The Effect of Local Taxes on Local Revenue and its Impact on Fiscal Independence in the Government of Kupang City

Andrianus Pattimau[1], Wike[2], I Gede Eko Putra Sri Sentanu[3]
{apattimau@student.ub.ac.id[1], wike_fia@ub.ac.id[2], sentanu@ub.ac.id[3]}

Universitas Brawijaya, Indonesia[1,2,3]

Abstract. This paper aims to describe, analyze, and provide policy recommendations to enhance regional autonomy through increasing Local Own-Source Revenue (local taxes) using a quantitative research approach. The results indicate variations in the influence of local taxes on Local Own-Source Revenue (LOS) and always significant concerning fiscal autonomy. Efficient management of LOS emerges as crucial for enhancing fiscal autonomy. The complexity of financial decentralization dynamics highlights the importance of wise local resource management. The study underscores a holistic approach in designing effective decentralization policies. The implications are relevant for local practitioners and policymakers, offering guidance for further research. Future studies will explore some factors that affecting local tax efficiency and strategies to boost revenues. Additionally, emphasis on strengthening LOS emerges as a strategic step toward enhancing fiscal autonomy. The finding results contribute significantly to understanding regional financial dynamics and fiscal decentralization.

Keywords: Financial Decentralization; Efficient Management; LOS; Local Tax

1 Introduction

Regional autonomy is the delegation of authority from the Center to the Regions in organizing the Government, especially in terms of independence both politically (elections) and fiscally (local revenue). The fiscal independence of a region can be seen from how much the region's ability to obtain local revenue and how much the community contributes in paying local taxes.

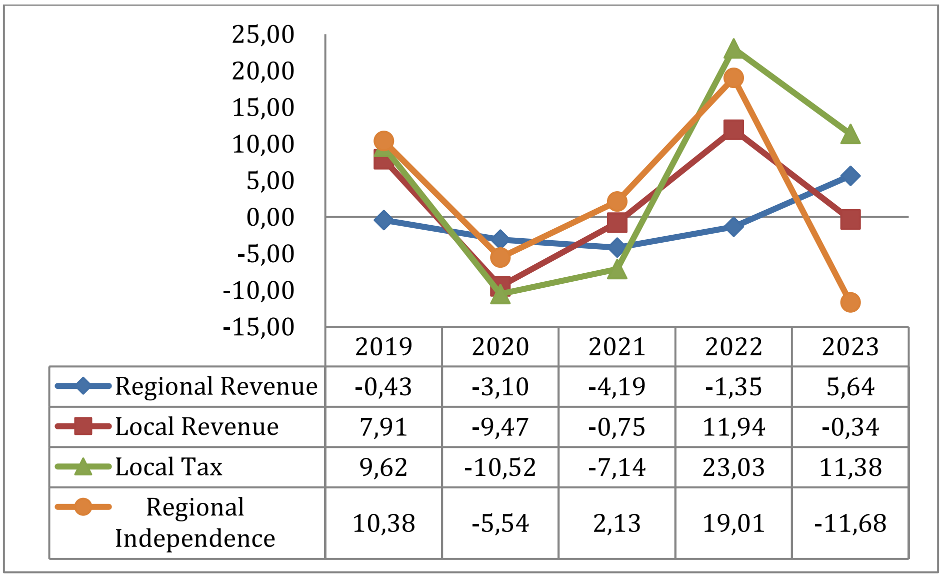
Regional original income is revenue collected locally [1]. Regional Original Revenue is all revenue obtained by the region from sources within its own territory that are levied based on applicable laws. Regional Original Revenue is regional revenue sourced from the results of local taxes, the distribution of the management of separated regional assets and other legitimate regional original income in exploring funding in the implementation of regional autonomy as a manifestation of the principle of decentralization [2].

Kupang City Government as the capital of East Nusa Tenggara Province is the center of administration, economy and education has an important role in providing various public services to its people. The Kupang city government must ensure a stable and sufficient source of revenue to fund public services such as education, health, infrastructure and social welfare.

ICOPAG 2024, October 30, Malang, Indonesia

DOI 10.4108/eai.30-10-2024.2354906

Kupang Municipality, established in 1996 under Law No. 5/1996, serves as the capital of East Nusa Tenggara Province. It covers 180.27 km² and is divided into six sub-districts: Alak (86.91 km²), Maulafa (54.80 km²), Oebobo (14.22 km²), Kelapa Lima (15.02 km²), Kota Lama (3.22 km²), and Kota Raja (6.10 km²). Between 2019 and 2023, regional revenue declined by an average of 0.68%, while local revenue rose by 1.86%, regional taxes by 5.27%, and the Fiscal Independence Ratio by 2.86%. This can be seen in Figure 1.



	2019	2020	2021	2022	2023
Regional Revenue	-0,43	-3,10	-4,19	-1,35	5,64
Local Revenue	7,91	-9,47	-0,75	11,94	-0,34
Local Tax	9,62	-10,52	-7,14	23,03	11,38
Regional Independence	10,38	-5,54	2,13	19,01	-11,68

Figure 1. Development of Regional Revenue, Local Government Revenue, Local Taxes, and Regioanal Independence 2019-2023

Source: Processed data, 2024

Figure 1 highlights the dynamic changes in local revenue and own-source revenue, influenced significantly by the pandemic and policy shifts. Local taxes also show considerable variation, likely due to both external factors and internal policies. While there have been improvements in certain areas, it is crucial for the Kupang City Government to enhance its fiscal independence and diversify revenue streams to ensure long-term financial stability.

