

ANALYSIS OF FACTORS AFFECTING REGIONAL TAX REVENUES THROUGHOUT INDONESIA 2023

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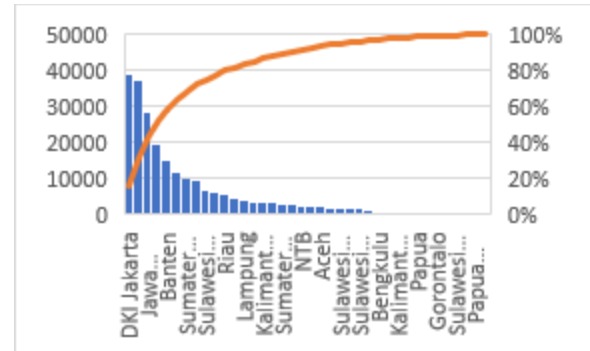
Abstract

This study aims to analyze the influence of Gross Regional Domestic Product (GDP), Foreign Investment (FDI), Regional Original Revenue (ROR), and Regional Expenditure on regional tax revenues in all provinces in Indonesia in 2023. The still glaring inequality in tax revenue between provinces is the main background of this study, which encourages the need for a comprehensive understanding of fiscal determinants at the regional level. This study uses a quantitative approach with multiple linear regression methods and secondary data from 38 provinces. The results of the study show that simultaneously the four variables have a significant effect on regional tax revenue. However, partially, only ROR has a positive and significant effect, while regional spending has a negative and significant effect. In contrast, GDP and FDI did not show a statistically significant influence. The research model has high predictive power with an Adjusted R² value of 98.4%, which indicates that almost all variations in regional tax revenues can be explained by the variables in the model. These findings emphasize the importance of optimizing ROR and improving regional spending efficiency as the main strategy in strengthening regional fiscal capacity. The implications of this study highlight the need for a more adaptive fiscal policy reformulation to the economic characteristics of each region. The novelty of this study lies in a comprehensive and comprehensive approach to the four main variables nationally using the latest data for 2023, which has not been widely studied in previous studies, and emphasizing the interaction between internal factors (ROR and expenditure) and external factors (GDP and FDI) in explaining fiscal inequality between regions.

INTRODUCTION

National development is a very important aspect and covers various fields to improve the quality of life of the community, both economically, socially, and politically. To achieve this goal, a mature development strategy, good infrastructure improvement, quality education, and also reforms in the economic sector are needed. In this regard, cooperation between the government and the community is crucial to achieve sustainable and inclusive development (Amponsah-bediako, 2014). The success of development depends heavily on how well the country can adapt and innovate, as well as strengthen synergies between the government, the business sector, and society (Sakir *et al.*, 2024) in (Amaliah *et al.*, 2023). One of the important pillars of development is the availability of adequate public funds, especially those sourced from taxes. A fair and efficient tax system is needed to ensure an equitable distribution of economic benefits and support the active involvement of communities in development (Anicic *et al.*, 2016).

Taxes are one of the sources of financing used by the central government to carry out various government activities and meet the needs of the community. With the existence of the regional autonomy law regulated in Law Number 23 of 2014 concerning Regional Government, local governments now have the freedom to manage their own government affairs (Tan, 2020). Similar to the central government, local governments also need funds to carry out their duties and meet other public interests (Zulfi & Wijaya, 2024). Regional tax revenues are one of the key indicators to assess a region's fiscal capacity to fund development and provide public services. With the decentralization of the government system in Indonesia after the reforms, local governments now have more authority to manage their own resources and budgets. However, in reality, the contribution of regional tax revenues in various provinces in Indonesia still shows quite striking inequality (Suwanan & Sulistiani, 2009).



Source: Ministry of Finance of the Republic of Indonesia

Figure 1. Regional Tax Revenue in 2023

Based on regional tax revenue data in 2023 released by the Indonesian Ministry of Finance in 38 provinces, there is a considerable inequality in the distribution of tax revenues between regions. The province with the highest revenue was DKI Jakarta at IDR 39,045.49 billion, followed by West Java (IDR 37,173.93 billion), East Java (IDR 28,360.77 billion), and Central Java (IDR 19,915.18 billion). Meanwhile, the provinces with the lowest regional tax revenues were recorded in Mountainous Papua (IDR 118.37 billion), Southwest Papua (IDR 170.73 billion), and South Papua (IDR 207.8 billion). This disparity shows that there is a significant gap in tax collection capabilities between more developed and urbanized areas and areas that are still economically disadvantaged. It emphasizes the importance of strengthening local economic potential and leveling out development, so that the fiscal contribution of all regions can be more balanced (Simanjuntak & Mukhlis, 2014).

