Impact Analysis of Local Tax Policy on Local Own-Source Revenue: A Quantitative Approach in Palopo

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ABSTRACT
This study aims to analyze the impact of tax administration efficiency on Local Own-Source Revenue using a quantitative approach. The results are expected to demonstrate that improving efficiency in tax administration directly strengthens local revenue and provides a strong basis for more effective policies to enhance local income and reinforce public trust in the taxation system. Purposive sampling technique is employed, where data is collected based on specific criteria to ensure accurate representation of a larger population. In this context, the research sample consists of 120 respondents who are individual and business taxpayers in the city of Palopo, directly affected by local tax policies. The findings indicate that tax rates and tax administration significantly impact Local Own-Source Revenue, while the tax base shows no significant impact on Local Own-Source Revenue.

Keywords: *Impact Analysis, Local Tax Policy, Own-Source Revenue, Local Government.*

1. INTRODUCTION

Understanding the impact of local tax policies on Local Own-Source Revenue (LOSR) is a crucial aspect of financial management in the city of Palopo, similar to other cities in Indonesia, to fund public services and infrastructure. This research aims to analyze the influence of tax administration efficiency on LOSR using a quantitative method. The expected outcome is to demonstrate that enhancing efficiency in tax administration directly strengthens local revenue and provides evidence supporting more effective policies, thereby increasing local income and fostering public trust in the taxation system.

Although many studies have examined the impact of tax policies on Local Own-Source Revenue (LOSR), few have specifically explored the effect of tax administration efficiency on increasing local income, especially in cities like Palopo. Most studies focus on macroeconomic aspects or general tax reforms, with limited research on factors such as the speed and accuracy of tax administration, and their effects on taxpayer compliance and tax revenue. This creates a knowledge gap regarding the direct impact of operational efficiency in tax administration on increasing LOSR (Gilang Pangestu, 2022).

Research by Bird, R. M., & Zolt, E. M., (2020) has assessed the influence of digitalization on tax administration but did not specifically discuss its impact in small cities, including Palopo. Slack, E. & Bird, R. M., (2021) also highlighted the importance of tax administration reform to support local revenue, particularly from property taxes, without delving into detail in Indonesia (Rismawati et al., 2021). Therefore, this study aims to fill this gap by conducting empirical analysis on the influence of process efficiency, assessment accuracy, and law enforcement policies on local own-source revenue in Palopo. This study is expected to provide more specific insights beneficial to local policymakers in designing effective strategies to enhance tax revenue.

The aim of this study is to answer the question, "What is the impact of tax administration efficiency on the increase of Local Own-Source Revenue (LOSR) in the City of Palopo, and which elements of tax administration have the most significant influence?" The need to understand how tax management improvements can support the rise of local financial resources is prominent in the background of this study. This question is directed towards generating findings that can be directly used in policymaking in Palopo. The title of

this research is chosen to explore ways to enhance LOSR, which is vital for financing local development, especially through tax rate adjustments, administrative efficiency improvements, and tax base expansion, considering the frequent financial limitations faced by local governments.

2. LITERATURE REVIEW

Tax Rates

Tax rates play a crucial role in influencing tax compliance and local revenue. Zhao, L. & Zhang, X., (2021) demonstrate that an ideal tax rate supports economic growth and enhances compliance, leading to maximized tax revenue without disrupting investment. According to (Smith, J. et al., 2020), prudent adjustments to tax rates can increase local revenue while still maintaining taxpayers' motivation to fulfill their tax obligations. This is reinforced by Johnson, A., (2021) who states that well-adjusted tax rates can optimize revenue without causing an increase in tax avoidance.

Oates, W. E., (2021) highlights that competitive tax rates play a role in expanding the tax base by attracting investment and economic activity, which in turn can increase local revenue. The study also reveals that there is an optimal point where excessive tax rates can reduce incentives for investment, potentially decreasing tax revenue.