Local taxes and levies together have a relevant impact on local revenue in Badung Regency [3]. Local taxes have a significant and positive impact on the level of regional independence, levies have a positive irrelevant impact on the level of regional independence, other legal local revenue has a relevant and positive impact on the level of regional independence, Tax Revenue Sharing Funds have a relevant and positive impact on the level of regional independence and together taxes, levies, other legal local revenue and Tax Revenue Sharing Funds have a positive and relevant impact on the level of regional financial independence in districts / cities in Central Java Province [4].

Based on the description above, this paper takes the formulation of the problem “How is the Effect of Local Taxes on local revenue and its impact on Fiscal Independence? As for the purpose of this paper, namely to describe, analyze and provide policy recommendations to increase fiscal independence through increasing Local Original Revenue, especially Local Taxes.

2 Literature Review

2.1. Decentralization

Decentralization involves the transfer of authority, responsibility, and resources from the central government to lower levels through deconcentration, delegation, or devolution. Both decentralization and regional autonomy are evolving concepts with no clear consensus [5]. Decentralization as shifting power from the central government to authorities with specific functions and legal status [6]. The World Bank sees it as assigning financial, political, and administrative responsibilities to lower levels of government.

Morrison in Abdullah [6], provides a spectrum of definitions of decentralization as follows.

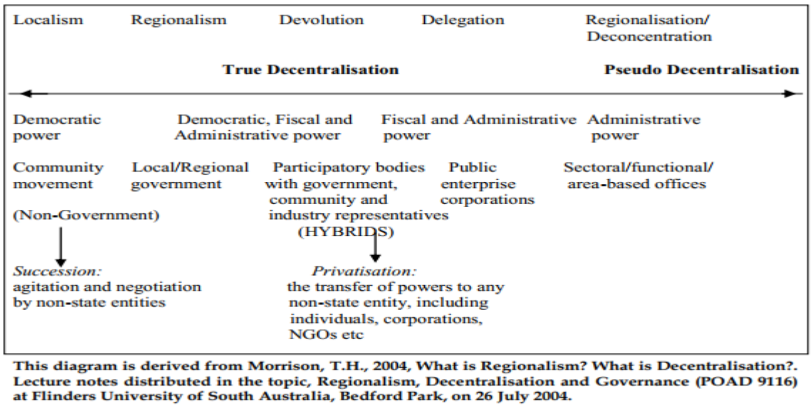


Figure 2. Spectrum of Definition

Source: Abdullah [6]

Decentralization refers to transferring authority, responsibility, and resources from the central government to lower levels through deconcentration, delegation, or devolution. The concept continues to evolve, with no definitive agreement [5].

Fiscal decentralization is based on the theory of fiscal federalism, which aims to maximize social welfare by creating a balance between economic stability, efficient allocation, and fair distribution. Fiscal decentralization includes the transfer of authority in financial responsibility and decision-making, allowing regions to meet financing needs, expand local revenues, transfer taxes, and manage resources through loans [6].

Fiscal decentralization began in 2004 with Law No. 33/2004, which gave autonomous regions the authority to manage government affairs within the framework of the Unitary State of the Republic of Indonesia. However, the law was later repealed and replaced by Law No. 1/2022 to refine the policy in line with the development and implementation of fiscal decentralization.

2.2. Regional Independence

Fiscal decentralization provides advantages in efficiency and cost savings, as local budgets for public services can be tailored to the needs of local communities, who are generally more accountable and ready to pay. It also contributes to increased local tax revenues [7].

One indicator of regional financial independence in the Regional Budget (APBD) is the ability of local governments to finance government and development activities with revenues derived from local taxes and levies, without relying on central government assistance [4]. A fiscally independent region has two main characteristics: it is able to raise and use its own revenue sources for development programs, and it has minimal dependence on central government assistance, with Local Own Revenue as its main source of revenue. The financial balance policy also supports this by ensuring that regional revenues come mostly from local sources [8].

The purpose of local financial independence is to show the extent to which local governments can carry out their duties independently and measure dependence on external funds. A higher independence ratio indicates a lower dependence on external aid. The successful implementation of regional autonomy is measured through the level of fiscal decentralization, which is calculated by the ratio between local own-source revenue and total local revenue. A simple formula to calculate the level of fiscal independence is as follows:

$$DFD = TLRt/TRRt \text{ X } 100\%$$

Description:
DFD: Degree of Fiscal Decentralization
TLRt: Total Local Revenue in year t
TRRt: Total Regional Revenue in year t

Criteria for assessing the level of fiscal decentralization or fiscal independence:

Table 1. Criteria for Assessing the Level of Fiscal Independence

Percentage of local revenue to total local revenue	**Regional Ability**
0 – 10	Very Poor
> 10 – 20	Less
> 20 – 30	Medium
> 30 – 40	Fair
> 40 – 50	Good
> 50	Very Good

Source: Bisma & Susanto [22]

The better the financial performance of a region, the greater its ability to finance expenditures without assistance from the central government. High local revenue contributions and the ability of the region to cover its own costs signal strong financial performance.

