INEQUITIES ANALYSIS IN LOCAL OWN-SOURCE REVENUE POTENTIAL BETWEEN REGENCIES AND MUNICIPALITIES IN INDONESIA

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ABSTRACT. One of the underlying factors contributing to the low revenue of Local Own-Source Revenue (PAD) lies in the suboptimal utilization of PAD sources, notably stemming from shifts in economic structures, tax capacity, and imposed retributions. This study aims to analyze the inequality of PAD potential between regencies and municipalities, which results in the ratio of PAD to Local Government Budget (APBD) in regencies being significantly different from municipalities. This study aims to unveil the nuanced intricacies of PAD potential disparities by employing a mixed-method approach encompassing descriptive quantitative and qualitative analyses to capture comprehensive analysis. Data collected from scientific papers and secondary data which used content validation to control relevancy of different data sources. The results show that regency governments have different characteristics from municipal governments regarding geographical landscape, economic structures, and population. These differences affect the local revenue potential, which should be managed differently from municipal fiscal policy. The disparity in Public Agency Revenue (PAD) between the two entities is attributed to the national government's failure to address the revenue-raising capabilities of regency governments adequately. Although local taxes are diverse, only a limited number are reliable local revenue sources. The field of taxation is characterized by a high degree of centralization, as the central authority collects all major and most productive types of taxes, including both direct and indirect taxes. The symmetric decentralization policy between regencies and cities progressively limits the capacity of district governments to enhance local revenue.

Keywords: Local Own-Source Revenue; Potential Sources of Regional Revenue; Fiscal Decentralization

INTRODUCTION

Fiscal decentralization has several consequences for a country that adopts it after its implementation. Therefore, fiscal decentralization in Indonesia has implications for meeting regional and national needs through discretionary spending and strengthening regional fiscal capacity through sources of regional revenue under their authority (Puspita & Hamidi, 2021). In addition, the sources of regional revenue significantly affect the fulfillment of expenditure needs in a region (Fatimah et al., 2020)Dana Alokasi Umum, Dana Alokasi Khusus, dan Dana Bagi Hasil Kabupaten dan Kota di Provinsi Jawa Timur sebagai sampel. Pemilihan Kabupaten dan Kota dilakukan secara acak setelah menentukan jumlah sampel yang dapat diterima yaitu 100% dari seluruh jumlah Kabupaten dan Kota di Provinsi Jawa Timur. Pengujian hipotesis dalam penelitian menggunakan Analisis Regresi Linear Berganda dengan program SPSS dan tingkat signifikansi 5% (0,05. However, research conducted by Khairi (2021) showed that the current regional revenue sources cannot meet all local expenditure needs following local authority.

Fiscal decentralization cannot be solely viewed in terms of economics, as it is closely intertwined with politics(Lockwood, 2005). Transferring financial authority from a central to local governments has significant political implications. It is reflect the power distribution, enhancing local responsibility when the local gain control their own budget and spending (Fedelino, 2010).

The revenue approach for regions proposed by Litvack and Seddon (1999) divides regional revenue sources into two types: (1) Regional revenue obtained based on the results of the excavation of the local government itself following predetermined provisions (PAD) and (2) Revenue that the central government has determined to the regional government (Transfer Funds). In Indonesia, Law No. 23/2014 on local government provides four categories of revenue that are included in Local Own-Sources Revenue: (1) Local Taxes, (2) Local Retributions, (3) Results of Management of Separated Regional Wealth, (4) Others Legitimate PAD. Further elaboration of these local taxes and retributions is further regulated in Law No. 1/2022 concerning the objects of taxes and levies that are the authority of local governments at both the provincial and regency/municipality levels.

Local Own-Source Revenue (PAD) has a vital role in local development, where PAD has the benefit of reducing dependence on the central government in local development (Bonet & Fretes, 2013). PAD runs local government operations, maintains local assets, and allocates resources owned by local governments, such as financial, human, and other resources (UNCDF, 2023). The revenue obtained through the transfer fund negatively affects the local financial independence ratio, which in turn reduces the level of local independence. However, PAD also positively affects the ratio of local financial independence, which means increasing local financial independence (Andriani & Wahid, 2019). In its implementation, the revenue obtained by the local government is more

and more dependent on the revenue provided by the central government through transfer funds than the revenue obtained by the local government itself (Solikin, 2016).