Tax Administration

Efficiency in tax administration is closely related to increased compliance and local own-source revenue. (Brown, C. & Liu, J., 2019) emphasize that the integration of information technology in tax administration accelerates tax collection and reduces revenue leakage. Furthermore, Davis, H., (2022) found that training and human resource development strengthen efficiency and effectiveness in tax collection. (Bird, R. M., & Zolt, E. M., 2020) add that efficient tax administration helps expand the tax base and improve taxpayer compliance while reducing revenue leakage. Sutcliffe, J., (2022) also underscores the role of digital technology in enhancing transparency, reducing corruption, and speeding up tax collection.

Tax Base

Expanding and diversifying the tax base is key to creating a stable source of local tax revenue. According to research by Slack, E. & Bird, R. M., (2021) expanding the tax base by adding more tax objects and targets has proven effective in increasing local revenue. Walters, L., (2020) also identifies that diversifying the tax base, which involves introducing new tax objects and adapting to economic changes, contributes to stabilizing local revenue (Rizki et al., 2021).

Research by Turner, J. & Lim, S., (2021)found that a broad tax base contributes to reducing the volatility of local revenue and enhancing fiscal sustainability. Furthermore, Nunez, M. & Rodriguez, P., (2020) revealed that expanding the tax base by adding new tax targets and identifying new taxpayers can significantly increase local financial resources without the need to raise tax rates. The results of this study emphasize that the success of expanding the tax base depends heavily on the ability of local governments to innovate and adapt to changing economic and social dynamics (Sudarmana & Sudiartha, 2020).

Local Own-Source Revenue

In this study, Local Own-Source Revenue (LOSR) as the dependent variable is directly influenced by tax rates, tax administration efficiency, and the breadth of the tax base Abdullah, M. et al., (2020). As demonstrated in the literature, effective implementation of strategies in these three aspects can significantly increase local revenue, which is crucial for financing regional development (Allers, M. A & Vermeulen, W, 2022).

Green, D et al., (2021) emphasizes that a robust Local Own-Source Revenue (LOSR) provides more resources for local development and public services. Harris, R & Moore, T, (2022) underscore that increasing LOSR through effectively designed tax policies can improve the quality of life for residents. Furthermore, research by Gibson, H & Astuti, R, (2021) examines the relationship between taxation and LOSR, indicating that appropriately designed tax policies considering local aspects can effectively enhance LOSR.

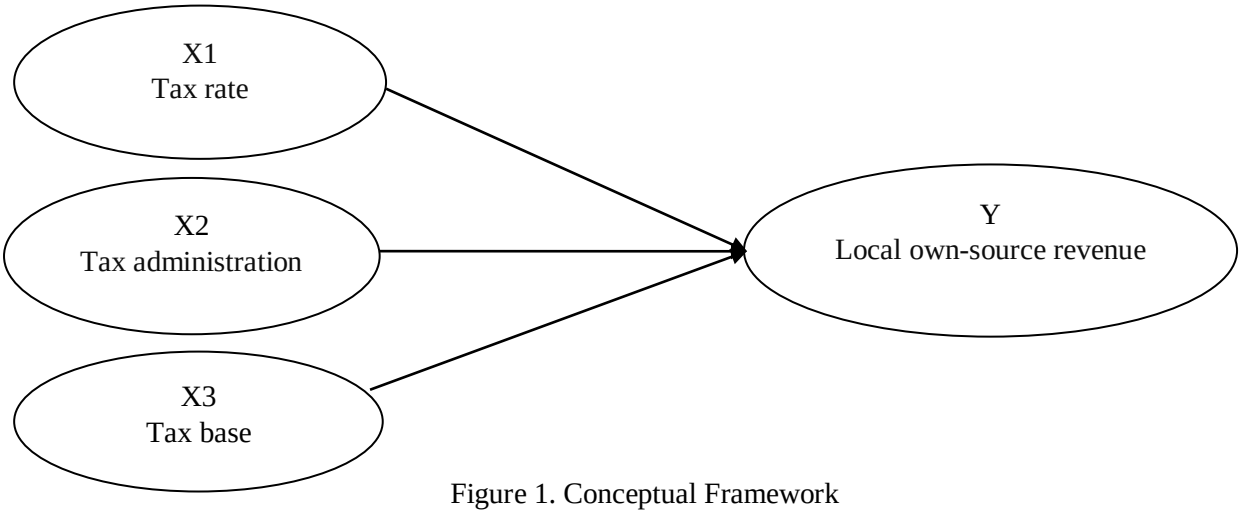


Figure 1. Conceptual Framework

3. DATA AND RESEARCH TECHNIQUE ANALISYS

This study employs a quantitative method to analyze the relationship between independent and dependent variables. The sampling technique used is purposive sampling, where data is collected based on specific criteria to ensure accurate representation of a larger population. In this context, the sample in this study involves 120 respondents consisting of individual taxpayers and businesses in the city of Palopo, directly affected by local tax policies.