2.3. Public Financial Management

Public finance is divided into two categories: 1) state assets managed under public or civil law; and 2) finances managed directly by the government, such as the State Budget (APBN) and state property. Public financial management must be carried out in an orderly and responsible manner, taking into account the principles of justice and propriety, including planning, control, use, supervision, and accountability [9].

Locally generated revenue is revenue that is determined and collected locally, divided into three main categories: 1) local taxes, 2) fines or levies, and 3) revenues from local companies. Every tax and levy collection must be based on Regional Regulations in accordance with Law Number 28 of 2009. Policies to increase local revenue are carried out through system rationalization, law enforcement, and services that facilitate the community. In addition, PAD includes the results of taxes, levies, and income from regional companies [10].

To increase regional financial independence, the role of local revenue must be increased. Measures such as adjusting tax rates to inflation, setting new taxes according to regional potential, involving the private sector, creating a conducive investment climate, providing incentives for revenue managers, and conducting tax intensification and extensification. Local revenue aims to provide authority to local governments in funding regional autonomy as part of decentralization [11].

Local Tax

Local taxes must meet several requirements, including not contradicting central government policies, being simple with few types, having low administrative costs, not disrupting the national taxation system, and being able to grow along with welfare improvements. Taxes must also meet the criteria of Results and Fairness, where Results refer to the potential for large revenues and Fairness relates to the fair distribution of taxes. Local taxes play a role in regulatory, revenue, redistribution, and resource allocation functions, although they face challenges in creating a fair system, especially in developing countries, such as low tax rates and tax evasion by the rich. Fiscal policy aims to design a tax system that minimizes violations of these taxation principles [11].

Tax as public contributions to the state treasury based on laws that are mandatory, without getting reciprocal services, and are used to finance public expenditures[10].

2.4. The relationship of local taxes to local revenue and its impact on regional independence

Local taxes are the main source of revenue that supports local revenue. According to Wujarso et al. the contribution of local taxes is still low, reaching only 16% of total local revenue, indicating the existence of untapped potential. Meanwhile, although local retribution has a smaller contribution, it still plays an important role[12]. Research by Rizqy shows that local taxes and levies, both separately and together, have a positive effect on local revenue in various regions [13]. Nasir also found that local taxes and other legal sources are the largest contributors to local revenue in districts/cities in Indonesia, while local levies and Regional Owned Enterprises still make a smaller contribution. This confirms the importance of optimizing the management of local taxes and levies to increase local revenue, which in turn can strengthen regional fiscal independence [14].

Livert et al. found that lowering business taxes in certain municipalities in Santiago de Chile from 2008 to 2020 led to a 35% increase in local revenue compared to those that did not make this change, as well as a reduction in income inequality among metropolitan municipalities, with an average decrease of 0.02 points on the Gini Index per year. This indicates that greater fiscal autonomy can enhance local revenue and reduce disparities [15]. Similarly, Onyinyechi and Olasupo discovered that Nigeria's federal government's exclusive tax revenues positively influence capital investment, while statutory allocations have a minor negative impact on capital project spending, suggesting that without expanding revenue-generating capacity, statutory income will be inadequate for essential projects, prompting a recommendation to explore additional revenue sources, such as foreign direct investment [16]. Additionally, Díaz and Alonso found that fiscal decentralization affects public sector efficiency in various ways; while decentralizing tax revenues generally decreases efficiency, decentralizing spending and increasing regional authority enhances it. However, during severe natural disasters, the positive effects of spending decentralization diminish, and the negative effects of tax revenue decentralization increase, highlighting the complex relationship between fiscal decentralization and public sector efficiency, especially during extreme events[17].

Local taxes, as explained by Novalistia, have a positive influence on the level of regional independence. An increase in local taxes can strengthen the ability of local finances to meet development needs without relying on transfers from the central government. Local revenue is an important indicator to measure the fiscal independence of a region[4]. Usmany shows that the low contribution of Local Own Revenue in Southwest Maluku Regency indicates that the region has not been able to meet its financing needs independently. This reflects the region's dependence on transfer funds from the central government[18]. Research by Antari & Sedana, and Sari & Mustanda shows that increasing local revenue contributes to the financial performance of local governments. The higher the local revenue, the more independent the region is in funding, because local revenue reflects local financial resources. In addition, positive capital expenditure on financial performance indicates that investment in productive assets will support an increase in local revenue and fiscal independence [19, 20].

An increase in local taxes will directly increase local own-source revenue. The higher the own-source revenue, the greater the ability of the region to finance its own programs and projects. Increased own-source revenues give regions greater ability to allocate funds according to local needs and priorities, increasing responsiveness and flexibility in budget management. High own-source revenues indicate that the region has a strong economic base, which can increase investor confidence and encourage local investment.

2.5. Framework of Mind

The framework in this paper is as follows.

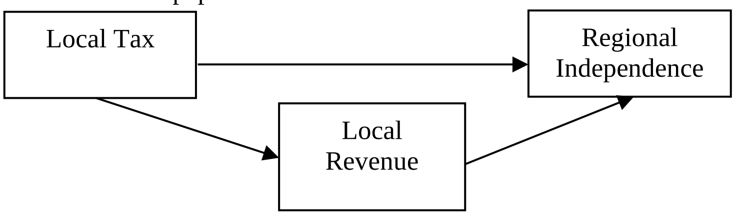


Figure 3. Thinking Framework
Source: Processed data, 2024

2.6. Hypothesis Development

Based on the framework, the authors make the following hypothesis:

1. Local taxes have a significant effect on local revenue.
2. Local taxes affect fiscal independence.
3. Local revenue has an effect on fiscal independence.

