxes. In Law No.28 of 2009 concerning Regional Taxes and Regional Levies. Local taxes are an important source and greatly affect the financial performance of local governments. If the local tax revenue of an area is high or according to the target set, then this shows the good financial performance of the area. The following is an overview of Regional Taxes in regencies / cities in North Sumatra Province from 2015 to 2019.

Local taxes according to data from the Directorate General of Fiscal Balance there is a decrease in Regional Tax revenues in 2016 in the 2015-2019 period. This shows that the financial performance of the North Sumatra provincial government has not been stable and has not shown good performance. Research conducted by Komang, et.al (2019) states that local taxes have no significant effect on the regional financial performance of the regency / city government of Bali Province in 2012- 2016, while according to Avriilia (2016) Regional Taxes have an effect on the Financial Performance of the Bintan Regency Regional Government. 2010-2014.

Apart from Regional Taxes, another component as the largest contributor to PAD is Regional Retribution. Regional levies are regional levies as payment for services or the granting of certain permits specifically provided or given by the regional government for the benefit of individuals or entities. If the local retribution revenue is high or according to the target set, then this shows the good financial performance of the area. The following is an illustration of the regional levies in regencies / cities in North Sumatra Province from 2015 to 2019.

Regional levy income in 2016 decreased drastically from the previous year, then increased slowly in the previous year. So that it can be concluded that the local charges fluctuate. This shows that the financial performance of the North Sumatra provincial government has not been stable and has not shown good performance. Research conducted by Milpa (2018) states that Regional Levies have a significant effect on the regional financial performance of district / city governments in North Sumatra Province in 2014-2016, while according to Intan and Priyo (2018) Regional Levies have no effect on the Financial Performance of the Regional Government of Central Java Province 2010-2015 period.

Then, one of the components in other Original Regional Income is Other Legitimate Original Regional Income. The following is an illustration of Other Legitimate Regional Original Revenues in Regencies / Cities in North Sumatra Province from 2015 to 2019.

Other legitimate PAD revenues fluctuate every year with 2017 being the lowest revenue, before finally in 2019 there was a very drastic increase. This shows that the financial performance of the North Sumatra provincial government has not been stable and has not shown good performance. Research conducted by Naomi (2018) states that other legal PAD has a significant effect on regional financial performance in district / city governments in North Sumatra Province in 2013-2016, whereas according to Komang, et al (2019) other legal PAD is not Influence on Regional Financial Performance in Regency / City Government of Bali Province in 2012-2016.

The measurement of economic growth carried out by the government in Indonesia uses the Growth of Gross Regional Domestic Product (GDP / PDRB). Gross Regional Domestic Product (GRDP) is an important indicator to determine the extent to which economic conditions have developed in an area in a certain period.

Based on the description above, it has aroused the interest of researchers to conduct further research with the title "The Effect of Regional Taxes, Regional Retributions, and Other Legitimate PAD on Regional Government Financial Performance with Economic Growth as a Moderating Variable in the Government of North Sumatra Province".

## IDENTIFICATION OF PROBLEMS

From the background of this problem, the problems that can be identified are as follows:

1. Regional tax collection is not evenly distributed in every sector.
2. Lack of effort in managing and collecting the potential of Owned Regional Revenue owned.
3. There are limited human resources both in quality and quantity in understanding regional finances in local governments.
4. It is necessary to measure the Regional Government's Financial Performance on the achievements of the local government within a certain period of time as a periodic evaluation and for future performance improvements.

## FORMULATION OF THE PROBLEM

On the basis of the above background, the formulation of the problem is as follows:

1. Does the Local Tax affect the Regional Financial Performance in the District / City Government in North Sumatra Province?
2. Does the Regional Retribution affect the Regional Financial Performance in the Regency / City Government in North Sumatra Province?
3. Does Other Legal PAD affect the Regional Financial Performance in Regency / City Governments in North Sumatra Province?
4. 2. Does Economic Growth have an effect in moderating Local Taxes on Regional Financial Performance in Regency / City Governments in North Sumatra Province?
5. Does Economic Growth influence in moderating Regional Levies on Regional Financial Performance in Regency / City Governments in North Sumatra Province?
6. Does Economic Growth have an effect on moderating Other Legitimate PAD on Regional Financial Performance in District / City Governments in North Sumatra Province?

## THEORETICAL BASIS

### LOCAL GOVERNMENT FINANCIAL PERFORMANCE

Regional government financial performance is the ability of a region to explore and manage regional original financial sources in fulfilling its needs in order to support the running of the government system, services to the community, and regional development without fully depending on the central government and having flexibility in using funds. for the benefit of the regional community within the boundaries stipulated by statutory regulations.