Data is collected using questionnaires distributed directly to respondents using the Likert scale measurement. Data analysis is conducted using IBM SPSS 25 software, chosen for its informative capability in facilitating the interpretation of results with a high level of accuracy. Tests conducted include:

Descriptive Data Analysis Test

In descriptive statistical analysis, the data is explored to provide clear and easily understandable information. Descriptive statistics include the mean, median, mode (most frequently occurring value), standard deviation, as well as the maximum and minimum values of the observed data (Wijayanti, RR et al., 2022)

Data Quality Test

1. Validity Test
2. Reliability test

Classical Assumption Test

1. Normality Test
2. Heterokedasitas Test
3. Multikolinearitas Test

Hypothesis Test

Hypothesis testing is a statistical method used to make decisions about a hypothesis 0statement concerning a population based on sample data.

1. Determination Test (R^2)
2. Simultaneous Test (F-Test)
3. Simultaneous Test (T-Test)

4. RESULTAND DISCUSSION

Based on the data presented in Table 1, the majority of respondents are female, with a total of 69 individuals, accounting for approximately 57.5%, while the remaining are male, comprising 51 individuals or around 42.5%.

Table 1. Percentage of Respondents

Gender	Sum	Percentage
Woman	69	57,5%
Man	51	42,5%
TOTAL	120	100%

Source: Primary Data Processed (2024)

DescriptiveDataAnalysisTest

Tabel 2. Descriptive Data Test

	N	Minimum	Maximum	Meaan	Std. deviation
Tax rate	120	11	25	19,08	2,662
Tax Adm	120	13	25	19,92	2,690
Tax Base	120	13	25	18,15	2,556
PAD	120	9	25	18,47	3,607
Valid N (listwise)	120				

Source: Primary Data processed with SPSS 25, 2024

Tax rate (X1) ranges from 11 to 25, with an average of approximately 19.08 and a standard deviation of 2.662. This indicates that the tax rate tends to be relatively high. Tax administration (X2) has values between 13 and 25, with an average of about 19.92 and a standard deviation of 2.690, reflecting a relatively high level of tax administration. Meanwhile, Tax base (X3) ranges from 13 to 25, with an average of approximately 18.15 and a standard deviation of 2.556. This indicates a relatively high level of tax base as well.

Local Own-Source Revenue (Y) ranges from 9 to 25, with an average of approximately 18,47 and a standard deviation of 3,607, indicating a relatively stable income level. Furthermore, classical assumption tests, such as normality test, multicollinearity test, and heteroskedasticity test, are conducted to ensure that the data in this study meet the necessary classical assumption criteria.

Data Quality Test
Validity Test

Table 3. ResultsValidity Test

Variabel	Instrument Kode	Pearson Korelasi	Deskripsi
Taxe Rate	X1.1	0,771	Valid
	X1.2	0,747	Valid
	X1.3	0,639	Valid
	X1.4	0,524	Valid
	X1.5	0,634	Valid
Taxe Administration	X2.1	0,658	Valid
	X2.2	0,708	Valid
	X2.3	0,732	Valid
	X2.4	0,528	Valid
	X2.5	0,742	Valid
Taxe Base	X3.1	0,534	Valid
	X3.2	0,685	Valid
	X3.3	0,655	Valid
	X3.4	0,691	Valid
	X3.5	0,637	Valid
Local Own-Source Revenue	Y.1	0,828	Valid
	Y.2	0,623	Valid
	Y.3	0,803	Valid
	Y.4	0,825	Valid
	Y.5	0,812	Valid

Source: Primary Data Processed (2024)

ReliabilityTest

Tabel 4. Results Reliability Test

Cronbach's Alpha	N of Items
,760	3

Source: Primary Data processed with SPSS 25, 2024

From tables 3 and 4, it can be concluded that all the data are valid and reliable because each item of the questionnaire has a Pearson correlation value and Cronbach's alpha > 0,760.