4. Local taxes either directly and/or indirectly affect fiscal independence through local revenue.

3 Methodology

3.1. Type of Research

This research is quantitative research with a regression analysis approach and path analysis and considers interactions (moderators) with the aim of testing the effect between the independent variable and the dependent variable either partially and / or simultaneously, and to test the moderating effect and to test the indirect effect.

3.2. Population and Sample

This study uses population data since the Kupang City Government was formed, namely 1996-2023. The sampling technique is purposive sampling, where the author sets the sample to the last 10 years on the grounds that data from the last 10 years is considered more relevant because it tends to reflect the latest conditions and trends.

3.3. Data Collection Technique

Data collection in this paper uses documentation, namely the Kupang City Government Budget Realization Report 2014-2023 document. The 2014-2022 Budget Realization Reports are documents that have been audited by the Supreme Audit Agency of the Republic of Indonesia, while the 2023 Budget Realization Reports are unaudited because they are still being examined at the time of this paper.

3.4. Operational Definition of Variables and Measurement Scale

The operational definitions of variables and indicators in this paper describe how each variable will be measured and analyzed in the context of the study. The following are the operational definitions of variables and their indicators and measurement scales based on the text provided:

Table 2. Variables, Operational Definitions, Indicators and Measurement Scale

Variables	Operational Definitions	Indicators	Scale of Measurement
Local tax	A tax imposed by a local government on individuals or entities for economic activity, ownership, or use of assets within the local area.	Income from local taxes.	Ratio
Local Revenue	Revenue obtained by the region from local sources, including local taxes, local levies, the results of the management of separated regional assets, and other original revenues.	Total Regional Original Revenue	Ratio
Regional Independence	The ability of local governments to finance expenditures and perform government functions	Comparison between Local Revenue and	Ratio

Variables	Operational Definitions	Indicators	Scale of Measurement
	without significant assistance from the central government.	Total Local Revenue, expressed as a percentage (%)	

3.5. Data Analysis Method

The analytical method used in this paper is designed to examine the effect of local taxes on local revenue, and its impact on fiscal independence. This analysis method includes several stages and approaches, as described below:

Regression Analysis

Regression analysis is used to measure the effect of local taxes on local revenue. In this model, local tax is the independent variable, while local own-source revenue is the dependent variable. The multiple regression equation will have the general form:

$$\text{Local Revenue} = \beta0+\beta1\times\text{Local Taxes}+\epsilon$$

The regression coefficient ($\beta1$) indicates the strength and direction of the influence of each independent variable on local revenue.

Hypothesis Test

Hypothesis testing will be conducted to test the significance of the influence of local taxes and user fees on local revenue, as well as their impact on Fiscal Independence. This test uses a certain level of significance (α=0.05).

Path Analysis

Path analysis is used to examine the relationship between local taxes and fiscal independence, through the mediator variable, namely local revenue. This approach allows researchers to understand the direct and indirect relationships between these variables.

The path analysis model will describe the relationship between the independent variable (local tax), the mediator variable (local revenue), and the dependent variable (Fiscal Independence). Path coefficients will be used to assess the strength and direction of the relationship between the variables in the path model.

4 Results

Local taxes result from the delegation of authority through decentralization, aimed at achieving regional fiscal independence, where local governments can fund their own expenditures and functions without heavy reliance on the central government. Over the past decade, Kupang's municipal government has seen fluctuations in local revenue, with own-source revenue growing by an average of 7.22%, local taxes increasing by 9.91%, and fiscal independence reaching 6.63%. These trends from 2015 to 2023 are illustrated in Figure 4.

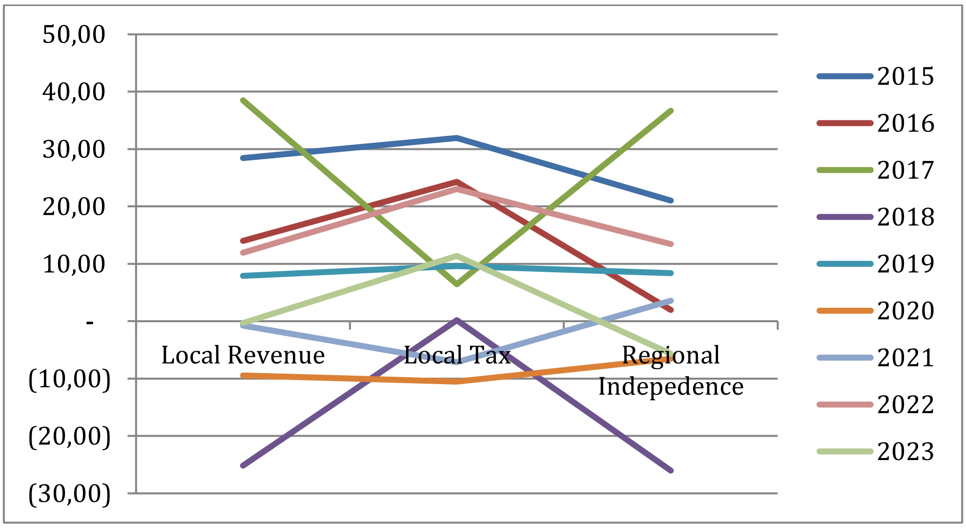


Figure 4. The Development of Local Revenue, Local Taxes, and Fiscal Independence of Kupang City 2015-2023
Source: Processed data, 2024