The West Indonesia region, especially Sumatra, tends to be in the middle to upper position. Provinces such as North Sumatra, with regional tax revenues reaching IDR 10,187.77 billion, and South Sumatra which reached IDR 6,197.26 billion, showed quite good performance (Siregar, 2017). The development of the industrial, trade, and port infrastructure sectors is the main driver. For example, the port of Belawan in North Sumatra is one of the largest ports in Indonesia that strongly supports export-import and trade activities in the region (Haris, 2019). Meanwhile, the Central Indonesia region, which includes

Java, Bali, and Kalimantan, shows dominance in regional tax revenues. This condition can be explained by the high concentration of economic activities, a dense population, and the large amount of investment, both from within the country and abroad (Mudayen & Maridjo, 2018). For example, Java as a national industrial and trade center has a significant concentration of large companies and foreign investment, while Bali, which relies on the tourism sector with high hotel tax growth, shows a strong contribution of the consumptive sector to regional tax revenues (Ananda *et al.*, 2024). On the other hand, the Eastern Indonesia region, which includes Nusa Tenggara, Sulawesi, Maluku, and Papua, generally shows low regional tax revenues. This is due to a weak local economic base, limited fiscal infrastructure, and low investment levels (Ashfahany *et al.*, 2020).

This comparison shows a fairly striking fiscal gap. In terms of percentage, the average tax revenue in the Central Indonesia region is 208% higher than the Western region, and even 1,197% higher than the Eastern region. Interestingly, the Western region still recorded an average acceptance that was 322% higher than the Eastern region. This creates prolonged fiscal dependence in low-income areas, especially in Eastern Indonesia (Akita *et al.*, 2019). If this inequality is allowed to continue, it could widen the development gap between regions and hinder the equitable distribution of welfare throughout the country (Szczepaniak, 2020). Therefore, the central government is expected not only to focus on increasing tax revenue nationally, but also to ensure a fairer and more proportionate fiscal redistribution mechanism (Coady *et al.*, 2019). Regions that make a significant contribution to national tax revenue should receive incentives, both in the form of budget allocation and strengthening of fiscal institutional capacity, so that their contribution remains sustainable (Fadli, 2016).

Regional tax revenues are influenced by various factors, both from within and outside (Jatmiko *et al.*, 2020).

Many previous studies have highlighted how economic and fiscal factors play a role in determining how much a regional tax revenue (Evrida & Muhammad, 2024) and (Zulfi & Wijaya, 2024). The text shows that GDP and population have a significant positive influence on tax revenues, emphasizing the importance of economic activity in strengthening fiscal capacity. Suganda & Aminda (2022) added that inflation and per capita income also contribute significantly, although studies that specifically examine the role of regional spending and ROR are still limited. Meanwhile, Septian & Anis (2024) found that inflation and unemployment significantly affect tax revenues at the Southeast Asian regional level. However, there have not been many studies that have simultaneously examined the relationship between GDP, foreign investment (FDI), ROR, and regional expenditure on tax revenues in the context of inter-provincial in Indonesia.

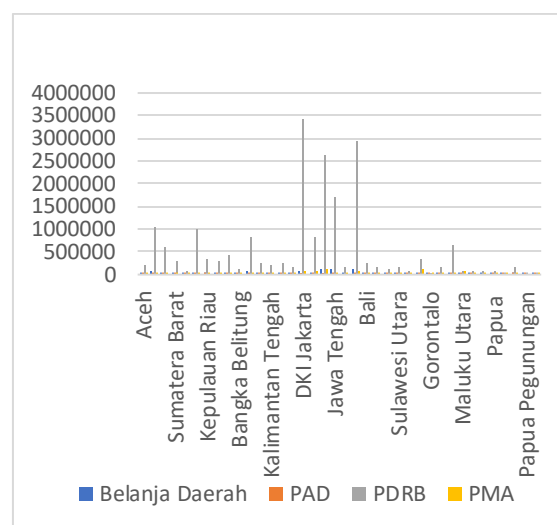
Gross Regional Domestic Product (GDP) is a measure of the total value of goods and services produced by a region (Sabilla & Sumarsono, 2022). So, the higher the GDP, the more active the economy in the area, which means there is a greater potential to become a tax object (Maisaroh & Risyanto, 2018). That is why GDP is an important indicator in assessing the ability of regions to collect taxes (Yuliza Azzahra Syahadat & Dirga Ramadhan, 2022). Typically, high economic activity is closely related to a broader tax base and larger tax revenues (Madreimov, 2021). Foreign investment (FDI) plays a very important role as it usually brings in capital, technology, and the development of new businesses. These can all increase productivity and expand the regional economy (Žugić & Jakšić-Stojanović, 2013). In addition, FDI can also strengthen the regional tax base by increasing business activities that generate taxable revenues and transactions. Thus, the existence of FDI greatly supports sustainable economic growth and increases the potential for regional tax revenues (The *et al.*, 2024).

Regional Original Revenue (ROR) is the main source for financing the region, which comes from taxes, levies, and other sources managed by the local government. When the ROR is strong, it shows that the regions have an independent and sustainable fiscal ability to fund development activities without relying too heavily on transfers from the central government. Thus, ROR is not only an indicator of success in regional financial management, but also plays a direct role in increasing regional tax revenues as part of local fiscal resources (Widyasari *et al.*, 2022). Regional spending is very important because it can reflect how able the local government is to play an important role in providing public services and infrastructure needed by the community that supports economic activities (Rojas *et al.*, 2020). When regional spending is done effectively and productively, it can encourage local economic growth, increase people's purchasing power, and expand the tax base (Yusfany, 2015). In addition, if regional spending is focused on developing strategic sectors, this can create a better investment climate, which will ultimately increase regional tax revenues (Fauzan, 2025).