One cause of low regional revenue is the lack of optimization of potential regional revenue sources, especially from changes in economic structure, potential taxes, and retributions (Alam, 2016). Failure to raise awareness about local economic potential leads to a loss of revenue for district governments, as they cannot increase local income. Research conducted by Tan (2020)due to the low contribution of local own revenue to total local revenues. This fact has implications for the high local financial dependence on fiscal transfer from the central government, so that the Bogor Regency government is not yet autonomous in financing local development programs. This research aims to obtain rational knowledge about the effects of fiscal decentralization implementation and indirect local tax management on local fiscal autonomy. The research used a descriptive method with a qualitative approach, so that it can explain data and information obtained from observation, interview, and focus group discussion. The research concludes that the prospect of raising local fiscal autonomy is determined by the accuracy of fiscal decentralization implementation and the effectiveness of indirect local tax management. The accuracy of fiscal decentralization implementation requires the central government policy in the assignment of taxes and revenue sources to local government must be commensurate with the assignment of expenditure responsibilities to local government. The effectiveness of indirect local tax management requires that local government efforts to increase indirect local tax revenues must precisely determine the increase of revenue targets according to the results of econometric analysis of Gross Domestic Regional Product (GDRP suggested that the determination of indirect taxes carried out in Bogor Regency has not been based on the potential of indirect taxes in the area. Therefore, based on the description above, a problem arises regarding the distribution of local potential in determining sources of PAD.

Some previous studies highlight the potential of local taxes to increase PAD (Dede et al., 2021; Mandak et al., 2022), the effectiveness and contribution of local taxes to PAD (Akbar et al., 2019; Fitriano & Ferina, 2021; Wibisono & Mulyani, 2019), and the potential of local retribution to play a role in PAD (Anisa Megawati & Ady, 2016; Nugroho & Budiman, 2018; Rahayu et al., 2023). Those findings reveal that the central government's policy of symmetrically deciding the types of local taxes and retributions, reflecting fairness based on the actual potential of regencies and municipalities. Previous research has yet to address the disparity in PAD obtained between regencies and municipalities based on prospective PAD obtained between the two. It does not examine what factors influence the difference in PAD potential between regencies and municipalities. This study aimed to analyze the inequality in the potential of PAD between municipalities and regencies, which results in the ratio of PAD to Local Government Budget (APBD) in regencies being significantly different from municipalities.

METHOD

This research used a mixed method of descriptive quantitative and descriptive qualitative (Creswell & Creswell, 2018). Quantitative research used percentages, ratios, or averages to analyze the distribution between local potential and PAD. The qualitative method examined the regular delegation of sources of PAD between tiers of government and the policy of distributing sources of PAD related to local potential. Data was gathered through documentation and literature reviews of government rules, APBD materials, and other documents and literature relevant to this research. The required data includes regencies/municipalities' APBD statistics in Indonesia, such as the quantity of regional revenue, PAD value, and transfer revenue value. Other data required include demographic data on the population, geographic data, including the area of agriculture, plantations, and mining, and data on the number of tax objects in the regencies/municipalities. Data alse collected from scientific papers and secondary data which used content validation to control relevancy of different data sources

Data analysis is conducted through several stages: 1) Comparing the value of the contribution of taxes generated by the central and local governments to total state/regional revenues; 2) Comparing the contribution value of tax kinds between regencies and municipalities to total regency/municipality revenue; 3) Comparing the possibilities of tax kinds possessed by regencies or municipalities; 4) Comparing the contribution value of tax kinds between regencies and municipalities to total regency/municipality revenue; 5) Comparing the possibilities of retribution kinds owned by regencies and municipalities; and 6) Comparing a Public Service Agency (BLU, central government)'s contribution value to a Local Public Service Agency's total state/regional revenue.

Regencies Revenue (PAD) will increase if potential regional income sources are optimized, mainly through sensitization to economic structure and the potential for taxes and local retributions.

The distribution of local potential is analyzed to determine the potential of PAD in Indonesian regencies/municipalities as a type of revenue transfer from the central government to local governments. A local government can be self-sufficient if the value of the PAD contribution to local expenditure needs exceeds the transfer revenue received by the region. On the other hand, PAD's effectiveness value is high because it is generally always more significant than 100%.

RESULT AND DISCUSSION

History of PAD Sources Handover

The handover of PAD sources in Indonesia occurred before the Reformation in 1998. Law No. 22/1948 concerning on Determination of basic rules regarding Self-Government in regions that have the right to regulate and manage their internal affairs mandated that local governments no longer depend on the central government. Prior to the enactment of the law, local governments relied heavily on the shortfall cover system (Sluitpos). Therefore, local governments are mandated to seek their income through the submission of national tax sources. Following previous advances, Law No. 32/1956 concerning financial balance between the state and the autonomous regions, required the central government to provide additional revenue to local governments outside of taxation by dispersing earnings from taxes produced by the central government to local governments through donations or subsidies.

The law addressing percentage distribution in Law No. 32/1956 concerning financial balance between the state and the autonomous regions was elaborated through Government regulation No. 12/1958 concerning determination of the percentage of revenue from state taxes for regions, which specifies that the central government gives subsidies to local governments based on local demands. Meanwhile, donations are given to regions that cannot meet local needs. Following the enactment of Emergency Decree No. 11/1957 concerning general regional tax regulations, revenue sources were expanded to the government under Law No. 32/1956. Meanwhile, submitting local retribution sources is regulated in Emergency Decree No. 12/1957. Based on this law, local governments can collect six revenue sources.

The handover of PAD itself during the New Order period was regulated in Law No. 18/1997 concerning regional taxes and levies. This regulation provides level 1 regions with tax sources, including motor vehicle and fuel tax. As for the handover of local tax sources to tier 2 regions, as many as 6 were given to tier 2 regions. Meanwhile, the handover of local retribution sources was divided into 3 types of local retribution sources: general service, business service, and inevitable licensing retributions. The specifics of the levies imposed are returned to each region.

Following the Reformation in 1998, the transfer of PAD sources was re-regulated by Law No. 25/2000 on national development planning, which established regional tax and retribution sources and mandated balancing funds for local governments to encourage regional development implementation. Specifically, the sources of local taxes and retributions are regulated in Law No. 28/2009 concerning local taxes and levies.. The law provides 5 provincial and local tax sources and 11 regencies/municipalities tax sources. In the submission of local retribution sources, there are 14 sources on public services, 11 on business services, and 5 on specific licenses.

In the current era, Law No. 28/2009 on local taxes and levies has been replaced by Law No. 1/2022 concerning financial relations between national-regional. There are several additional sources of PAD. Provincial regions are mentioned to get 2 additional tax sources, Heavy Equipment Tax and Opsen Tax on Non-Metallic Minerals and Rocks. Meanwhile, for regencies/municipalities, several types of tax sources are merged: Specific Goods and Services Tax (a merger of hotel and restaurant taxes) and Entertainment Tax. In addition, it also gets 2 Opsen: Motor Vehicle Tax and Motor Vehicle Ownership Transfer Tax.

Despite incentives for regions to generate their income, the central government has offered financial support or transferred funds to local governments to meet their regional expenditure needs since the Old Order period. One reason is that since the post-reform era, PAD has only focused on local tax revenue (Nasir, 2019). PAD, which is only focused on local taxes, causes the revenue received by the central government today to be far more significant than that generated by the region, around 29%. This issue also existed in previous government ages when the central government's revenue was greater than that of the regional.

PAD Analysis

PAD is measured by analyzing and comparing PAD trends over the last few years and the percentage of each PAD source to Regional Revenue.

National PAD

The percentage value of PAD to revenue can be used to determine how much revenue the region can earn independently by extracting PAD sources provided by the central government to the local government to fulfill the local government's expenses needs. The smaller the percentage of PAD

to regional revenue, the smaller the contribution of PAD sources to total regional revenue. Table 1 shows the percentage of PAD and its sources of regional revenue.

Table 1. Comparison of Percentage Ratio of PAD to Total Regional revenue

Years	Perc. of PAD	Perc. of Tax	Perc. of Retribution	Perc. of Separated Regional Wealth	Perc. Of Others PAD YS
2018	24.65%	16.88%	1.11%	0.78%	5.88%
2019	24.78%	17.50%	1.01%	0.77%	5.50%
2020	26.49%	18.98%	1.03%	0.80%	5.68%
2021	26.84%	18.82%	1.04%	0.83%	6.15%
2022	29.08%	20.23%	1.23%	1.04%	6.58%
2023	29.34%	20.80%	1.06%	1.17%	6.31%

Source: Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia (Processed by Researchers)

According to Table 1, the amount of PAD value contributed to regional revenue increases year after year, with percentage increases ranging from 0.5% to 1.5%. Local taxes still act as the primary source of PAD. More than 50% of PAD is obtained through local taxes. Meanwhile, the other three sources of PAD have smaller percentages, although they have tended to increase in recent years. Nevertheless, the value of revenue from the 3 sources of PAD is still relatively small. As a result, this data indicates that local governments continue to rely on the central government to fund their regional spending needs.

Local governments have generally needed help to identify potential sources of revenue effectively. Most regions have yet to optimize their regional tax revenues, regional levies, or income from separated regional assets despite the provisions of Law No. 33 of 2004 concerning the Central and Regional Financial Balance. Regions often attribute the low revenue from Regional Original Income (PAD) to the limited scope for optimizing revenue generation. Although Law No. 28 of 2009 regulates regional taxes and levies, regions recognize that many potential types and objects of taxation and levies are not permitted under current legislation. The quality and quantity of human resources (HR) in this sector remain a significant challenge. The existing system, which is not yet fully integrated, has resulted in an insufficient number of qualified personnel to effectively collect taxes and levies. It is crucial for human resources working in this field to possess a thorough understanding of regional taxes and levies, as they must be capable of providing clear explanations to the public. Public awareness and understanding of the importance of paying taxes and levies are crucial for the success of revenue generation. Well-informed human resources are essential for fostering this awareness, which supports the enhancement of HR quality, the development of efficient administrative systems, and the implementation of effective oversight, all of which depend on the availability of regional budgets. Given the financial capabilities of regions, as reflected in PAD, funding all activities aimed at increasing PAD will continue to be challenging. Regions must prioritize activities that will receive funding initially. Most regions' prevailing PAD revenue administration systems take much work, and increases in regional tax and levy revenues will be difficult. The reliance on manual and non-integrated administrative systems tends to result in revenue leakage.

PAD Distribution by Region

Differences in the delegation of PAD sources between provincial and regencies/municipalities governments have led to differences in the value of PAD contributions to total regional revenue between levels of local government. The differences in PAD sources between Indonesian provinces and regencies/municipalities contribute to the difference in contribution value.

Table 2. Comparison of PAD Ratio to Total Revenue at Regional Government Levels

Levels of Government	Perc. of PAD	Value of Regional Ratio of PAD over Transfer Revenue
Provincial Government	55.90%	12
Regencies Government	14.72%	3
Municipalities Government	33.82%	5

The provincial government made a significant contribution, according to the data in Table 2. PAD generated by province governments accounts for more than half of total provincial regional revenue. Based on this contribution value, Indonesia's provinces can be considered independent. However, out of 38 provinces in Indonesia, only 12 provinces currently have a PAD ratio above 50%. Furthermore, Table 2 revealed that the average PAD in Indonesia's regencies/municipalities remains less than 50%. However, 5 out of 98 cities, or 5.1% of cities in Indonesia, have a PAD ratio of more than 50%. Meanwhile, only three regencies out of 416 districts have a local own-source revenue ratio of more than 50% or approximately 0.7%.

Badung Regency, Gianyar Regency, and Tangerang Regency have PAD rates of more than 50%. Regardless of their status as regencies, the three regencies with more than 50% PAD ratios are urbanized. The determination refers to Law

No. 26/2007 on Spatial Planning; hence, the three regencies are classified as urban areas. Based on Statistics Indonesia (BPS) data and the APBD of each district, the three districts do not focus on the agricultural sector but rather the business sector.

Comparative Analysis of PAD Potential between Regencies and Municipalities

Measurement is not based on how much value a region generates to PAD sources. However, it is done by determining the proportion of revenue generated by PAD sources compared to the total regional revenue and assessing the potential revenue within a certain distance. The measurement used a comparison of neighboring city districts. The following table displays the amount of PAD obtained between regencies with adjoining municipalities. The data variables used in this section are as follows: (Table 3)

A1: Hotel Tax
A2: Restaurant Tax
A3: Land and Building Tax – Rural and Urban (PBB-P2)
A4: Cleaning Service Retribution
A5: Local Public Service Agency (BLUD)

Based on the data table 3 in the table above, it is known that the revenue value of several types of PAD in Bogor Regency is greater than the revenue value generated by Bogor City. The higher population in Bogor Regency than in Bogor City contributes to the former's higher local tax revenue. This statement aligns with research by Priyono and Handayani (2021) highlighting the significant and positive impact of population size on local tax revenue. However, regarding the percentage contribution to total revenue, Bogor Regency lags behind Bogor City. Although Bogor Regency covers a significantly greater area than Bogor City, it has a lower value based on the prospective statistics in the table above, except for the number of hotels. However, even though the number of hotels/accommodations varies significantly, it does not affect revenue. (Tabel 4)

Data comparing Bantul Regency and Yogyakarta City indicated that Bantul falls behind in revenue generation and its percentage contribution to total revenue despite having a larger population and area than Yogyakarta City. The reason is the imbalance in potential and the difference in the number and type of leading sectors owned by the region based on research by Rosyidah (2022). Bantul Regency has 6 leading sectors, while Yogyakarta City has 11 leading sectors. Tourism has become the leading sector in Yogyakarta City. This difference impacts a region's potential income and PAD because the influence of the tourism sector and economic growth can increase the PAD of a region (Suot et al., 2021; Wadjaudje et al., 2018). (Table 5)

Based on the data in the table 5 above, there is a significant comparison between Pulang Pisau Regency and Palangkaraya City, even though Pulang Pisau Regency has more leading sectors than Palangkaraya City (Harati, 2023; Nurfaridah & Suherty, 2023). However, Palangkaraya can

Table 3 Comparison of PAD between Bogor Regency and Bogor City

| PAD | Bogor Regency | | | Bogor City | | |
	Value (Rp)	Contribution Value (%)	Potential Value	Value (Rp)	Contribution Value (%)	Potential Value
A1	100.392.198	1.30	515 (Hotel)	95,000,000,000.00	4.08	98 (Hotel)
A2	180.79.809	2.33	607 (Restaurant)	150,000,000,000.00	6.44	986 (Restaurant)
A3	574.049. 109	7.42	Rp. 192.233.979,30/ KM2	145,000,000,000.00	6.23	Rp. 1.223.628.691,98/ KM2
A4	20.479.727,925	0,26	Rp. 6.858.123,34	11.500.000.000,00	0,49	Rp. 97.046.413,50
A5	621.713.142,053	8,03		250.864.802.091,00	10,77	

Source: APBD Bogor Regency in 2022, APBD Bogor City in 2022, and BPS West Java Province

Table 4. Comparison of PAD between Bantul Regency and Yogyakarta City

| PAD | Bantul Regency | | | Yogyakarta City | | |
	Value (Rp)	Contribution Value (%)	Potential Value	Value (Rp)	Contribution Value (%)	Potential Value
A1	4.024.058,128	0.19	306 (Hotels)	106.200.000	6.23	619 (Hotels)
A2	16.348.060,592	0.76	166 (Restaurants)	Rp. 52,215,000,000.00	3.06	200 (Restaurants)
A3	55.125.000	2.57	Rp. 108.759.988,16/ KM2	97.000.000	5.69	Rp. 2.984.615,384,62/ KM2
A4	2.066.598,82	0,10	Rp. 4.077.338,11 / KM2	3.926.536	0,23	Rp 120.816.492,31/ KM2
A5	194.950.168,337	9,10		131.631.081,463	7,72	

Source: APBD Bantul Regency in 2022, APBD Yogyakarta City in 2022, BPS Bantul Regency, BPS Yogyakarta City, BPS Special Region of Yogyakarta Province

further promote its leading industry to enhance PAD by expanding the Palangkaraya River as a subject of ecotourism (Syamsuri et al., 2019). (Table 6)

Drawing from the provided details, it is evident that Minahasa Regency and Manado City exhibit significant potential disparities arising from differences in natural resource endowments, regional attributes, primary economic sectors, and geographical proximity. These divergences foster a symbiotic relationship between commodities and services within North Sulawesi Province (Nurfadilah et al., 2022). (Table 7)

An underlying factor contributing to the inequality observed in the data is the variance in potential. For instance, in the South Lampung area, the potential is predominantly derived from agriculture, forestry, and fisheries (Juliannisa et al., 2022). Revenue from these sectors is under the central government authority. Meanwhile, Bandar Lampung City's potential lies in the manufacturing industry, the electricity, gas, and clean water, the building, the trade, hotels and restaurants, the transportation/communication, the bank and other financial institutions, and the service sectors (Mahroji & Indrawati, 2020), in which revenue from these industries are the authority of the regencies/municipalities.

1) **Tax Potential Analysis**

The data in Table 8 shows that the percentage of local taxes generated by regencies/municipalities is not the primary source of revenue for local governments towards regional revenue because the contribution of local taxes to regencies/municipalities revenue is only 9.88%. This is inversely proportional to the state tax revenue of 77.19% of total state revenue, which makes taxes the primary source of state revenue.

Table 8. Ratio of Tax Revenue to Total Revenue between Central Government and Regional Government

Level of Governments	Perc. of Tax to Revenue Ratio
Central Government	77.19%
Local Government	20.23%
Provincial Government	46.19%
Regency and Municipality Government	9.88%
Regency Government	6.80%
Municipality Government	23.20%

Source: BPS

In addition, based on the data above, there is an imbalance in tax revenue generated by regencies and municipalities. The total tax revenue generated by regencies only contributes 6.80% of total regional

Table 5. Comparison of PAD between Pulang Pisau Regency and Palangkaraya City

PAD	Pulang Pisau Regency			Palangkaraya City		
	Value (Rp)	Contribution Value (%)	Potential Value	Value (Rp)	Contribution Value (%)	Potential Value
A1	7.000	0.001	7 (Hotels)	9.050.000	0.79	131 (Hotels)
A2	895.000	0.09	31 (Restaurants)	16.536.370,395	1.45	180 (Restaurants)
A3	1.500.000	0.15	Rp. 166.722,24/KM2	23.287.617,751	2.04	Rp. 8.162.158,53/KM2
A4	48.500	0,00	Rp. 5.390,69/KM2	2.000.000	0,17	Rp. 700.986,99/KM2
A5	25.000.000	2,52		16.785.124,578	1,47	

Source: APBD Amendment of Pulang Pisau Regency in 2022, APBD of Palangkaraya City in 2022, and BPS of Central Kalimantan Province

Table 6. Comparison of PAD between Minahasa Regency and Manado City

PAD	Minahasa Regency			Manado City		
	Value (Rp)	Contribution Value (%)	Potential Value	Value (Rp)	Contribution Value (%)	Potential Value
A1	4.685.500	0.38	11 (Hotels)	41.000.000	2.50	120 (Hotels)
A2	3.392.500	0.27	92 (Restaurants)	95.000.000	5.80	478 (Restaurants)
A3	5.300.000	0.42	Rp. 4.642.444,20/KM2	56.990.000	3.48	Rp. 362.393.488,49/KM2
A4	1.000.100	0,08	Rp. 876.020,46 /KM2	16.650.000	1,02	Rp. 105.875.619,99/KM2
A5	30.000.000	2,40		16.785.124,578	1,47	

Source: APBD of Minahasa Regency in 2022 and APBD of Manado City in 2022

Table 7. Comparison of PAD between South Lampung Regency and Bandar Lampung City

PAD	South Lampung Regency			Bandar Lampung City		
	Value (Rp)	Contribution Value (%)	Potential Value	Value (Rp)	Contribution Value (%)	Potential Value
A1	991.732,400	0.04	26 (Hotels)	32.000.000	1.37	158 (Hotels)
A2	5.972.001	0.27	124 (Restaurants)	80.000.000	3.42	1052 (Restaurants)
A3	57.878.147,6	2.62	Rp. 27.433.782,17/KM2	110.000.000	4.70	Rp. 557.752.763,41/KM2
A4	1.621.550	0,07	Rp. 768.601,82/KM2	13.519.333	0,58	Rp. 68.549.503,09/KM2
A5	137.188.556	6,20		103.363.582,8	4,41	

Source: APBD Amendment of South Lampung Regency in 2022 and Bandar Lampung City APBD in 2022

revenue. Meanwhile, the total tax revenue generated by municipalities contributes 23.20%, which is even more significant than the contribution of regencies/municipalities PAD in Indonesia.

Based on the comparative data in Table 8, district tax revenues contribute the least to total state/regional revenues. Regencies and municipalities have the exact source of tax revenue per Law No. 1/2022 concerning financial relations between central and local government. However, tax revenue disparities across regencies and municipalities persist because the potential inherent in each sort of tax differs.

This section will compare the potential tax sources of adjoining regencies and municipalities.

a. Hotel Tax

Hotel tax is one type of tax that has a positive and significant effect on regional revenue (Sanjaya & Wijaya, 2020). The number of hotels that stand in a regency or city affects the tax revenue a local government receives. Research conducted by Alyani and Siwi (2020) showed that the number of existing hotels positively affects hotel tax value. The PAD revenue comparison table across adjoining regencies/municipalities analyzes the value and ratio of hotel tax revenue to total revenue and the number of hotels in each. The comparison is used to see the magnitude of the difference in potential revenue generated between regencies and municipalities.

Based on the data in the PAD revenue comparison table between regencies and adjoining municipalities, there is a significant difference in the ratio of hotel tax to total revenue between them. According to the data, most districts, except Bogor Regency, have a hotel tax contribution below 0.5%. Conversely, city areas typically have significantly higher hotel tax revenue ratios than adjoining regencies. Notably, no municipalities has a hotel tax contribution below 0.75%.

A contributing factor to the low proportion of hotel tax revenue to total revenue across regencies and municipalities is the notable variation in the potential for hotel tax generated by the disparity in the number of hotels between them. The PAD revenue comparison table reveals a disparity in hotel numbers between the regency and its neighboring city. The regency exhibits a considerably lower hotel count compared to the adjacent city. Conversely, the regency surpasses the adjoining city in size when considering geographical area. Despite this, it maintains a smaller hotel count than its urban counterpart.

b. Restaurant Tax

Restaurant tax is one of the taxes that has a positive and significant influence on local taxes (Sanjaya & Wijaya, 2020). The potential for restaurant tax may be evaluated by looking at how many restaurants are in an area, as the number of restaurants positively and significantly impacts restaurant tax (Sanjaya & Wijaya, 2020). Hence, the PAD revenue comparison table juxtaposes the restaurant tax value, proportion relative to total revenue, and the number of restaurants within neighboring regencies and cities. This analysis aims to discern the potential revenue disparities between regencies and municipalities.

The PAD revenue comparison table data shows the value of restaurant tax contributions between adjoining regencies and cities. The data shows a significant difference between the two. The municipalities generate several times more restaurant tax revenue than the adjacent regencies. In the PAD revenue comparison table for neighboring regencies, Bogor Regency is the sole regency with a restaurant tax contribution exceeding 1%. Conversely, other districts fall below this threshold while the city's contribution surpasses 1%.

Based on the data in the PAD revenue comparison table between adjoining municipalities and regencies, the ratio of restaurants in the regencies is smaller than in the cities. The substantial disparity in potential makes it difficult for regencies to equal the value of the city's restaurant tax.

c. PBB-P2

Land or buildings used by the community - excluding plantation, mining, and forestry businesses - are the tax object of the Tax Object Sale Value (NJOP), the basis for the Land and Building Tax-Rural and Urban (PBB-P2) amount. Using land other than for plantation, mining, and forestry operations has a beneficial and significant influence on increasing the PBB-P2 in the region (Sa'diyah et al., 2019). The data in the PAD revenue comparison table for adjacent districts and cities demonstrates the generated PBB-P2 value, the ratio of PBB-P2 value to total revenue, and the PBB-P2 value per square kilometre of land utilized, facilitating a comprehensive understanding of local tax revenues and land usage dynamics.

The data in the table demonstrate that, despite its significant income contribution, PBB-P2 generated by regencies and municipalities in Indonesia is comparatively high compared to other regencies/municipalities' taxes. There is still a significant revenue gap between regencies and municipalities, with PBB-P2 revenues generated by urban areas several times higher than regencies.

The data in the PAD revenues comparison table showed that the value of taxes generated by regencies per 1 square kilometre is much lower than that of municipalities, even though regencies have more

extensive areas. This gap is because the NJOP value in the regency is much lower than the NJOP value owned by the municipality. Research by Tinangon and Patara (Tinangon & Patara, 2016) showed a necessity to review the NJOP in South Minahasa Regency to increase PAD.

The district's land use differs from the city's, contributing to its low PBB-P2. According to BPS data, agriculture is the primary income source for the regencies's population. On the other hand, most residents of city areas have livelihoods in industry and tourism. This difference makes most of the land in the regency unable to be taxed by the regency government because the tax is under the authority of the central government through the Land and Building Tax - Plantations, Forestry, and Mining (PBB-P3).

2) Retribution

Retribution is levied based on specific services or licenses the government provides to the public or certain legal entities. The advantage of retribution levied by regencies and cities is that they have more objects and subjects of retribution, as listed in Table 9. The range of items and individuals subject to fees significantly influences the revenue options available to both regencies and cities. This empowers them to tap into various regional revenue sources, such as vehicle parking.

Table 9. Comparison of the Ratio of Retribution Revenue to Total Revenue at the Regional Government Level

Level of Governments	Perc. of Retribution
Local Government	1.02%
Provincial Government	0.52%
Regency Government	1,00%
Municipality Government	2.20%

Despite having a more significant number of objects and subjects, regencies and municipalities could contribute much more. The difference in the contribution value of retribution between regencies and municipalities is not too significant compared to the contribution value generated by provinces, as shown in Table 9.

Based on the data in Table 9, the contribution value generated by regencies is smaller than that of cities. The difference in value is because, in local retribution, the local government has the authority to levy or not. Both the government and the private sector have the potential to levy retribution because it is a form of quasi-public goods (Mcconnell et al., 2012). The government can assign the levy object to the private sector.

a. Waste management and Cleaning Services

The cleaning services retribution applies to both industries and homes. The population and number of industries both determine the value of this retribution. Research conducted by Tamin and Syafitri (2022) showed that the population has a positive and significant effect, while the number of industries has a negative and insignificant effect. In other words, this retribution is more burdensome to the services provided to the community.

The data in the PAD revenue comparison table showed that the contribution value of retribution for cleaning and solid waste services in regencies and cities is relatively low. Moreover, the contribution value of regions is smaller than that of municipalities. Even though municipalities generate a higher contribution value, it is relatively insignificant, with just two cities exceeding 1% in the data.

The size of a region's residential areas and business operations defines the retribution contribution value for cleaning and solid waste services in regencies and cities. The values generated by adjoining regencies and cities are similar. However, compared to the size of the area, the difference in revenue worth per square kilometre appears to be reasonably unequal, as the municipalities contain various residential and commercial districts. Therefore, municipalities have more significant potential than regencies.

3) Other Legitimate Local Own-Source Revenues

Other Legitimate PAD is one of the potential PADs mentioned in the legislation. It includes the management of Regional Property (BMD) controlled by the region. The percentage of Others Legitimate PAD have a fairly large contribution value, as shown in Table 10.

Table 10. Comparison of Total Others Legitimate PAD Revenues at the Regional Government Level

Level of Governments	Perc. of Others Legitimate PAD
Local Government	7,30%
Provincial Government	6,07%
Regency Government	7,46%
Municipality Government	6,61%

Based on the data in Table 10, regency governments have the most significant contribution value among cities and provinces. Although the contribution value differs, it is similar. The absence of significant differences in values indicates that each local government has a potential source of PAD through Others Legitimate PAD.

a. Local Public Service Agency

Local Public Service Agency (BLUD) is one form of Other Legitimate PAD. Local Public Service Agency is a local government working unit with

the ability and authority to manage its finances. The PAD revenue comparison table data between adjoining municipalities and regencies shows the value generated by Local Public Service Agency and its revenue ratio to total revenue between regencies and cities.

The PAD revenue comparison table data among adjacent municipalities and regencies indicates a similar contribution value. Specifically, the disparity in Local Public Service Agency revenue is consistent across the data. Furthermore, within Local Public Service Agency revenue among adjacent municipalities and regencies, certain regencies exhibit a superior contribution value compared to the municipalities, while others show the opposite trend. This observation underscores the potential of BLUD in each regency and municipality.

Although Local Public Service Agency's revenue contribution is considerable, it could have been more efficient in fulfilling regional expenditure requirements. According to legislation, BLUD can manage its revenue sources, fund itself, and contribute surplus income to the PAD. However, in practice, the revenue generated by Local Public Service Agency often falls short of covering its expenses, leading it to rely on the APBD to meet its financial needs.

Management approaches diverge between Local Public Service Agency and Public Service Agency entities overseen by the central government. Public Service Agency encompasses diverse service sectors, including hospitals in the healthcare sector, universities in education, and airports in transportation. Conversely, BLUD comprises regional service agencies focused on the healthcare sector, such as regional hospitals. This variance in scope leads to differing revenue potentials.

PAD and Local Democracy

PAD is a crucial indicator of a local's autonomy level. A higher PAD reflects a reduced dependency of the regional government on central government support. Enhancing PAD is fundamental to achieving regional development objectives, as it directly influences the capacity of local governments to fulfill their governmental functions, including the provision of public services and the execution of developmental initiatives.

In pursuit of these objectives, regional governments are empowered by Law Number 28 of 2009 concerning Regional Taxes and Regional Levies, which grants them the authority to impose regional taxes and levies, manage separate regional assets, exercise discretion in setting rates according to their financial capacity, and explore other legitimate revenue sources. However, in implementing these powers, regional governments must adhere to the principles of democracy, equality, and justice,

ensure community participation, and maintain accountability, all while considering the unique potential of locals respective.

The disparity in Public Agency Revenue (PAD) between the two entities is attributed to the national government's failure to address the revenue-raising capabilities of regency governments adequately. Although local taxes are diverse, only a limited number are reliable local revenue sources. The field of taxation is characterized by a high degree of centralization, as the central authority collects all major and most productive types of taxes, including both direct and indirect taxes. The national overpower on local fiscal will paralyze local autonomy and hamper the level of democracy at the local level. The decentralization policy is an open space for national government as benelovent agent or monolithic leviathan (Obeng, 2021).

The problem of low PAD reflects a half-hearted decentralization in Indonesia. The high dependency of local governments on the national government is caused by the absence of legal regulation that specifically regulates fiscal decentralization (Christia & Ispriyarso, 2019).

CONCLUSION

The central government's delegation of authority to manage PAD sources to regional governments, particularly in regencies, has yet to fully align with the potential of various regions. The fair and equitable allocation of PAD sources among district, local, provincial, and central governments has yet to be accomplished. Disparities persist in PAD contributions, the abundance of potential PAD sources, and the generated value of different types of PAD within specific areas across regencies, municipalities, and provincial and central governments.

Local governments' success in achieving financial independence through utilizing potential sources of PAD is a form of joint success in implementing fiscal decentralization between local and central governments. As a result, the central and local governments must incorporate a region's potential with the PAD sources provided by the central government. The regency governments have different characteristics from municipal governments regarding geographical landscape, economic structures, and population. These differences affect the local revenue potential, which should be managed differently from municipal fiscal policy.

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