Based on Figure 4, Local Revenue shows significant yearly variation, with sharp declines in 2016 and 2018, followed by fluctuations through 2023 without a clear trend. Local Taxes similarly experienced steep declines in 2016 and 2017, then stabilized in 2018 and increased until 2022, before a slight drop in 2023. Fiscal Independence fluctuated greatly, with a sharp drop in 2016, an increase in 2017, another decline in 2018, and continued volatility through 2023.

This analysis highlights the inconsistent trends across all variables, suggesting that external factors such as economic conditions, government policies, or social influences may be impacting these fluctuations.

The results of the research use 4 (four) concepts, namely as follows:

1. Local taxes affect local revenue
   In this concept, the model applied is as follows.

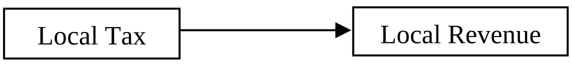


Figure 5. Model 1
Source: Processed data, 2024

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.755[a]	.570	.516	20881681138.54247

a. Predictors: (Constant), Local_Tax

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4619051968686257000000,000	1	4619051968686257000000,000	10,593	,012[b]
Residual	3488356857374081300000,000	8	436044607171760160000,000		
Total	8107408826060338000000,000	9			

a. Dependent Variable: Local Revenue
b. Predictors: (Constant), Local_Tax

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	57074067605,680	35763496883,908		1,596	,149
Local Tax	1,204	,370	,755	3,255	,012

a. Dependent Variable: Local Revenue

The regression analysis results show that the correlation coefficient (R) of 0.755 indicates a fairly strong relationship between local taxes and local revenue. The R Square value of 0.570 suggests that 57% of the variation in local revenue can be explained by local taxes, while the remaining 43% is due to other factors not included in the model. The Adjusted R Square of 0.516 confirms the model's robustness, even with just one predictor, and the standard error of 20.88 trillion indicates the average prediction error.

The ANOVA results reveal that the regression model is statistically significant, with an F-statistic of 10.593 and a significance value (Sig.) of 0.012, indicating that local taxes have a significant impact on local revenue.

In the regression coefficient section, the model constant of 57.07 trillion indicates the predicted value of local revenue when Local Tax is zero. Meanwhile, the coefficient of Local Tax of 1.204 means that every 1 unit increase in Local Tax will increase local revenue by 1.204 units. With a t-statistic value = 3.255 and a significance value (p-value) = 0.012, Local Tax is proven to significantly have a positive effect on local revenue. This model provides strong evidence that local tax is one of the important factors affecting local revenue.

2. Local taxes affect Fiscal Independence

This second concept is described by the following model.

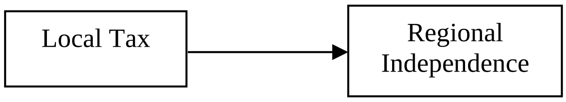


Figure 6. Model 2
Source: Processed data, 2024

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,682[a]	,465	,398	1,66325

a. Predictors: (Constant), Local_Tax

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
1Regression	19,251	1	19,251	6,959	,030[b]
Residual	22,131	8	2,766		
Total	41,382	9			

a. Dependent Variable: Regional_Independence
b. Predictors: (Constant), Local_Tax

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8,113	2,849		2,848	,022
	Local Tax	7,770E-11	,000	,682	2,638	,030

a. Dependent Variable: Regional_Independence

The correlation coefficient (R) value of 0.682 indicates a fairly strong relationship between Local Taxes and Fiscal Independence. The R Square of 0.465 indicates that about 46.5% of the variation in Fiscal Independence can be explained by the Local Tax variable, while the remaining 53.5% is explained by other factors not included in the model. The Adjusted R Square value of 0.398 also indicates that this regression model is still quite good at explaining the relationship although it is not very high.

The ANOVA results show that this model is statistically significant, with an F-statistic value = 6.959 and a significance value (Sig.) = 0.030. Since the Sig. value is smaller than 0.05, this indicates that Local Tax has a significant influence on Fiscal Independence.

In the coefficient section, the constant of 8.113 indicates that when the Local Tax is zero, the value of Fiscal Independence is predicted to be 8.113. The coefficient of Local Tax of 7.770E-11 indicates that each increase in Local Tax by one unit (on an appropriate scale) will increase Fiscal Independence by 7.770E-11 units. The t-statistic = 2.638 with p-value = 0.030 confirms that Local Tax is a significant predictor of Fiscal Independence at the 95% confidence level.

Overall, the model suggests that Local Taxes play an important role in improving Fiscal Independence, although there are other factors that have not been included in the model.