Although fiscal decentralization has given local governments more power to manage their resources and revenues, the reality is that there are still glaring inequities in regional tax revenues between provinces in Indonesia. This inequality raises questions about what factors significantly affect a region's ability to collect taxes. Therefore, this study aims to answer the question of how much influence Gross Regional Domestic Product (GDP), Foreign Investment (FDI), Regional Original Revenue (ROR), and Regional Expenditure on regional tax revenues at the provincial level. In addition, it is important to explore how the interaction between these variables can explain differences in fiscal capacity between regions, especially in the context of ongoing regional inequality. The novelty of this study lies in the simultaneous approach to the four main economic and fiscal variables using the latest data from 2023, so as to provide a deeper

understanding of the dynamics of regional tax revenues after decentralization, as well as make relevant empirical contributions in formulating fiscal policies that are fairer and more responsive to inequality between regions.

The table below displays data on GDP, Foreign Investment (FDI), Regional Original Revenue (ROR), and Regional Expenditure for all provinces in Indonesia in 2023. This information will be very useful to understand how these various variables can affect regional tax revenues across Indonesian provinces.



Source: Ministry of Finance and Central Statistics Agency

Figure 2. Regional Expenditure, ROR, GDP, FDI

LITERATURE REVIEW

Taxes are the main fiscal instrument used by the state to finance public expenditure and regulate economic activities for the sake of achieving the welfare of the community (Besley & Persson, 2013). Tax theory, such as *ability to pay theory* and *benefit theory*, emphasizing that tax policies should be designed with distributive fairness and resource allocation efficiency in mind. In the context of the region, regional taxes are an important source of revenue that reflects the fiscal capacity of a region (Wujarso *et al.*, 2022).

The theory of taxation proposed by Harvey S. Rosen provides a very important

basis for designing a fair and efficient tax system. One of the key concepts he discussed was the principle of affordability, which states that taxes should be levied based on the economic ability of taxpayers, not just on the basis of the benefits they receive from public services (Rosen & Gayer, 2009). In the context of regional taxation, this principle becomes a normative reference for assessing fiscal fairness, especially in the relationship between GDP potential, regional fiscal capacity, and local tax structure (Simanjuntak & Mukhlis, 2016). Regions with greater economic capacity should be able to make a higher fiscal contribution than less developed regions, in order to support fiscal equality between regions. This principle is in line with the goal of fiscal decentralization, which encourages regions to explore tax potential optimally and fairly (Bird & Bahl, 2008).

In addition, the principle of benefit described by Rosen emphasizes that taxes should be seen as a contribution to the public services enjoyed by society (Rosen & Gayer, 2009). At the local level, this is seen in different types of taxes such as hotel, restaurant, parking, and entertainment taxes, which are usually levied directly on service users. This principle supports transparency in financial management and increases the legitimacy of taxes in the eyes of the public. Research by Alm, J., & Martinez-Vazquez (Alm, J., & Martinez-Vazquez, 2003) shows that how the community views the benefits of local taxes has a great influence on local tax compliance and revenue. Therefore, it is important for local governments to maintain accountability in the use of tax funds, in order to create a mutually beneficial relationship between citizens and the government (Gomes & Sargiacomo, 2013).

Rosen also emphasized how important efficiency and fairness are in designing the tax system. This includes the need to avoid overloading that can arise due to economic distortions. Poorly designed taxes can hinder local economic activities, encourage informal economic growth, or even reduce the competitiveness of a region (Rosen &

Gayer, 2009). Theoretically, there is a positive relationship between Gross Regional Domestic Product (GDP) and regional tax revenues because GDP describes the economic potential of a region (Mongdong *et al.*, 2018). The higher the GDP, the potential for regional tax revenue also increases. However, this relationship is not always partially significant if it is not accompanied by fiscal efficiency and increased tax compliance (Doloksaribu, 2020). For example (Fahmi *et al.*, 2015) states that a large population does not automatically increase regional tax revenues without adequate fiscal and administrative support.

In terms of investment, Foreign Investment (FDI) plays a role as a driver of economic growth through job creation and business expansion, which ultimately expands the tax base (Shaikh, 2011). According to Lingfeng & Wanting (2025) Within the framework of endogenous growth theory, FDI can increase regional productivity, encourage innovation and shape human capital. However, tax optimization from the investment sector requires credible and stable fiscal regulations so that investors do not run away from their tax obligations (Fedelino & Hemming, 2016).

Regional Original Revenue (ROR) represents the extent to which the region is able to manage its economic resources. In revenue theory, ROR is influenced by regional economic bases such as GDP, population, and fiscal capacity (Pramitha, 2023). The larger the ROR, the higher the ability of the regions to increase regional tax revenue. However, the results of the study show variations. Paramitha (2023) found that in East Java Province, GDP and regional taxes have a positive effect on ROR, while the population has a negative and insignificant effect. This indicates that the quality of local governance and economic structure is more decisive than just the number of population. In Sari's research *et al* (2024) also found that ROR and GDP contributed significantly to the increase in regional spending. However, the population has a negative impact if it is not balanced with economic growth and

fiscal capacity building, so a strategy to strengthen ROR and effective economic management is needed to make regional spending more efficient and effective.