### LOCAL TAX

Local taxes are: Compulsory contributions made by an individual or entity to a region without a balanced direct compensation that can be enforced based on the prevailing laws and regulations, which are used to finance regional government administration and regional development.

### REGIONAL RETRIBUTION

Regional levies are "regional levies as payment for certain services or permits that are specifically provided and / or given by the local government for the benefit of an individual or entity"

### MISCELLANEOUS REGIONAL ORIGINAL INCOME

Other Legitimate Original Regional Revenue is income provided to budget for regional revenues that are not included in the types of Regional Taxes, Regional Levies, and Proceeds from the Management of Separated Regional Assets.

### ECONOMIC GROWTH

Economic growth reviews the movement of economic conditions during a period. The sustainability of economic development and the improvement of people's welfare requires high and sustainable economic growth. Economic growth is strongly influenced by several very dynamic aspects, including technological assumptions, the number of labor force, capital reserves, population growth and the number of unemployed (Supriana, 2013).

## CONCEPTUAL FRAMEWORK

In accordance with the description above, a conceptual framework can be drawn up as follows:

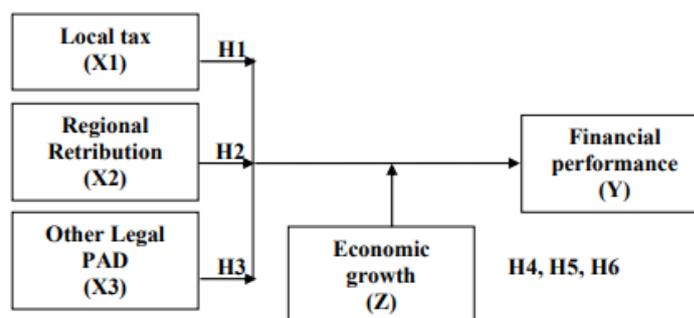


Figure 6 Conceptual Framework

## **HYPOTHESIS**

According to Sugiyono (2013) Hypothesis is a temporary answer to the formulation of research problems, where the problem formulation is stated in the form of a question sentence. Meanwhile, the hypotheses used in this research are:

### **The Influence of Local Taxes on Regional Financial Performance in the Government of North Sumatra Province.**

The ability of local governments to generate regional finance through extracting sources of native regional wealth or PAD must continue to be spurred on (Wenny, 2012). Local taxes, which are one of the important sources of PAD, will greatly affect the financial performance of local governments. From the results of research Avrilia (2016) states that local taxes have a significant effect on financial performance. This performance can be seen through the targets that have been achieved in the implementation of development and services to the community.

H1 : Local Taxes affect the Regional Financial Performance of the government in North Sumatra Province

### **The Influence of Regional Levies on Regional Financial Performance in the Government of North Sumatra Province**

It is hoped that local governments will be better able to explore the original sources of regional wealth to meet the financing needs of government and development in their regions, which of course will affect the financial performance of the region. From the results of research by Milpa (2018), it shows that local levies have a significant effect on financial performance.

H2 : The Regional Retribution has an effect on the Regional Financial Performance of the government in North Sumatra Province

### **The Other Influence of Legitimate Original Regional Revenue on Regional Financial Performance in the Government of North Sumatra Province**

The results of previous research from Naomi (2018) show that other legitimate local income has a positive and significant effect on the regional original income of Central Java Province.

H3 : Others Legitimate Original Regional Revenue has an effect on Regional Financial Performance in the government of North Sumatra Province

### **The Effect of Economic Growth in Moderating Local Taxes on Regional Financial Performance in the Government of North Sumatra Province**

Local taxes, which are one of the important sources of PAD, will greatly affect the financial performance of local governments.

It can be seen in the results of research conducted by Cloudiah (2016) and Nina and Fitri (2017) which show that economic growth has a positive effect on financial performance.

H4 : Economic growth can mEmoderation of Regional Taxes on Regional Financial Performance in the government of North Sumatra Province

### **The Effect of Economic Growth in Moderating Regional Levies on Regional Financial Performance in the Government of North Sumatra Province**

The regional government is expected to be better able to explore the original sources of regional wealth to meet the needs for government financing and development in the region which will certainly affect the financial performance of the region. It can be seen in the results of research conducted by Nina and Fitri (2017) which show that economic growth has a positive effect on financial performance.