Classical Assumption Test
Normality Test

Table 5. Results Normality Test
One-Sample Kolmogorov-Smirnov Test

Kolmogorov-Smirnov	UnstandardizedResidual
N	120
Asymp.Sig. (2-tailed)	,200[c,d]

Source: Primary Data processed with SPSS 25, 2024

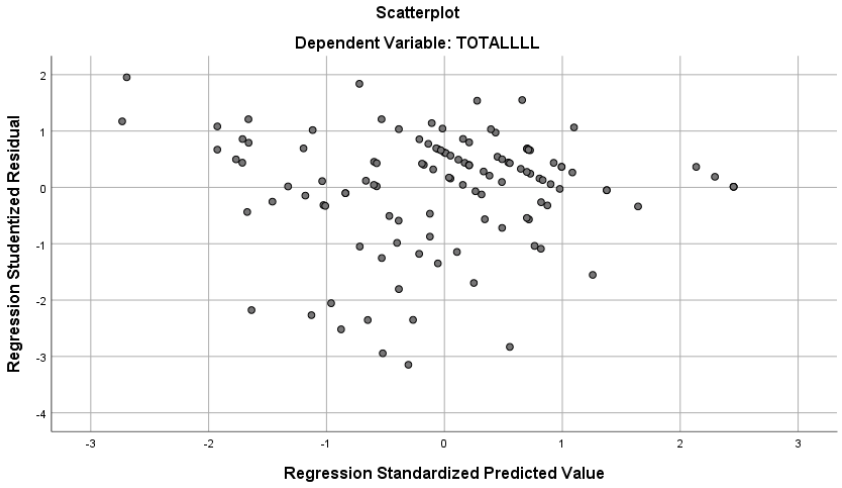
From Table 5, the two-tailed asymptotic significance value is 0.200, exceeding the significance level of 0.05. This indicates that the data used in this study follows a normal distribution.

Heterokedasticity Test

Based on the results of the Heteroskedasticity Test using Scatterplot method with

the assistance of computer software using SPSS 25 Program, the following results were obtained:

Figure 2 Results Heterokedasticity Test



Source: Primary Data processed with SPSS 25, 2024

From Figure 2, in the regression model of x1 and x2 on y, there is no heteroskedasticity issue, thus fulfilling the classical assumption test of heteroskedasticity in multiple linear regression analysis.

Multikolinearitas Test

Table 6. Results Multikolinearitas Test

		Collinearity Statistics	
		Tolerance	VIF
1	Taxe Rate	,607	1.649
	Taxe Administration	,608	1.646
	Taxe Base	,715	1,399

Source: Primary Data processed with SPSS 25, 2024

Table 6, it can be observed that the Variance Inflation Factor (VIF) values for the three variables, namely tax rate, tax administration, and tax base, are all less than 5. Therefore, it can be concluded that there is no issue of multicollinearity among the independent variables.

Hypothesis Test
Determination Test (R_2)

Table 7. Result Determination Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	,734[a]	,539	,528	2,479	,539	45,292	3	116	,000	1,517

a. Predictors: (Constant), Taxe base, Taxe Administration,Taxe rate
b. Dependent Variable: Local Own-Source Revenue

Source: Primary Data processed with SPSS 25, 2024

From Table 7, it is known that the adjusted R-square value is 0.539 or 53.9%. This indicates that Local Own-Source Revenue (PAD) can be explained by local tax and regional levies variables to the extent of 53.9%, while the remaining 46.1% (100% - 53.9%) is explained by other factors not examined.

F Test

Table 8. Results F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	835,034	3	278,345	45,292	,000[b]
	Residual	712,891	116	6,146		
	Total	1547,925	119			

Source: Primary Data processed with SPSS 25, 2024

Table 8 shows the result of the F-test, with a value of 45.292 and a significance level of 0.000. Since the probability value (0.000) is smaller than 0.05, it can be said that tax rate, tax administration, and tax base collectively have a significant effect on the Local Own-Source Revenue (PAD) variable.