Regional spending is an important aspect of revenue theory and its influence on regional tax revenues is two-way. On the one hand, productive public spending such as education and health can improve the quality of human resources and expand the tax base (Clements *et al.*, 2004). On the other hand, inefficient or consumptive spending can actually hinder potential income. Clements *et al* (2004) emphasizes that *fiscal adjustment* effective through reducing unproductive spending and focusing on public investment can improve regional fiscal performance.

Empirical studies in Indonesia support this view. Research Fitri (2022) in Aceh Province found that the number of people has a significant effect on tax revenue, while inflation is insignificant, indicating that macroeconomic variables are only effective when supported by good fiscal governance. Meanwhile, research Buntugajang (Buntugajang, 2013) identifying the number of electricity customers as a proxy for economic activities that have a significant effect on the Street Lighting Tax, showing that real economic indicators can also be used to analyze regional tax capacity.

From an international perspective, Vasylenko (1997) concludes that taxes do have a small but significant influence on economic growth between regions. A well-designed tax will create incentives for investment and consumption. This is supported by research Fatima *et al* (2024) who found that direct taxes have a positive impact on growth, while indirect taxes tend to be regressive and suppress the poor. According to Hullur (2022) suggest tax reform that focuses on investment and entrepreneurship incentives in order to expand the tax base in a sustainable manner.

Finally the study by Febriani & Rambe (2022) emphasizing the importance of understanding the dynamics between regional revenue and expenditure in

formulating effective fiscal policies. They identified the presence of a pattern *Fiscal synchronization* in most parts of Indonesia, where regional revenues and expenditures affect each other simultaneously. However, regions such as Papua and Maluku show a different pattern, given their high dependence on central transfer funds, thus requiring a more specific and contextual fiscal approach. Thus, the integration between economic growth, fiscal reform, strengthening tax institutions, and optimizing regional resources is a crucial factor in increasing regional revenue and encouraging sustainable economic development (Admiralty) *et al.*, 2021). In line with that, Solitude (2024) affirmed that effective tax revenues are an important foundation in supporting fiscal stability and long-term economic development at the local level.

Many previous studies have analyzed various factors that affect regional tax revenues, but not many have analyzed jointly and comprehensively the relationship between GDP, Foreign Investment (FDI), ROR, and Regional Expenditure, previous studies have focused more on one to two variables only. Therefore, this study fills the gap by simultaneously and comprehensively examining four main variables (GDP, FDI, ROR, and Regional Expenditure) on regional tax revenues at the national level in 2023, so as to provide a comprehensive understanding between provinces in Indonesia, Using the latest data (2023), answering the need for literature relevant to post-pandemic economic conditions and the latest fiscal policy dynamics, Emphasizing the importance of internal regional factors (ROR effectiveness and expenditure allocation) and external factors (FDI and economic activity) in explaining fiscal inequality between regions, which have not been studied simultaneously in previous studies.

RESEARCH METHODOLOGY

Approaches and Types of Research

This study uses a quantitative approach with a focus on associative research. The quantitative approach was

chosen because it provides a strong methodological foundation to objectively measure socio-economic phenomena through numerical data, as well as allowing researchers to test economic theories empirically using statistical analysis techniques. In the context of econometric research, the quantitative approach is a basic framework for linking economic theory and empirical reality, in which the collected data is systematically analyzed to estimate the relationships between variables, test hypotheses, and draw scientifically accountable conclusions. Gujarati (2003) It is stated that this approach is the backbone of econometric methodology which aims to provide empirical content to economic models that are built theoretically and mathematically.

The type of research used is associative research, which is a form of research that aims to find out the relationship between two or more variables and how changes in one variable can affect other variables. In this study, the independent variables analyzed include Gross Regional Domestic Product (GDP), Foreign Investment (FDI), Regional Original Income (ROR), and Regional Expenditure. Meanwhile, the dependent variable is Regional Tax Revenue. Associative research is considered very relevant in the context of fiscal policy analysis because it is able to identify causal relationships between various macroeconomic indicators and regional fiscal performance, especially in the optimization of tax revenues.

In his book, Gujarati (2003) explains that linear regression models, especially multiple linear regression, are the main tools in quantitative and associative research. This model is used to measure the extent to which one or more independent variables are able to explain variations in dependent variables. The use of this model allows researchers to obtain efficient and unbiased parameter estimation, as well as test the significance of relationships through statistical tests such as the t-test for each regression coefficient, the F-test for the overall significance of the model, and the

determination coefficient (R^2) to measure the combined contribution of all independent variables to the dependent variables.

