# THE EFFECT OF REGIONAL TAXES, REGIONAL RETRIBUTIONS, BALANCED FUNDS AND REGIONAL EXPENDITURE ON REGIONAL FINANCIAL PERFORMANCE OF REGENCY/CITY GOVERNMENTS IN NORTH SUMATRA

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| ARTICLE INFO | ABSTRACT |
|---|---|
| *Keywords*:<br>Regional Taxes,<br> Regional Levies,<br>Balancing Funds,<br>Regional Expenditures<br>Regional Financial Performance | This study aims to determine: (1) The effect of local taxes on regional financial performance, (2) The effect of regional levies on regional financial performance, (3) The effect of balancing funds on regional financial performance, (4) The effect of regional spending on regional financial performance, (5) The influence of local taxes, balancing funds, and regional spending on regional financial performance. The population in this study is annual data from 2016-2020 by taking the financial reports of the Regional Revenue and Expenditure Budget (APBD) in North Sumatra. The sample in this study amounted to 33 districts/cities with sampling using saturated sampling technique. The data collection method used is a documentation technique, namely collecting data through the official BPS website. |
| **E-mail:** | |

## 1. INTRODUCTION

Regional financial management that is carried out in an orderly manner, complying with applicable laws and regulations in an efficient, effective, transparent and responsible manner or fulfilling the principle of value for money will encourage economic growth and the independence of a region. A region whose financial performance is stated to be good means that the region is successful in managing its regional finances and has the ability to finance the implementation of regional autonomy. This is one of the goals of regional autonomy, which is to delegate authority to regional governments to regulate and manage their regional interests independently (Rosemarry et al. (2016).

Regional financial performance is an achievement of the results of work carried out to see the extent to which the region implements a policy or provision of financial legislation properly and correctly during a budget period. As a basis for planning an area in the future. One way to measure performance is by using ratio analysis of regional financial performance.

Regional taxes and regional levies are an important source of regional income. Both of them collect people's obligations but have a difference, namely the result of paying taxes is not directly felt by the community while regional levies are directly and actually felt by the community (Alfarisi, 2015). With the collection of regional taxes and regional levies that are carried out, the aim is for development, community welfare, and financing the implementation of government tasks. Balancing funds have an important role in funding government activities, in general the nominal balance funds are more dominant than regional government revenues, thus central transfer funds play an important role in improving local government financial performance.

Regional spending in Government Regulation no. 12 of 2019 concerning regional financial management, regional expenditures are all regional government obligations that are recognized as a reduction in the value of net worth in the relevant fiscal year period. By prioritizing the funding of mandatory government affairs in order to fulfill minimum service standards. The addition or improvement of infrastructure facilities makes it easier for local governments to carry out their duties, one of which is financial performance. Below shows a table of regional financial performance which is a phenomenon in this research.

Table 1. Financial Performance

| Year | Local tax | Balancing Fund | Regional Expenditures | Regional Retribution | Financial performance |
|------|-----------|----------------|----------------------|----------------------|----------------------|
| 2016 | 112,564,000,000 | 223,760,000,000 | 452,523,000,000 | 115,600,000,000 | 119.9% |
| 2017 | 137,015,000,000 | 212,277,000,000 | 439,583,000,000 | 113,450,000,000 | 113.8% |
| 2018 | 131,207,000,000 | 215,718,000,000 | 421,500,000,000 | 85,200,000,000 | 111.1% |
| 2019 | 147,241,000,000 | 215,681,000,000 | 506,073,000,000 | 90,430,000,000 | 126.9% |
| 2020 | 119,585,000,000 | 206,476,000,000 | 399,325,000,000 | 89,720,000,000 | 111.7% |

Table 1. above is a table of the amount of regional taxes, balancing funds, regional spending, regional levies and the financial performance of the city of Medan during 2016-2020. The amount of local taxes in 2016 was IDR 112,564,000,000, increased in 2017 to IDR 137,015,000,000, but financial performance decreased from 119.9% in 2016 to 113.8% in 2017. Research conducted previously by Mia Nur Alifa (2020), Andirfa (2016), Pratiwi, Tri Yuni. (2018). There is one variable that distinguishes previous research from current research, namely by adding regional retribution variables. This study aims to determine how influential regional retribution, regional taxes, regional balance funds and expenditures are.