H5 : Economic growth is able to moderate Regional Levies on Regional Financial Performance in the government of North Sumatra Province

### **The Effect of Economic Growth in Moderating Other Legitimate Original Regional Revenues on Regional Financial Performance in the Government of North Sumatra Province**

The final component of PAD that also shows the ability of a region to explore its potential revenue is Other Legitimate Regional Original Income. It can be seen in the results of research conducted by Ginting (2020) which shows that economic growth has a positive effect on financial performance.

H6 : Economic Growth is able to moderate Other Legitimate Original Regional Income to Regional Financial Performance in the government of North Sumatra Province

## RESEARCH METHODS

### RESEARCH SITES

This research was conducted at the Regency / City Government of North Sumatra in 2015-2019. POPULATION, SAMPLE AND DATA DETERMINATION TECHNIQUES

The population in this study were all district and city governments in North Sumatra which consisted of 33 districts / cities with an observation period of 5 years (2015-2019) so that the total research data was 33 districts / cities x 5 years = 165 research data.

### RESEARCH DESIGN

This type of research is a quantitative descriptive study. According to Sugiyono (2016) the clause method is a causal relationship, where the independent variable (the variable that affects) and the dependent variable (is influenced).

### OPERATIONAL DEFINITION VARIABLES

The operational definition of research variables can be presented in Table 3.2 as follows:

**Table 1 Operationalization of Research Variables**

Variable	Definition	Indicator	Scale
Local Tax (X1)	The mandatory contribution made by the region to individuals or entities without balanced direct rewards, which can be enforced under the rules applicable laws and regulations, which are used to finance regional government administration and regional development.	Local Tax Realization districts / cities in North Sumatra 2015-2019	Ratio
Regional Retribution (X2)	Regional levies as payment for services or the granting of certain permits specifically provided or given by the Regional Government for the benefit of private persons or Entities	Realization of Regional Retribution for Regency / City in North Sumatra in 2015-2019	Ratio
Other Legal PAD (X3)	revenue provided for budgeting regional revenues that are not included in the types of Regional Taxes, Regional Levies, and the Result of the Management of Separated Regional Assets	Realization of Other Legitimate PAD of Regencies / Cities in North Sumatra in 20152019	Ratio
Financial Performance (Y)	Performance is the result of evaluation against the work that has been done, the results of the work compared to the criteria set together.	$\text{Kemandirian Keuangan} = \frac{\text{PAD}}{\text{Total Pendapatan}} \times 100\%$	Ratio
Economic Growth (Z)	efforts to increase production capacity to achieve additional output, which is measured using the Gross Domestic Product (GDP) and the Gross Regional Domestic Product (GRDP) in a region.	GRDP of Constant Prices in 2014-2018	Ratio

### SOURCES AND DATA COLLECTION TECHNIQUES

The source of this research comes from data published by the Central Bureau of Statistics through the portal [www.bps.go.id](http://www.bps.go.id) and through the portal of the Directorate General of Regional Financial Balance (DJPK) at [www.kemenkeu.djpk.go.id](http://www.kemenkeu.djpk.go.id). This data is a combination of coherent data. time (timeseries), namely data that is chronologically arranged according to time in a certain variable and in cross-section that is collected at a certain point (Lubis, 2012) which is called pooling data with a combined model.

**DATA ANALYSIS TECHNIQUE**

This study uses data analysis with the Partial Least Square (PLS) approach. Where PLS is a Structural Equation Modeling (SEM) equation model based on variants or components. PLS is an alternative approach that shifts from a covariancebased to variant-based SEM approach (Ghozali and Latan, 2015).

**RESEARCH DATA ANALYSIS MODEL**

The path diagram is depicted at the PLS-SEM stage which is a visualization of the research conceptual framework so that it makes it easier for researchers to understand and learn it.

Then the following equation will be obtained:

$$\text{Regional Financial Performance} = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where  $\beta_1 \beta_2 \beta_3$  = path coefficient

X1 = Local Tax

X2 = Regional Retribution

X3 = Other legal PAD

e = Error

$$\text{Regional Financial Performance} = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \omega_1 X_1 Z + \omega_2 X_2 Z + \omega_3 X_3 Z + e \text{ Where :}$$