In addition, the quantitative approach applied in this study also offers advantages in terms of methodological clarity. This is due to the use of secondary data sourced from official institutions such as the Central Statistics Agency (BPS) and the Ministry of Finance of the Republic of Indonesia, which ensures the validity and reliability of the data used. Gujarati also emphasized that in econometric research, an in-depth understanding of the structure and characteristics of data is very important, given that most economic data is observational and not the result of controlled experiments. Therefore, precision in data selection, processing, and estimation techniques used is the key to the success of quantitative analysis.

Sample Population

In this study, the population studied includes all provincial governments in Indonesia, which totals 38 provinces. Given the scale of the research that covers all provinces, the technique used is census, which uses all elements in the population as a research sample. The use of this census method is considered appropriate because the number of provinces in Indonesia is still on a scale that allows for a thorough analysis, as well as providing a high level of precision and generalization of results (July, 2023).

Data Types and Sources

The type of data used in this study is secondary data, which means that the data is collected and compiled by other parties, not by the researcher himself. The secondary data is quantitative and sourced from official government documents and national statistical institutions, such as the Central Statistics Agency (BPS), and the Ministry of Finance of the Republic of Indonesia. Secondary data was chosen because the data was complete, relevant to the focus of the study, and had a high level of reliability. The data includes economic indicators in 2023 that are the object of

analysis in this study (Sigh) *et al.*, 2023).

Data Collection Techniques

This data collection is carried out by means of documentation, namely by accessing and copying data from the official sources mentioned earlier. The steps taken include: identifying data sources, verifying data validity, extracting relevant information, and organizing data in an appropriate format for statistical analysis purposes. Data collection is carried out systematically so that there are no errors in input or interpretation, considering the importance of data accuracy in quantitative research.

According to Gujarati (2003), in the econometric research process, one of the important stages is the acquisition of accurate and relevant data. The data used in econometrics are generally observational, not the results of controlled experiments, so researchers must have a deep understanding of the context and characteristics of the data in order to avoid model specification errors and ensure that the results obtained are valid and can be interpreted appropriately.

The data collection steps in this study include identifying data sources that are in accordance with the needs of the model, verifying the completeness and validity of the data, extracting relevant information for analysis, and organizing the data into a format that supports the statistical process. This process is carried out systematically and structured to ensure that the data used truly reflects the actual empirical conditions, and can be processed and analyzed accurately to produce valid and quantifiable estimates in the testing of the built econometric model.

Data Analysis Techniques

The data analysis technique used in this study is multiple linear regression analysis, which is the main method in the classical econometric approach as described by (Gujarati, 2003). This method is used to analyze the quantitative relationship between one dependent variable and two or more independent variables, either simultaneously or partially. Gujarati states that multiple

linear regression is useful for evaluating the collective and individual influence of independent variables on dependent variables in order to test the validity of economic theories or formulate policies based on empirical data.

Multiple linear regression was chosen in this study because it is in accordance with the purpose of examining the influence of several macroeconomic indicators, namely Gross Regional Domestic Product (GDP), Foreign Investment (FDI), Regional Original Revenue (ROR), and Regional Expenditure on Regional Tax Revenue. Using this model, researchers can obtain efficient and unbiased parameter estimates, and can measure how much each variable contributes in explaining variations in target variables. Gujarati (2003) explains that this technique produces a BLUE (Best Linear Unbiased Estimator) estimator when the basic assumptions of the classical regression model are met, such as linearity, homocedasticity, the absence of perfect multicollinearity, and the normality of error.

1. Model Regresi Linier Berganda

The regression equations used in this study are as follows:

$$PPD_i = \beta_0 + \beta_1 \cdot GDP_i + \beta_2 \cdot FDI_i + \beta_3 \cdot ROR_i + \beta_4 \cdot RE_i + e_i$$

With a caption:

- PPD: Regional Tax Revenue
- GDP: Gross Regional Domestic Product
- FDI: Foreign Investment
- ROR: Regional Original Revenue
- RE: Regional Expenditure
- β_0 : Constant
- β_1 – β_4 : The regression coefficient of each variable
- ε : Error or residual

2. Uji Hypothesis

To test the significance and strength of the model, several tests were used as follows:

- The F-test: is used to test the overall significance of the model,

i.e. whether all independent variables simultaneously affect the dependent variables. According to Gujarati (2003), the F test is the first step to assess whether the built model has significant predictive power. If the value of F is greater than the F of the table at a certain level of significance, then the model is considered statistically significant.

- The t-test: is used to test the influence of each independent variable partially on the dependent variable. This test is important to know if each variable has a significant influence after controlling for the other variables in the model. Gujarati (2003) emphasizes that the t-test can be used to test a null hypothesis ($H_0: \beta_i = 0$) against an alternative hypothesis ($H_1: \beta_i \neq 0$) for each regression coefficient.
- Coefficient of Determination (R^2): used to measure the proportion of variation in dependent variables that can be explained by variations in independent variables. Gujarati (2003) emphasizes that the R^2 value provides a measure of the goodness-of-fit model and is an important indicator in the performance evaluation of regression models. The higher the R^2 value, the greater the proportion of variation of dependent variables that the model can explain.