## 2. METHOD
### Research Framework
The conceptual framework aims to show the relationship between the independent variables and the dependent variable in a study. The conceptual framework in this study is as follows:
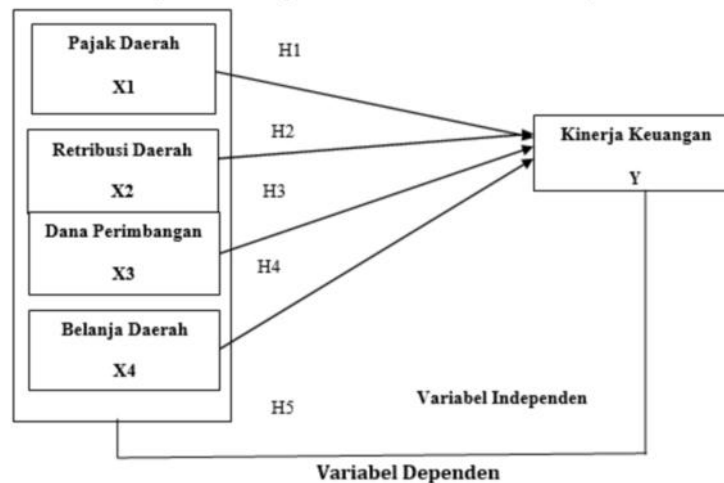


Figure 1. Research Framework

### Research Hypothesis
Based on the problem formulation and conceptual framework, the hypotheses in this study are:
1. H1: Regional taxes have an effect on the regional financial performance of district/city governments in North Sumatra
2. H2: Regional levies have an effect on the regional financial performance of district/city governments in North Sumatra
3. H3: Balancing Funds have an effect on the regional financial performance of district/city governments in North Sumatra
4. H4: Regional Expenditures have an effect on the regional financial performance of district/city governments in North Sumatra
5. H5: Regional Taxes, Balancing Funds, and Regional Expenditures have an effect on the regional financial performance of district/city governments in North Sumatra

### Data collection
The data in this study are secondary data by collecting data using documentation techniques by taking data from districts/cities in the province of North Sumatra. Data collection is carried out from official BPS institutions/institutions or via the web:https://djpk.kemenkeu.go.id/portal/data/apbd This type of

research is descriptive research. According to Sugiyono (2020: 64), descriptive research is research conducted to find out the existence of independent variables, either only one variable or more (stand-alone variables) without making comparisons of the variables themselves and looking for relationships with other variables.

## CLASSIC ASSUMPTION TEST
### Normality test
According to Ghozali (2018: 161) the normality test is a test that aims to find out whether the independent or dependent variables have a normal distribution or not. A good regression model is a regression with a normal distribution or close to normal.

### Multicollinearity Test
According to Ghozali (2018: 71) the multicollinearity test aims to test whether the regression model found correlation between independent (independent) variables.

### Heteroscedasticity Test
According to Ghozali (2018: 120) the heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another.

### Autocorrelation Test e.
According to Ghozali (2018: 111) the autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding errors in period t and the interfering errors in the t-1 (previous) period.

## MODERATION TEST
### Interaction Test
Often referred to as Moderated Regression Analysis (MRA). Moderated Regression Analysis (MRA) is a special application of multiple linear regression where the regression equation contains an element of interaction (multiplication of two or more independents).

### Absolute Difference Test
This is done by finding the absolute difference value of the independent variables.

### Residual Test
According to Ghozali (2012: 235) residual analysis is used to test the deviation (deviation) of a model. The focus is on the lack of fit resulting from the deviation of the linear relationship between the independent variables. Of these three tests, the residual test is a moderation test tool for researchers. This is seen by researchers from testing deviations (deviations).