3. Local Revenue affects Fiscal Independence
   This third concept is described by the following model.

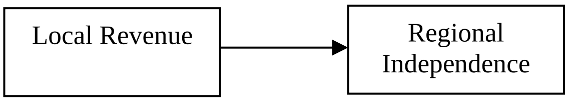


Figure 7. Model 3
Source: Processed data, 2024

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,964[a]	,930	,921	,60350

a. Predictors: (Constant), Local Revenue

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38,468	1	38,468	105,620	,000[b]
	Residual	2,914	8	,364		
	Total	41,382	9			

a. Dependent Variable: Regional_Indepence
b. Predictors: (Constant), Local Revenue

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3,687	1,165		3,164	,013
	PAD	6,888E-11	,000	,964	10,277	,000

a. Dependent Variable: Regional_Indepence

The Model Summary results show that the correlation coefficient (R) value of 0.964 indicates a very strong relationship between Regional Original Revenue and Fiscal Independence. The R Square value of 0.930 indicates that 93% of the variation in Fiscal Independence can be explained by the local revenue variable, while the remaining 7% is explained by other factors not included in this model. The Adjusted R Square value of 0.921 also indicates that this model is very strong and able to explain the relationship well.

The ANOVA results show that this regression model is statistically significant, with an F-statistic value = 105.620 and a significance value (Sig.) = 0.000, which is much smaller than 0.05. This indicates that local revenue has a highly significant influence on Fiscal Independence.

In the coefficient section, the constant of 3.687 means that when the value of local revenue is 0, Fiscal Independence is predicted to be 3.687. The coefficient for local revenue of 6.888E-11 indicates that each increase in local revenue by one unit will increase Fiscal Independence by 6.888E-11 units. The t-statistic value of 10.277 with a significance value (p-value) = 0.000 indicates that local revenue is a highly significant predictor in influencing Fiscal Independence at the 99% confidence level.

Overall, this regression model shows that local revenue has a very strong and significant influence on Fiscal Independence, where most of the variation in Fiscal Independence can be explained by local revenue.

4. Local taxes either directly and/or indirectly affect Fiscal Independence through Local Revenue.

This fourth concept can be explained with the following model.

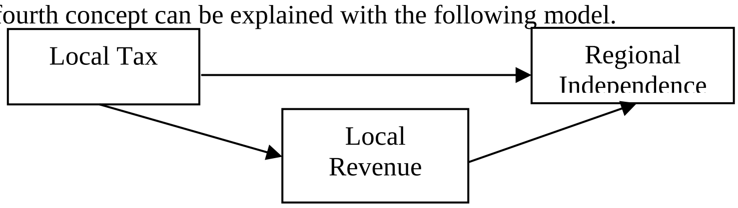


Figure 8. Model 4

Source: Processed data, 2024

This path analysis aims to understand the relationship between local taxes, local revenue, and fiscal independence. The regression results show that Local Taxes directly have a significant influence on Fiscal Independence, with a coefficient of 7.770E-11 and a p value of 0.000. In addition, Local Tax also affects local revenue with a coefficient of 1.204 ($p = 0.012$), meaning any increase in Local Tax will substantially increase local revenue. Furthermore, local revenue contributes to an increase in Fiscal Independence with a coefficient of 6.888E-11 ($p = 0.000$). The indirect effect of local tax on fiscal independence through local revenue is calculated at 8.293E-11. Thus, the total effect of local taxes on fiscal independence is 1.606E-10, suggesting that local taxes play an important role in improving fiscal independence both directly and indirectly through local revenue. This result confirms the importance of taxation policy in supporting local fiscal positions.

From the path analysis above, it can be concluded that both local taxes have a significant direct influence on Fiscal Independence. In addition, local taxes also have a significant indirect effect through Regional Original Revenue. Therefore, policies related to local taxes can affect local revenue, which will then affect the fiscal independence of a region.

5 Discussions

In this section, four models are discussed as in the analysis results, as follows:

1. Model 1

Local taxes have a significant positive effect on local revenue. This is consistent with the basic assumption of financial decentralization, whereby the Kupang City Government is authorized to collect taxes and use the revenue to finance local expenditures. An increase in local taxes can be interpreted as a sign that Kupang city government has the ability to raise its own revenue through fiscal initiatives.

This analysis provides insights into how Kupang City Government raises and uses its revenues in the context of decentralization. Local taxes proved to be a significant factor in increasing local revenue, demonstrating the importance of Kupang City Government in managing their own taxes to finance local needs.

2. Model 2

In the context of decentralization, fiscal independence refers to the ability of local governments to generate their own revenue and manage their finances without being overly dependent on transfers from the central government. Local taxes are considered the main source of local government revenue in this context. Overall, these results suggest that local taxes are an important component in the strategy of increasing local revenue, and local governments can focus on optimizing tax revenue to increase local fiscal independence.

3. Model 3

The analysis results show that local own-source revenue has a highly significant influence on Fiscal Independence, with an R Square value of 0.930, indicating that about 93% of the variation in Fiscal Independence can be explained by the variability in local own-source revenue. The high Adjusted R Square value also indicates that own-source revenue is a strong predictor of the level of fiscal independence. This is consistent with decentralization theory, where local governments that have high own-source revenues tend to have higher levels of fiscal independence as they have strong internal revenue sources to finance their local expenditures.

This finding underscores the importance of local governments' success in collecting and managing their own revenues through own-source revenues. Effective decentralization allows local governments to have more control over their local resources, which in turn can increase the level of fiscal independence. This creates an opportunity for local governments to plan and implement policies that suit local needs and priorities, without relying too heavily on funds from the central government.