Data Presentation Techniques

The results of the analysis will be displayed in the form of tables, graphs, and diagrams to make them easier to interpret. The presentation of data is carried out systematically with a descriptive and quantitative approach, so that readers can understand the conditions of each province in the context of regional tax revenue. In addition, data visualization is used to strengthen the interpretation of the results of the analysis and provide a comprehensive picture of the relationships

between the variables studied. Gujarati (2003) stated that the presentation of regression results and econometric analysis in tabular and graphical manner is very important to facilitate understanding, clarify relationship patterns, and support the process of evaluation and interpretation of the model as a whole.

RESULTS AND DISCUSSION

Result

This study analyzes the impact of Gross Regional Domestic Product (GDP), foreign direct investment (FDI), regional original income (ROR), and regional expenditure on local tax revenues in all provinces in Indonesia for 2023. These variables reflect the economic capacity, investment, and fiscal management of the region. Preliminary results show differences between provinces, highlighting variations in economic potential and management. The aim of this study is to provide a better understanding of the most significant factors that affect local tax revenues to support more effective fiscal policies.

1. Analysis of the Regresi Linier Berganda

Multiple linear regression analysis is a statistical technique used to assess the impact of two or more independent variables on a single dependent variable. The aim is to examine the relationship and extent of the contribution of each independent variable in explaining the dependent variable. This model serves to make predictions and test hypotheses regarding the relationships between variables (Isbiyantoro *et al.*, 2014).

Table 1. Multiple Linear Regression analysis results

Variabel	Regression Coefficients	Hub Directions	Interpretasi
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X1: GDP	0,143613	Positive	With every 1% increase, regional tax revenues are predicted to increase, assuming other variables remain the same.
X2: FDI	-0.0240699	Negative	Every time there is an increase of 1%, it will decrease Tax Revenue, assuming other independent variables remain.
X3: ROR	1.109487	Positive	With every 1% increase, regional tax revenues are predicted to increase, assuming other variables

			s remain the same.
X4: Regional Expenditure	0.02187565	Negative	Every time there is an increase of 1%, it will decrease Tax Revenue, assuming other independent variables remain the same.

Source: Data processed by Stata 14

The results of multiple linear analysis obtained the following equations:

$$PPD_i = \beta_0 + \beta_1 \cdot GDP_i + \beta_2 \cdot FDI_i + \beta_3 \cdot ROR_i + \beta_4 \cdot RE_i + e_i$$

$$PPD_i = -0.7499105 + 0.1436113 \cdot GDP_i - 0.0240699 \cdot FDI_i + 1.109487 \cdot ROR_i - 0.02187565 \cdot RE_i$$

1. The constant value obtained of -0.7499105 means that if (X1) GDP, (X2) Foreign Investment, (X3) Regional Original Revenue, and (X4) Regional Expenditure are equal to zero or constant, then Regional Tax Revenue (Y) is -0.7499105%
2. The value of the regression coefficient of the X1 variable (GDP) has a positive value (+) of 0.1436113, so it can be interpreted as in the direction between X1 (GDP) and (Y) Regional tax revenue. For every 1% increase in GDP, regional tax revenues are predicted to increase by 0.1436113%,

assuming other variables remain the same.

3. The value of the variable coefficient X2 (Foreign Investment) has a negative value (-) of -0.0240699, meaning that if there is an increase in X2 (FDI) by 1%, it will decrease Tax Revenue (Y) by -0.0240699%, assuming that other independent variables remain.
4. The value of the regression coefficient of the X3 variable (ROR) has a positive value (+) of 1.109487, so it can be interpreted as in the same direction between X3 (ROR) and (Y) Regional tax revenue. For every 1% increase in ROR, regional tax revenues are predicted to increase by 1.109487%, assuming other variables remain the same.
5. The value of the Coefficient of the X4 variable (Regional Expenditure) has a negative value (-) of -0.02187565, meaning that if there is an increase in X4 (Regional Expenditure) by 1%, it will decrease Tax Revenue (Y) by -0.02187565%, assuming that other independent variables remain the same.

Uji Hypothesis

Hypothesis testing is a statistical measure used to ascertain whether certain assumptions (hypotheses) regarding population parameters are acceptable or rejected based on sample data. These tests typically use a level of significance (α) and involve a t-test or F-test to determine whether the influence of variables in the regression model is statistically significant (Handayani & Hernando, 2022).

1. Coefficient Determination Test

Table 2. Determination Coefficient Test Results

Type	R-squared (R ²)	Adj-Square
1	0,9857	0,9840

Source: Data processed by Stata 14

Based on the table, it is known that the Adj R-Square is 0.9840, so it is concluded that the contribution of (X1)

GDP, (X2) Foreign Investment, (X3) ROR, and (X4) Regional Expenditure to (Y) Regional Tax Collection is 98.40%, while the remaining 1.6% is influenced by other variables outside this study.