### Data analysis technique
This study uses multiple linear regression analysis. Multiple linear regression is a linear regression model involving more than one independent variable or predictor. This study aims to determine the direction of the relationship between the independent variables and the dependent variable. Hypothesis testing is done by testing the coefficient of determination ($R^2$), simultaneously testing (F test), and partially testing (T test).

### Determinant Coefficient Test (R2)
The coefficient of determinant shows the extent to which the contribution of the independent variables in the regression model is able to explain the variation of the dependent variable. In this study, the coefficient of determinant can be seen from the value of the Adjusted R square.

### F test
This test was carried out to simultaneously test the independent variables having an influence on the dependent variable. If F count > F table, or sig , 0.05, and if F count < F table, or sig > 0.05.

**T test (partial test)**

This test is done by looking at the probability of the t test. If the probability (p value) < 0.05, then the null hypothesis is rejected otherwise the alternative hypothesis proposed is acceptable, (significant regression coefficient) at a significance level of 5%.

## 3.    RESULTS AND DISCUSSION
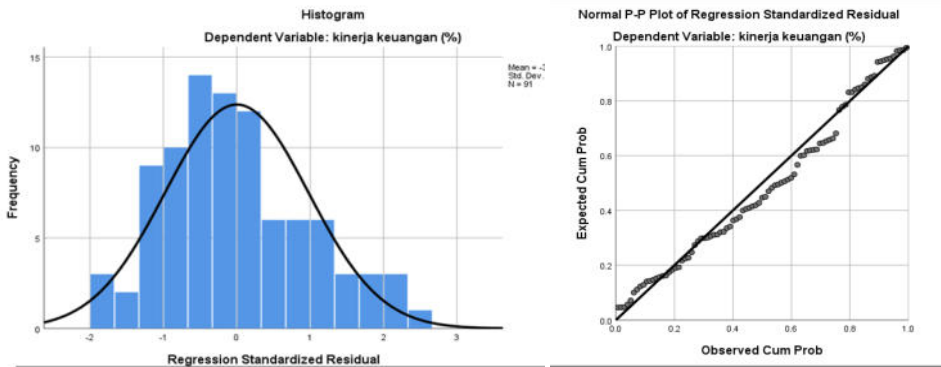## Assumption Test Classic

**Normality test**



Figure 2. Normality test

Table 2. One-SampleKolmogorov-Smirnov test

<span style="color:blue">Unstandardized edresidual</span>

| | | |
|---|---|---|
| N | | 91 |
| Normal Parameters, b | sMean | .0000000 |
| s | Std.sDeflight | 6.69428955 |
| Most | sAbsolutee | 085 |
| ExtremeDs ifferen | spositive | 085 |
| ces | Negative | -.056 |
| testsStatistics | | 085 |
| USymp.sSig.s(2-tailed) | | .104c |

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

In table 2 the normality test results show that the asymp.sig (2-tailed) value is 0.104 greater than 5% (0.05). So it can be said that the data tested in this study are normally distributed. Based on analysis of histogram graphs, normal probability plots and Kolmogorov-Smirnov non-parametric statistical tests which show a normal distribution. Provides the conclusion that the regression equation model meets the assumption of normality.

Table 3. Multicollinearity Test

**Coefficients a**

| Model | | B | Unstandardized Coeffscientists std. Error | Stamanrdize Coefficient S Betas | Collinearity Statistics tolerance | VIF |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 108,786 | 2,579 | | | |
| | PajaksDaerah | 7.667E-11 | .000 | .181 | .860 | 1.163 |
| | Fundsbalance | 4.697E-12 | .000 | .192 | .879 | 1.137 |
| | BlanjasDaerah | -6.201E-12 | .000 | -.308 | .896 | 1.116 |
| | Retribution area | 4.279E-12 | .000 | 002 | .884 | 1,131 |

a. Dependent Variable: financial performance (%)