T Test

Table 9 Results T Test

	Nilai Tes = 0		
	T	df	sig. (2 – tailed)
Taxe rate	3,833	119	0,000
Taxe Administration	5,520	119	0,000
Taxe bases	1,347	119	0,181

Source: Primary Data processed with SPSS 25, 2024

The t-test is conducted to determine the independent variables that affect PAD. The t-test is performed by comparing the calculated t-value and the tabulated t-value, with a significance level of 5%:2 = 2.5% (two-tailed test) with degrees of freedom (df) = n-k-1 or 120-3-1 = 116 (where n is the sample size and k is the number of independent variables). With a two-tailed test (significance = 0.025), the obtained t-value for the tabulated t-value is 1.981.

The variable tax rate (X1) has a calculated t-value of 3.833 with a significance level of 0.000 below the significance of 0.05 (5%). Thus, the calculated t-value > tabulated t-value, or 3.833 > 1.981. This result indicates that hypothesis H1 is accepted, indicating that tax rate positively affects the increase in PAD in Kota Palopo.

The tax administration variable (X2) has a calculated t-value of 5.520 with a significance level of 0.000 above the significance of 0.05 (5%). With the calculated t-value > tabulated t-value, or 5.520 > 1.981, hypothesis H2 is accepted, suggesting that tax administration positively influences the increase in PAD in Kota Palopo.

The tax base variable (X3) has a calculated t-value of 1.347 with a significance level of 0.181 above the significance of 0.05 (5%). Since the calculated t-value > tabulated t-value, or 1.347 > 1.981, hypothesis HA3 is rejected, indicating that the tax base does not affect the increase in PAD in Kota Palopo.

Discussion:

The calculated t-value for the tax rate variable is 3.833 with a significance level of 0.000, which is below the 0.05 (5%) significance level. This indicates that the calculated t-value exceeds the critical t-value (3.833 > 1.981). Therefore, hypothesis H1 can be accepted. This means that the acceptance of tax rates has a significant positive effect on increasing Local Own-Source Revenue (PAD) in Palopo City. In other words, this study indicates that adjusting tax rates effectively can enhance PAD in Palopo City.

The calculated t-value for the tax administration variable is 5.520 with a significance level of 0.000, which exceeds the 0.05 (5%) significance level. This indicates that the calculated t-value exceeds the critical t-value (5.520 > 1.981). Therefore, hypothesis H2 can be accepted. This means that tax administration acceptance has a significant positive effect on increasing Local Own-Source Revenue (PAD) in Palopo City. In other words, this study suggests that efficiency in tax administration can effectively increase PAD in Palopo City.

The calculated t-value for the tax base variable is 1.347 with a significance level of 0.181, which exceeds the 0.05 (5%) significance level. This indicates that the calculated t-value is smaller than the critical t-value (1.347 < 1.981). Therefore, hypothesis HA3 is rejected. This means that the acceptance of the tax base does not have a significant effect on increasing Local Own-Source Revenue (PAD) in Palopo City. In other words, this study indicates that in the context of Palopo City, adjustments or acceptance of the tax base does not significantly affect PAD.

5. CONCLUSION

The study indicates that tax rates have a significant impact on increasing Local Own-Source Revenue (PAD) in Palopo City. Proper adjustments to tax rates support local economic growth and enhance taxpayer compliance, thereby increasing tax revenue. Tax administration efficiency also plays a crucial role in increasing PAD. The utilization of information technology and human resource development in tax administration has proven to enhance tax collection efficiency and reduce revenue leakage. Although the tax base does not significantly affect PAD in this study, efforts to expand and diversify the tax base are necessary to maintain local revenue stability. This underscores the need for broader policy innovation to broaden the tax base. Recommendations from this study include local governments undertaking tax administration reforms and adjusting tax rates intelligently to boost revenue. Steps to expand and diversify the tax base should also be part of long-term efforts to strengthen local fiscal capacity. This research provides new insights into how tax policies affect PAD in small cities in Indonesia, offering valuable information for policymakers in designing more effective tax policies. The study's conclusion emphasizes the importance of sound tax policies in supporting local economic growth and providing resources for development and public services in Palopo City.

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