2. Simultaneous Test (F Test)

Table 3. Simultaneous Test Results (F Test)

Statistics	Value
Sig Value	0,0000
Information	Since the Significance value is 0.0000<0.05, then X1.X2. X3 and X4 have a significant effect on regional tax revenue (Y)

Source: Data processed by Stata 14

Based on the analysis of the data, it is known that the Prob (Significance) value of 0.0000 is less than 0.05, so it can be concluded that (X1) GDP, (X2) Foreign Investment Investment, (X3) ROR, and (X4) Regional Expenditure have a significant effect on Regional Tax Revenue (Y) simultaneously (together).

3. Partial Test (T Test)

Table 4. Partial Test Results

Variabel	t-count	Sig.	Ket
X1: GDP	1,50	0,143	Positive and insignificant effect on regional tax revenue
X2: FDI	-1,19	0,243	Negative and insignificant effect on regional tax revenues
X3:ROR	12,19	0,000	Positive and significant effect on regional tax revenues
X4:Regional Expenditure	-2,16	-,038	Negative and

			significant effect on regional tax revenue
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Source: Data processed by Stata 14

1. GDP

Based on the results of the analysis of the GDP data test with $\alpha = 5\% / 2$ (2-sided test), $df = 38-3 = 30$, obtained t table = 2.042272 while the calculated t value = 1.50. It can be concluded that the table t is larger than the calculated t , which is $2.042272 > 1.50$ with a significance value of $0.143 > 0.05$. So it can be concluded that there is no influence between GDP (X1) and Regional Tax Revenue (Y).

2. Foreign Investment (FDI)

Based on the results of the analysis of the data testing of Foreign Investment Investment with $\alpha = 5\% / 2$ (2-sided test), $df = 38-3 = 30$, t table = 2.042272 while t value calculated = -1.19. It can be concluded that the table t is larger than the calculated t , which is $2.042272 > 1.19$ with a significance value of $0.243 > 0.05$. So it can be concluded that there is no influence between Foreign Investment (X2) and Regional Tax Revenue (Y).

3. Regional Original Revenue (ROR)

Based on the results of the analysis of the ROR data test with $\alpha = 5\% / 2$ (2-sided test), $df = 38-3 = 30$, t table = 2.042272 while t value calculated = 12.19. It can be concluded that the table t is smaller than the calculated t , which is $2.042272 < 12.19$ with a significance value of $0.000 < 0.05$. So it can be concluded that there is an influence between ROR (X3) and Regional Tax Revenue (Y).

4. Regional Spending

Based on the results of the analysis of testing Regional Expenditure data with $\alpha = 5\% / 2$ (2-sided test), $df = 38-3 = 30$, t table = 2.042272 while t value calculated = -2.16. It can be concluded that the table t is smaller than the calculated t , which

is $2.042272 < 2.16$ with a significance value of $0.038 < 0.05$. So it can be concluded that there is an influence between Regional Expenditure (X4) and Regional Tax Revenue (Y).

Discussion

Based on the regression results, the model shows excellent statistical performance overall. With a total of 38 observations, the F-statistical value is 568.31 and the Prob > F is 0.0000 indicating that the model is statistically significant, which means that there is at least one independent variable that affects regional tax revenue. The R-squared value of 0.9857 indicates that 98.57% of the variation in local tax revenues can be explained by independent variables in the model, while the Adjusted R-squared value of 0.9840 reinforces that the addition of variables in the model still contributes well to the quality of the model.

From the results of the regression coefficient test, it is known that the Regional Original Revenue (ROR) variable has a positive and statistically significant influence on regional tax revenue, with a coefficient value of 1.1095 and a p-value of 0.000. This means that every increase in one unit of ROR will increase regional tax revenue by 1,1095 units. Regional Original Revenue (ROR) has a significant positive impact on regional tax revenue because the ROR includes key components of regional taxes such as hotel taxes, restaurant taxes, and land and building taxes (PBB-P2). A high ROR reflects the fiscal capacity and effectiveness of regional tax administration, and shows the performance of the Regional Revenue Agency (Bapenda) institution in managing and maximizing tax potential (Anwar & Octaviani, 2022).

This is in line with research Berutu & Erasashanti (2023) who said that Regional Original Revenue (ROR) is considered significant in the journal because ROR is the main indicator of the success of regional resource management and plays an important role in financing regional needs. The results of the study

show that ROR is positively and significantly influenced by Regional Taxes and Regional Levies, both of which are the main components of ROR. In addition, the management of segregated regional wealth has no significant effect on ROR, confirming that factors such as taxes and levies are more dominant in increasing ROR. Therefore, ROR is an important variable in the analysis of regional financial management and its success in increasing regional original income.

On the other hand, the Regional Expenditure variable showed a significant negative influence with a coefficient of -2.1876 and a p-value of 0.038, which indicates that the increase in regional expenditure tends to reduce regional tax revenue. Regional spending has a significant negative impact on regional tax revenues because most of the expenditure is not directed at productive activities. Routine expenditures, such as employee salaries, are less likely to increase the tax base, while the effectiveness of infrastructure spending remains low. In addition, budget inefficiencies and the potential crowding-out effect on the private sector also weaken the contribution of expenditure to tax revenues.