Multicollinearity occurs if the tolerance value < 0.10 or the VIF value > 10. The results of research calculations based on table 3.2 above, the tolerance value of all independent variables is above 0.10 which is 0.860 for local taxes as X1, 0.879 for balancing funds as X2, 0.896 for regional spending as X3, 0.884 for local levies as X4. While the VIF values between the variables X1, X2, X3, and X4 are below 10. So it can be concluded that the tolerance and VIF values mean that multicolonierias did not occur in this study.
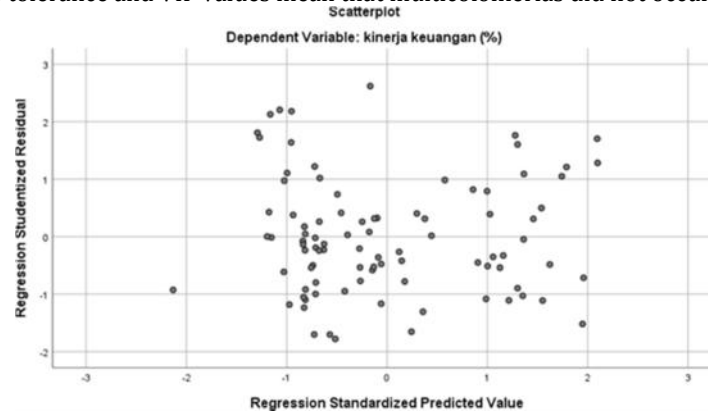

Figure 3. Heteroscedasticity Test

Heteroscedasticity does not occur if there are no points that form a certain regular pattern, and the points on the scatterplot spread randomly above and below the number 0 on the y axis. Based on Figure 3 the points on the scatterplot spread randomly and do not form a certain regular pattern, so it can be concluded that there is no heteroscedasticity in this research model.

**Autocorrelation Test e**

Table 4 .Summary model b

| R model | R Square | adjusted R  Square | std. Errorof the Estimate | Durbin- Watson |
|---------|----------|--------------------|---------------------------|----------------|
| 1    .468a | .219 | .178 | .53493 | 1,446 |

a. Predictors: (Constant), Regional Retribution, Regional Expenditures, Balancing Fund, Regional Tax
 b. Dependent Variable: financial performance (%)

Based on Table 4, it was found that the Durbin Watson value was 1.446. The DW value is between - 2 and 2 (-2 < 1.446 < 2). So it can be concluded that this study did not occur Autocorrelation e.

**Regression TestMultiple Linear**

Table 5. Determination Coefficient Test (R2)

**Model Summary b**

| R model | R Square | Adjusted R Square | std. Error of the Estimate |
|---------|----------|-------------------|----------------------------|
| 1    .468a | .219 | .178 | .53493 |

a. Predictors: (Constant), RD2, BD2, PD2, DP2
b. Dependent Variable: Y_KK

Table 5 shows the adjusted R square of 0.178. This identified that local taxes, regional levies, balancing funds and regional expenditures had an effect on the regional government's financial performance by 17.8% while 82.2% were influenced by other factors not examined in this study.

Table 6.TEST Fanovaa

| Model | | Sum of Squares | F | Sig. |
|---|---|---|---|---|
| 1 | Regression | 6.098 | 5.328 | .001ᵇ |
| | Residual | 21.748 | | |

a. Dependent Variable: Y_KK
b. Predictors: (Constant), RD2, BD2, PD2, DP2

From table 6 it can be seen that a significant value of 0.001 obtained an F count of 5,328. Using Ftable, namely nk = 91-4, a value of 2.48 is obtained. That is, Fcount > Ftable with a significance of 0.001 <0.05. So it can be concluded that local taxes, regional levies, balancing funds and regional spending simultaneously influence the regional financial performance of district/city governments in North Sumatra.