While these results show a strong relationship between own-source revenues and fiscal independence, successful implementation of decentralization still requires effective management of local resources. The Kupang city government needs to ensure that its own-source revenues are collected efficiently and used to support local economic and social development. Challenges such as weak tax administration, low institutional capacity, or a lack of transparency and accountability in local financial management may hinder local governments' ability to achieve optimal levels of fiscal independence.

Overall, these findings support the argument for effective and sustainable decentralization, where local governments have sufficient autonomy to manage their own resources, including own-source revenues, to enhance fiscal independence and local development.

4. Model 4

Local Taxes directly have a significant influence on Fiscal Independence, as well as through the indirect route, Local Taxes contribute to an increase in Local Revenue which then increases Fiscal Independence. This may be due to changes in tax structure or policy that can affect the level of tax revenue and its impact on own-source revenue. Decentralization theory would emphasize the importance of local governments to adjust their tax policies to support the achievement of optimal fiscal independence without hindering local economic growth.

Path analysis also highlights the key role of own-source revenue in determining the level of fiscal independence. Local own-source revenue is not only an important financial indicator for local governments, but also the foundation for their fiscal independence. Decentralization theory emphasizes the importance of local governments to optimize the management of own-source revenues as a step towards greater fiscal independence.

Overall, these results demonstrate the complexity and interconnection between various factors in determining local government fiscal independence. This confirms the importance of a holistic approach in designing sustainable and effective decentralization policies.

6 Conclusion

Based on the results of the analysis and discussion that has been carried out on the four concept models proposed, several things can be concluded, namely as follows.

Model 1 shows that local taxes have a significant positive effect on local revenue. This variable is the main source of revenue for local governments in the context of financial decentralization. The importance of efficient management of local resources, such as taxes in financing local needs and supporting economic and social development at the local level.

Model 2 shows that both local taxes have a significant influence on fiscal independence. This underscores the challenge in the implementation of effective decentralization, where key revenue sources such as taxes contribute significantly to fiscal independence.

Model 3 shows that local revenue has a highly significant influence on fiscal independence. The Kupang government's success in collecting and managing their own revenue is key to increasing the level of fiscal independence.

The results of the analysis show that local taxes have a significant influence on local revenue, as well as contributing significantly to the fiscal independence of local governments. Nonetheless, efficient management of local resources, especially own-source revenues, is key in improving the level of fiscal independence. The complexity of financial decentralization dynamics also highlights the importance of prudent management of local resources in supporting local development and improving local government fiscal independence. Therefore, these findings underscore the importance of a holistic approach in designing sustainable and effective decentralization policies.

Efficient management of local taxes can increase local revenue, which in turn will strengthen the fiscal independence of local governments. It is important to note that while local taxes have proven to be significant in increasing local revenue. Therefore, Kupang City government should consider effective strategies in managing their local revenue sources.

The fiscal independence of local governments is highly dependent on their ability to manage their own revenue well. A holistic and efficient approach to local financial management is key in strengthening fiscal independence and supporting sustainable local development.

Thus, the results of the analysis and discussion show that local taxes affect local revenue, which in turn impacts the level of fiscal independence of local governments.

The implications of the findings from the analysis conducted indicate several relevant points and provide direction for future research in this area.

First, the finding that local taxes have a significant positive effect on local revenue confirms the importance of efficient tax collection strategies for local governments. The implication is that success in managing local taxes can be a consistent and reliable source of revenue to support local activities and development. Therefore, future research could further explore the factors that influence efficiency in local tax collection as well as effective strategies to increase tax revenue.

Second, the finding that local revenue has a highly significant influence on local government fiscal independence highlights the importance of strengthening local revenue resources in supporting local financial autonomy. The implication is that efforts to increase local own-source revenue can be a strategic step in improving local government fiscal independence. Therefore, future research can focus on strategies to diversify local revenue as well as evaluating the success of the implementation of related policies.

Third, the limitations of this paper, such as the use of secondary data and possibly limited time coverage, point to the need for a more holistic and in-depth research approach in understanding the dynamics of regional finance. The implication is that future research could involve more complex methodological approaches, such as in-depth case studies or field surveys, to gain a deeper understanding of the factors that influence local finance.

Fourth, suggestions for future research could include further investigation of the relationship between local taxes and levies and fiscal independence, as well as the contextual factors that influence this dynamic. In addition, a comparative study between regions with different characteristics could provide additional insights into the effectiveness of decentralization policies in diverse contexts.

As such, the findings of this paper make a valuable contribution to the understanding of the relationship between local taxes, own-source revenues and the fiscal independence of the Kupang city government. The implications of these findings are not only relevant for practitioners and policy makers at the local level, but also provide direction for future research in deepening the understanding of the dynamics of local finance and fiscal decentralization.

References

[1] Amin, Fadillah. Penganggaran di Pemerintah Daerah dalam Persepektif Teoritis, Normatif dan Empiris. Malang: UB Press. 2019.

[2] Wulandari, P. A dan Iryanie E. Pajak Daerah Dalam Pendapatan Asli Daerah. Yogyakarta : Deepublish (Group Penerbitan CV Budi Utama).2018.