$\beta_1 \beta_2 \beta_3$  = path coefficient

X1 = Local Tax

X2 = Regional Retribution

X3 = Other legal PAD

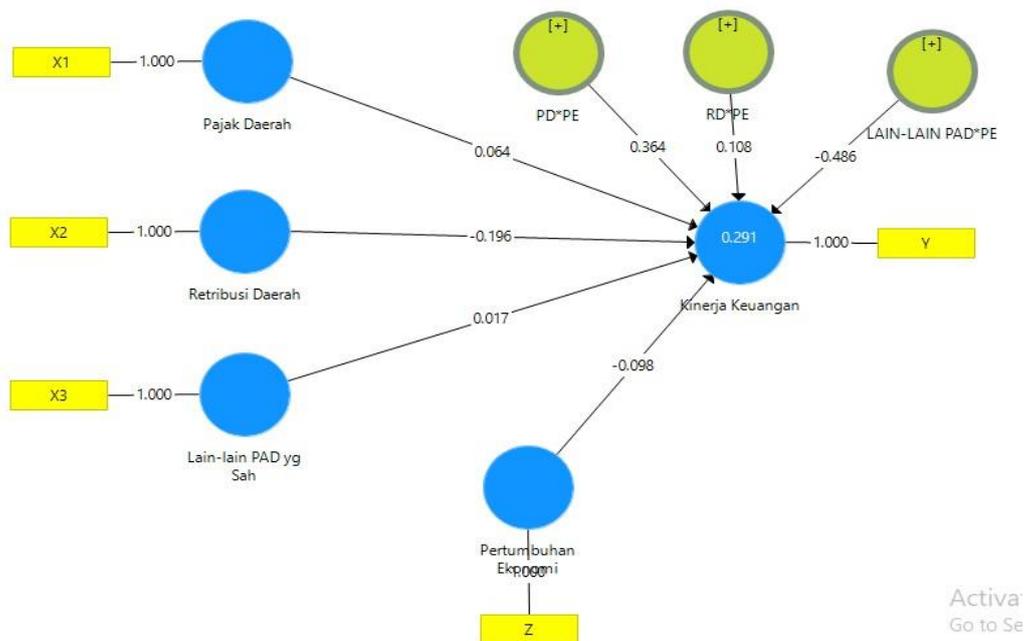
Z = Economic Growth

$\omega_1, \omega_2, \omega_3$  = Path coefficient of moderation effect

e = Error

**RESEARCH RESULTS AND DISCUSSION RESEARCH RESULT**

The results of the PLS Algorithm Smart PLS program in assessing the moderating variables can be seen in Figure 2. below:



**Figure 2. Value of Path and R-square Coefficients with Moderation Effect**

It is known that the most dominant factor influencing Regional Financial Performance is the moderation of Economic Growth (Z) \* local taxes with the highest path coefficient of 3.64. Based on Figure 4.2. the following structural equation can be formed:

$$\text{Regional Financial Performance} = 0.064 \text{ Local Taxes} - 0.196 \text{ Regional Levies} + 0.017 \text{ Other Legal PAD} - 0.098 \text{ Economic Growth} + 0.364 \text{ Economic Growth} * \text{Local Taxes} + 0.108 \text{ Economic Growth} * \text{Regional Levies} - 0.456 \text{ Economic Growth} * \text{Other Legal PAD}$$

The results of the SmartPLS bootstrapping process can be seen in Table 4.4 below:

Table 4.4 Valuet – statistics

Exogenous	->	Endogenous	Path Analysis	T Statistics	P Values	Conclusion
Local Tax (X1)	->	Regional Financial Performance (Y)	0.064	0.531	0.596	Rejected
<b>Regional Retribution (X2)</b>	->	<b>Regional Financial Performance (Y)</b>	<b>-0.196</b>	<b>2,302</b>	<b>0.022</b>	<b>Be accepted</b>
Exogenous	->	Endogenous	Path Analysis	T Statistics	P Values	Conclusion
Other Legal PAD (X3)	->	Regional Financial Performance (Y)	0.017	0.168	0.867	Rejected
Economic Growth (Z)	->	Regional Financial Performance (Y)	-0.098	0.976	0.330	Rejected
<b>Economic Growth * Local Taxes</b>	->	<b>Regional Financial Performance (Y)</b>	<b>0.364</b>	<b>3,655</b>	<b>0,000</b>	<b>Be accepted</b>
Economic Growth * Retribution	->	Regional Financial Performance (Y)	0.108	1,298	0.195	Rejected
<b>Economic Growth * Other Legal PAD</b>	->	<b>Regional Financial Performance (Y)</b>	<b>-0.456</b>	<b>4,681</b>	<b>0,000</b>	<b>Be accepted</b>

## DISCUSSION

### THE EFFECT OF REGIONAL TAX ON FINANCIAL PERFORMANCE

The results of testing the effect of local taxes on financial performance with the t test show that the local tax variable has no influence on regional financial performance. This can be seen from the t-value statistic of 0.531 and the p-value of 0.596. Because the t-statistic value is less than 1.96 and p-value > 0.05, the hypothesis is rejected, meaning that local taxes have no significant effect on regional financial performance.

The results of this study are in line with Komang, et.al (2019) Research on Regional Taxes has no effect on financial performance. In contrast to the results of research conducted by Avrilia (2016) Regional Taxes have a significant positive effect on financial performance.

Local Taxes do not have a significant effect on Financial Performance, this is due to the district / city government in North Sumatra Province, Financial Performance is not a priority so that the increase in Regional Taxes is not able to increase the Financial Performance in the following year. So that the hypothesis is rejected.

### THE EFFECT OF REGIONAL RETRIBUTION ON FINANCIAL PERFORMANCE

The results of testing the effect of regional levies on financial performance with the t test show that the coefficient value of the free variable regional levies is positive, which is 2.302, meaning that each addition of regional levies will increase financial performance in the following year of 2.302, and p-value of 0.022 Because the t statistical value is above 1.96 and the p-value is <0.05, assuming the other variables are constant. This value can be interpreted that the Regional Retribution variable has a positive effect on the Financial Performance variable.

The results of this study are in line with Milpa's research (2018) that regional levies affect financial performance in the following year. It is not in line with the results of research conducted by Intan and Priyo (2018) which suggest that Regional Levies have no effect on financial performance.

Regional levies have an effect on financial performance, this could be due to the precise use of regional levies, so that it is significant to the financial performance of a region, especially in the province of North Sumatra, so that hypothesis 2 is accepted.

#### **OTHER EFFECT OF LEGAL PAD ON FINANCIAL PERFORMANCE**

The results of testing the effect of Other Legal PAD on Financial Performance with the t test showed that the Other variables of Legal PAD had no influence on Regional Financial Performance. This can be seen from the t-value statistic of 0.168 and the p-value of 0.867. Because the t-statistic value is less than 1.96 and p-value > 0.05, it means that other legal PAD does not have a significant effect on regional financial performance.

The results of this study are in line with the research of Komang, et al (2019) which states that Other Legal PAD has no effect on financial performance, but the results of this study are not in line with Naomi's research (2019) which states that Other Legal PAD has a positive effect. and significant to the following year's Financial Performance. So that hypothesis 3 is rejected.

#### **THE EFFECT OF ECONOMIC GROWTH AS A MODERATION OF FINANCIAL PERFORMANCE**

For the influence of the variable of economic growth as a partially moderating variable, this can be seen from the t test for the interaction variable between economic growth and local taxes, the interaction of economic growth and regional levies, the interaction of economic growth and other legitimate PAD.

From the results of the t test, it is found that economic growth is able to moderate local taxes and other legitimate PAD with financial performance, so that hypotheses 4 and 6 are accepted. Meanwhile, the regional levies are not able to moderate economic growth with financial performance, so hypothesis 5 is rejected.

The results of this study also indicate that local governments are not paying close attention to the movement of changes in economic growth in planning the budget in regional levies, so that variations in changes in economic growth variables do not have a significant effect on changes in the Regional Levies variable.

#### **CONCLUSIONS AND SUGGESTIONS CONCLUSION**

The conclusions of this study are as follows:

1. Local taxes, levies and other legitimate PAD simultaneously have a significant effect on financial performance
2. Local taxes partially have no effect on regional financial performance
3. Regional levies partially affect regional financial performance
4. Others Legitimate PAD does not partially affect regional financial performance
5. Economic growth is able to moderate the relationship between local taxes and financial performance of the government in North Sumatra Province.
6. Economic growth has not been able to moderate the relationship between local user fees and financial performance of the government in North Sumatra Province.
7. Economic growth is able to moderate the relationship, among others, legitimate PAD and financial performance of the government in North Sumatra Province.

#### **SUGGESTION**

1. It is hoped that the Regency / City government in North Sumatra Province can take advantage of the original regional income and not depend on the center by increasing the acceptance of Regional Retribution and Other Legitimate PAD because it has a dominant influence in influencing Regional Financial Performance.
2. This research can later be used as a reference for future researchers related to concepts or theories regarding Regional Taxes, Regional Levies, Other Legal PAD, Financial Performance and Economic Growth.
3. Further researchers are advised to add variables that are different from the previous one in order to enrich insight and knowledge.

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