Table 7. T Test (Partial Test)
**Coefficientsa**

| Model | | Unstandardized Coefficients B | std. Error | standardized Coefficients Betas | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 10.202 | .139 | | 73,547 | .000 |
| | WW2 | 9.992E-17 | .000 | .347 | 3,211 | 002 |
| | DP2 | 1.062E-19 | .000 | 068 | .433 | .666 |
| | BD2 | 2.798E-19 | .000 | .233 | 1,477 | .144 |
| | RD2 | -1.377E-16 | .000 | -.113 | -1,062 | .291 |

a. Dependent Variable: Y_KK

In Table 7 the results of the T test test are as follows:
1. The first hypothesis in this study is that local taxes have an effect on the regional financial performance of district/city governments in North Sumatra. In Table III.6 the Tcount test value is 3.211 > Ttable 1.98761 and a significant value of 0.002 <0.05. This shows that the local tax variable has an effect on financial performance. Thus the first hypothesis is accepted.
2. The second hypothesis in this study is that regional fees have an effect on the regional financial performance of district/city governments in North Sumatra. In Table III.6 the Tcount value is -1.062 < Ttable 1.98761 and a significant value of 0.291 > 0.05. This shows that the regional retribution variable has no effect on financial performance. Thus the second hypothesis is rejected.
3. The third hypothesis in this study is that balancing funds have an effect on the regional financial performance of district/city governments in North Sumatra. In Table III.6 the Tcount is 0.433 > Ttable 1.98761 and a significant value is 0.666 > 0.05. This shows that the balancing fund variable has no effect on financial performance. Thus the third hypothesis is rejected.
4. The fourth hypothesis in this study is that regional spending has an effect on the regional financial performance of district/city governments in North Sumatra. In Table III.6 the Tcount is 1.477 > Ttable 1.98761 and a significant value is 0.144 > 0.05. This shows that regional spending variables have no effect on financial performance. Thus the fourth hypothesis is rejected.

**Discussion**
**The Influence of Local Taxes on Regional Financial Performance**
The results of hypothesis testing show that partially local taxes affect the financial performance of regional governments with a significant value of 0.002 <0.05. The results of this study mean that the higher the local tax revenue, the better the local government's financial performance. The results of this study are in line with research conducted by Alfasari (2015) who found that high local tax revenues indicate good government financial performance.

**Effect of RetributionRegional Against Regional Financial Performance**
The results of hypothesis testing show that regional levies partially have no effect on the regional government's financial performance with a significant value of 0.291> 0.05. The results of this study mean that an increase in regional retribution revenue will not affect the increase in financial performance. The

results of this study are in line with Rukmana's research, Wan Vidi (2013) which concluded that regional fees do not have a significant effect on financial performance. This conclusion is based on the finding of a unidirectional relationship between regional fees and financial performance.

### The Effect of Balancing FundsAgainst Regional Financial Performance

The results of hypothesis testing show that balancing funds partially have no effect on the regional government's financial performance with a significant value of 0.666 > 0.05. The results of this study mean that an increase in balance fund income will not affect the increase in financial performance. The results of this study are in line with Salman Alfarisi H (2015) who found that this negative direction indicates that the greater the funds received from the central government, the stronger the regional government depends on the central government to meet regional needs.

### The Influence of Regional Spending on Regional Financial Performance

The results of the research hypothesis show that regional spending partially does not affect the regional government's financial performance with a significant value of 0.114> 0.05. The results of this study mean that an increase in regional spending will not affect financial performance. The results of this study are in line with research by Sealys Harie Saputri and Kurnia (2020) which concluded that the increased costs allocated to regional spending were not matched by the financial performance of local governments to meet adequate infrastructure needs for people's welfare.

## 4.    CONCLUSION

Based on the results of the research conducted, it was concluded that regional taxes partially affect the regional financial performance of district/city governments in North Sumatra. Regional levies partially have no effect on the regional financial performance of district/city governments in North Sumatra. Balancing funds partially have no effect on the regional financial performance of district/city governments in North Sumatra. Partial regional spending has no effect on the regional financial performance of district/city governments in North Sumatra Regional taxes, regional fees, balancing funds, regional expenditures have a simultaneous effect on the regional financial performance of district/city governments in North Sumatra. Based on the results of the research that has been done, the suggestion that the writer can give is that with the limitations in this study, the author hopes that future researchers will conduct similar research with additional, more detailed aspects and additional annual data reports for a greater number of years so that more optimal results can be found. From the regional expenditure budget received from the state, it should be used effectively and efficiently for better social welfare and to make the region more independent.

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