However, according to research from Rajest & Regin (2024) Regional spending is considered significant because it directly affects the financial performance of local governments, especially in meeting the basic needs of the community and improving public services. Research shows that increasing regional spending, especially in important areas such as infrastructure, education, and health, can improve the efficiency and effectiveness of regional financial management and improve overall financial outcomes. In addition, regional spending focused on appropriate and efficient spending can increase public confidence and the sustainability of regional development.

Meanwhile, the variables of GDP and FDI have a statistically insignificant influence on regional tax revenues, with p-values of 0.143 and 0.243, respectively. Nevertheless, the direction of the relationship between these two variables

can still be considered as material for further study. Overall, this model is very robust in explaining the variation in regional tax revenues, with a high R^2 value and excellent model significance. The Gross Regional Domestic Product (GDP) does not significantly impact local tax revenues, as not all sectors that contribute to it are taxed by local governments. Sectors such as agriculture, mining, and large industries are usually subject to central taxes. In addition, high GDP can come from informal or non-tax activities, such as unlicensed trading or unregistered micro-enterprises. This creates a mismatch between economic growth and local tax revenues, especially if tax compliance is low or tax administration is not optimal. However, in research conducted by Zulfi & Wijaya (Zulfi & Wijaya, 2024) GDP (Gross Regional Domestic Product) has a significant influence on regional tax revenues, it is stated that GDP has a significant positive effect on regional tax revenues, with a 1 percent increase in GDP will increase regional tax revenues by 0.6798 percent.

On the other hand, Foreign Direct Investment (FDI) also does not have a significant impact, as it often receives fiscal incentives from the central government, such as tax exemptions, and because taxes from FDI generally go to the state treasury rather than local governments. FDI typically operates in industrial zones or special economic zones that have their own regulations outside the jurisdiction of local tax laws. In addition, the impact of foreign investment on tax revenues is long-term, and therefore may not be immediately noticeable during the study period.

Mongdong (Mongdong et al., 2018) explained in his research, namely that the GDP variable is not significant to regional tax revenues in the journal because the results of the statistical test show that the calculated t value for the GDP variable is 0.115, which is smaller than the t table of 1.3830 at a significance level of 10% ($\alpha = 0.10$). This indicates that the influence of GDP on regional tax revenues is not statistically strong enough to be considered significant. In addition, although GDP

theoretically has a positive effect on tax revenue, other factors may be more dominant or other variables in the model have a greater influence, so GDP does not show a statistically significant influence in the context of this study.

Meanwhile, according to Musah (2024) In his study discussed that FDI is insignificant to direct and total tax revenues in the short and long term because most multinational companies tend to employ workers from their home countries rather than local economies, so their contribution to direct tax revenues is reduced. In addition, the influence of FDI on tax revenue can be influenced by other factors such as tax incentives and fiscal policies that can reduce the effectiveness of FDI in increasing tax revenues. Research also shows that FDI contributes more to indirect tax revenue in the long run, while its short-term influence is not significant.

Thus, the results of this study reinforce the previous findings, while making a new contribution, especially in showing that not all economic improvements (GDP) will automatically increase regional tax revenues, depending on the dominant economic sector, tax policy, and fiscal efficiency of the region. In addition, negative results from regional spending show that government spending has not been effectively directed to support tax revenues, which is an important input in future regional budget planning.

CONCLUSION

This study found that regional tax revenues in Indonesia in 2023 show significant inequality between regions. Provinces in Central Indonesia, especially Java and Bali, dominate regional tax revenues, while Eastern Indonesia is still far behind. This inequality is closely related to differences in the level of economic activity, infrastructure, and investment between provinces.

Simultaneously, the results of the analysis show that Gross Regional Domestic Product (GDP), Foreign Investment (FDI), Regional Original Revenue (ROR), and Regional Expenditure have a positive and

significant effect on regional tax revenue. High GDP reflects strong economic activity, thus expanding the tax base. FDI contributes through increased investment and the creation of new businesses that strengthen the tax revenue base. A strong ROR signifies regional fiscal independence, while effective regional spending encourages local economic growth and increases tax potential.

These findings affirm the importance of strengthening the local economy, increasing investment, optimizing ROR, and managing productive regional spending to increase regional tax revenues evenly. In addition, a fair fiscal redistribution policy is needed to reduce inequality between regions and support equitable development throughout Indonesia. Improving fiscal transfer mechanisms, such as the General Allocation Fund and Special Allocation Fund, as well as providing incentives for regions that have succeeded in significantly increasing tax revenue, can be a strategic step to encourage motivation and innovation of local governments in exploring local tax potential.

In addition, strengthening the regional economic base through the development of leading sectors, increasing investment, and developing infrastructure that supports economic activities is an important factor in expanding the tax base. Collaboration with the private sector and local business actors, as well as tax education and socialization programs to the community, can increase awareness and active participation in tax payments.

In order for future research to be more comprehensive, it is recommended to expand the scope of the variables analyzed, for example by including social, cultural, and financial literacy factors of the community. Qualitative analysis of the challenges and obstacles faced by local governments in tax optimization can also be a valuable input for the formulation of more effective and equitable fiscal policies in the future. With these steps, it is hoped that regional tax revenues can

increase evenly and support inclusive development throughout Indonesia.

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