[3] Sudarmana, I Putu Agus dan Sudiartha, Gede Mertha. Pengaruh Retribusi Daerah dan Pajak Daerah Terhadap Pendapatan Asli Daerah di Dinas Pendapatan Daerah. E-Jurnal Manajemen, Vol. 9, No. 4, 2020:1338-1357, ISSN : 2302-8912.2020.

[4] Novalistia, Rizka Lutfita. Pengaruh Pajak Daerah, Retribusi Daerah, Lain-lain Pendapatan Asli Daerah yang sah dan Dana Bagi Hasil Pajak Terhadap Tingkat Kemandirian Keuangan Daerah pada Pemerintah Kabupaten/Kota di Provinsi Jawa Tengah (Studi Empiris Pada Kabupaten/Kota Provinsi Jawa Tengah Periode 2012-2014). Jurnal Of Accounting, Volume 2 No. 2 Maret 2016.2016.

[5] Cheema, G. Shabbir dan Rondinelli, Dennis A. Decentralizing Governance Emerging Concepts and Practices. Washington, D.C : ASH Institute For Democratic Governance and Innovation Harvard University. 2007.

[6] Abdullah, S. Desentralisasi: Konsep, Teori dan Perdebatannya. Jurnal Desentralisasi, 6(4), 57–72. https://doi.org/10.37378/jd.2005.4.57-72. 2005

[7] Widjayanto, Wahyu. Tinjauan Dampak Kebijakan Desentralisasi Fiskal bagi Kemampuan Keuangan dan Pertumbuhan Ekonomi Daerah. Jakarta: Pusat

Pendidikan dan Pelatihan Kekayaan Negara dan Perimbangan Keuangan Badan Pendidikan dan Pelatihan Keuangan. 2013.
[8] Sudiyarti, dkk. Pengaruh Tingkat Kemandirian Fiskal Terhadap Indeks Pembangunan Manusia (IPM) Kabupaten Sumbawa Tahun 2013-2017. Jurnal Ekonomi dan Bisnis Bol. 7 No. 1, April 20019, ISSN (P) : 2089-1210, E-ISSN : 2580-7285. 2019.
[9] Domai, Tjahjanulin. Manajemen Keuangan Public. Malang : UB Press.2010.
[10] Mahfudh, dkk. Analisis Peningkatan Pendapatan Asli Daerah. Gowa: Pusaka Almaida. 2022
[11] Putra, Windhu. Tata Kelola Ekonomi Keuangan Daerah. Depok: Rajawali Pers.2018.
[12] Wujarso, R., Saprudin, S., Sianipar, A. Z., Andhitiyara, R., & Napitupulu, A. M. P. Improving Local Government Performance Through Tax Optimization. Journal of Governance, 7(1). https://doi.org/10.31506/jog.v7i1.14535. 2022.
[13] Rizqy Ramadhan, P. Pengaruh Pajak Daerah Dan Retribusi Terhadap Pendapatan Asli Daerah Kabupaten/Kota Di Sumatera Utara. JURNAL AKUNTANSI DAN BISNIS : Jurnal Program Studi Akuntansi, 5(1), 81. https://doi.org/10.31289/jab.v5i1.2455. 2019.
[14] Nasir, M. S. Analisis Sumber-Sumber Pendapatan Asli Daerah Setelah Satu Dekadeotonomi Daerah. Jurnal Dinamika Ekonomi Pembangunan, 2(1), 30. https://doi.org/10.14710/jdep.2.1.30-45. 2019.
[15] Livert, F., Osorio, C., & Acuña, J. Does reducing municipal taxes work to increaserevenue and reduce inequality at the metropolitan level? Evidence from Santiago deChile. *Regional Science Policy and Practice*, *14*(6), 322–343.https://doi.org/10.1111/rsp3.12606. 2022.
[16] Onyinyechi, C., & Olasupo, P. Heliyon Federal government tax independence , statutory quota and capital investment. *Heliyon*, *9*(10), e20272. https://doi.org/10.1016/j.heliyon.2023.e20272. 2023.
[17] Díaz Olariaga, O., & Alonso-Malaver, C. Impact of airport policies on regional development. Evidence from the Colombian case. *Regional Science Policy and Practice*, *14*(6), 185–210. https://doi.org/10.1111/rsp3.12483. 2022.
[18] Usmany, P. Revealing Potential Regional Original Income of Southwest Maluku Regency. Journal of Governance, 7(3). https://doi.org/10.31506/jog.v7i3.16469. 2022.
[19] Antari, N. P. G. S., & Sedana, I. B. P. Pengaruh Pendapatan Asli Daerah Dan Belanja Modal Terhadap Kinerja Keuangan Pemerintah Daerah. E-Jurnal Manajemen Universitas Udayana, 7(2), 1080. https://doi.org/10.24843/ejmunud.2018.v7.i02.p19. 2018.
[20] Sari Sari, N. M. D. P., & Mustanda, I. K. Pengaruh Ukuran Pemerintah Daerah, Pendapatan Asli Daerah Dan Belanja Modal Terhadap Kinerja Keuangan Pemerintah Daerah. E-Jurnal Manajemen Universitas Udayana, 8(8), 4759. https://doi.org/10.24843/ejmunud.2019.v08.i08.p02. 2019.
[21] Bisma, K. & Susanto, H. (2010). Analisis Tingkat Kemandirian Keuangan Daerah di Indonesia. Jakarta: Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia.