The Influence of Tax Decentralisation Applying to the Flypaper Effect in Regencies Municipality in Indonesia

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Abstract
This study aims to prove the difference flypaper effect in regencies municipality before and after tax decentralization the impact of implementation of act number 28 of 2009 in Indonesia. The sample in this study is the regencies municipality that have implemented the act number 28 of 2009 in 2011 and 2012. The analysis tool used a simple regression. The results showed flypaper effect still occurs in regencies municipality before and after implementation of tax decentralization.

Keyword : Tax Decentralisation, Flypaper Effect

I. Introduction

Act No. 22 of 1999 on regional autonomy and Act No. 25 of 1999 on the financial balance between central and local, as amended by Act No. 32 of 2004 and Act No. 33 of 2004 resulted in local governments are given the authority to manage his own household. The policy is also directed to a decentralized system that provides both challenges and opportunities in the area so that local governments should be able to operate effectively, efficiently and economically. According Mardiasmo (2002), autonomy is a strategic move to strengthen its base of Indonesia local economy.

The seriousness of the central government in creating a regional autonomy program each year is increasing. This is reflected in the transfer of land and building tax which was originally a central government tax transferred into the local tax, which is to be issued act No. 28 of 2009 on Local Taxes and Levies. With the transfer tax rate is expected to be increasing local autonomy. Implementation of the Law on the districts / cities in Indonesia is set at the latest on January 1, 2014, however in some districts / cities respond quickly and have started adopting legislation began in 2011 and 2012.

Studies that focus specifically on application of act No. 28 of 2009 is still very rare because of the small number of regencies municipality that adopt the law and also most of the period of adoption of a new beginning in 2012. Therefore, the researchers will conduct research with the title Impact of Implementation of Act No. 28 of 2009 on flypaper effect in regencies municipality in Indonesia.

Based on the background of the problems mentioned above, this study was formulated as follows: Is there a difference Flypaper Effect before and after the application of the act No. 28, 2009 at the regencies municipality in Indonesia? This research aims to provide empirical evidence regarding: Flypaper Effect difference before and after the application of act No. 28 of 2009 on the regencies municipality in Indonesia.

II. LITERATUR REVIEW

2.1 Transfer Fund and General Allocation Fund

The delegation of some of the tasks of the central government to local governments must be accompanied by the provision of grants from the central government in the form of transfer. On the other side of the transfer is the result of the unequal distribution of economic and financial capacity of the region. According to Shah and Qureshi (1994) (in Sukriy & Halim, 2003) the financial capability and economic differences between these various regions caused by:

a. Some areas are rich in natural resources, so it will have better access in the reception base than other areas.
b. Some areas have relatively higher revenues due to comparative advantage in industry, services, transport, financial institutions and others.
c. Some areas of potential shortage of natural resources and comparative advantages in terms of industry and services.

Broadly speaking, the transfers from the central government can be divided into two types, namely transfer (Purwanta, 2004):

1. Conditional Grant

Transfer the condition is often referred to as specific purpose transfers or Categorical Transfer. This transfer can be grouped into two types: (a) Matching Grant and (b) nonmatching Grant.
2. Unconditional Grant

Unconditional transfers are generally intended to ensure equity in fiscal capacity between regions, so that each local government can implement its own domestic affairs at a decent rate.

The purpose of giving the DAU of the central government is to: Horizontal equity and sufficiency. The objective of horizontal equity is in the interest of the central government in order to carry out the distribution of income in a fair and equitable manner to avoid the wide gap between regions. Meanwhile, the area is of interest to the sufficiency, especially is to close the fiscal gap. Sufficiency is influenced by several factors: authority, load, and minimum service standards (SPM). DAU given to the designated area at least 25% of domestic revenues in the state budget. DAU for provincial and regencies municipality are set respectively at 10% and 90%, (Mardiasmo, 2004).

2.2 Regional Expenditure

Regional Expenditure are all in the area of cash expenditure budget year period certain to be borne by region (Kepmendagri No. 29 of 2002). Expenditure areas include all areas of expenditure is obligatory in a budget year that will be a cash outlay area. According to Regulation No. 13 of 2006 and Act No. 33 of 2004, the expenditure area is the obligation of local government that is recognized as a reduction of net worth.

Theoretical Framework

Previous studies relating to the transfer or grant has been done. Shah and Quereshi (1994) (in Sukriy & Halim, 2003) examined the relationship between general purpose transfers as the dependent variable and local revenues, the result of tax and non-tax and regional gross domestic product (GDP) as the independent variable, lead to the conclusion that income The original area and the tax and non-tax results showed a positive and significant influence on the general purposes of transfer, while GDP and significantly negatively related to the general purposes of transfer.

Gamkhar and Oates (1996) found that local governments can respond to the transfers from the central government with symmetrical and asymmetrical. At the time of making the policy response in the area of the larger expenditure areas on transfers from the central government then called flypaper effect (Gamkhar and Oates, 1996). In agency theory, Inman (1997) and Rubinfelt (1987) (in Abdullah et.al, 2003) states that the agents or politicians in local governments behave as if they maximize the utility of middle-income individuals in the community. When linked with public spending for a certain period, the agent will allocate its resources based on the expectations of the economic environment in the future.

In connection with a balanced budget, local governments are required to submit a budget to the legislature before the current fiscal year, but does not regulate how the expenditure should be prioritized or how the components specified expenditure (Holzt-Eakin et al, 1994) (in Sukriy & Halim, 2003). Aberge & Langorgen (1997) (in Sukriy & Halim, 2003) states that in Norway, local governments have the freedom to make a priority on spending for public service purposes though not absolute.

Hypothesis

Ha₁ : Effect of DAU to BDT greater than the effect of PAD to BDT
Ha₂ : There is a difference flypaper effect before and after the implementation of act No. 28, 2009 in the regencies municipality in Indonesia.

III. Research Metodology

Sample and Data Research

The sample in this study is the regencies municipality in Indonesia, which has adopted a law No. 28 of 2009 up to 2012, ie the year 2011 there were 1 city and in 2012 there were 12 districts / cities.

Research Variables

The core problem of this research is the flypaper effect, which is a condition in which the regencies municipality governments respond differently (more wasteful) in determining local government spending by using funds from the central government transfers (grants) in the form of General Allocation Fund (DAU) of the use own capabilities in the form of Locally Generated Revenue (PAD). This study uses two variables: the dependent variable and independent variables. Dependent variables in this study were Expenditure (BD), while the independent variables consist of Local Generated Revenue (PAD) and the General Allocation Fund (DAU). Operational definitions of these variables are as follows:
a. Locally Generated Revenue (PAD) are all local revenues derived from the original source local economy (Halim, 2007). The amount of PAD indicates the region's ability to meet its own needs and maintain and support the development outcomes that have been implemented and which will be implemented in the future (Mamesah, 1995).

b. Fund Balance, the allocation of funds from the central government which is based on the state budget. This fund is intended to assist local governments in order to carry out tasks devolved from the center to the regions.

c. Government expenditure, the expenditure made by the government in order to carry out the duties and powers that must be accountable to the public and the government on it.

Analysis Tools
To test the hypothesis proposed to use simple regression and multiple regression on the degree of confidence (α) of 5%.

RESULTS AND DISCUSSION

Test Results One Sample Kolmogorov-Smirnov (K-S).
Regency/City in 2011 and 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Kolmogorov Smirnov</th>
<th>Asymp.sig</th>
<th>information</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0.927</td>
<td>0.356</td>
<td>Normal</td>
</tr>
<tr>
<td>2012</td>
<td>0.808</td>
<td>0.531</td>
<td>Normal</td>
</tr>
</tbody>
</table>

The above table shows that the value Asymp. sig all regencies municipality is greater than the significance used in the amount of 1%. Because the value Asymp.Sig> α, then it can be concluded that the data analyzed in 2011 and 2012 have a residual value that is normally distributed, so the regression testing can proceed.

Hypothesis Testing
a. Effect of DAU to BDT greater than the effect of PADt against BDT in 2011

Regression Calculation Results in 2011

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.937a</td>
<td>.878</td>
<td>.854</td>
<td>3.69275E5</td>
<td>1.825</td>
</tr>
</tbody>
</table>

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>9.830E12</td>
<td>2</td>
<td>4.915E12</td>
<td>36.042</td>
<td>.000a</td>
</tr>
<tr>
<td></td>
<td>1.364E12</td>
<td>10</td>
<td>1.364E11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.119E13</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
a. Predictors: (Constant), DAU2011, PAD2011
b. Dependent Variable: TOTALDB2011

a. Predictors: (Constant), DAU2011, PAD2011
b. Dependent Variable: TOTALDB2011
Based on calculations in the model summary table shows the value of R square is the coefficient of determination is the result of squaring the value of R (correlation coefficient). The coefficient of determination in the range of values 0 and 1, with the smaller R square, the more tenuous relationship to the independent variable in this case is the PAD and DAU. Rated R Square of 0.878 means that 87.8% of BD can be explained by the value of PAD and DAU while the remaining 12.2% is explained by other factors.

To determine whether there flypaper effect or not, Views level of significance. Flypaper Effect occurs when the level of significance of the effect of PAD to BD is greater than the significance level DAU influence on BD. Based on test results obtained influence data PAD to BD 0.000, while the influence of the DAU to BD 0.004 so that it can be concluded that in 2011 occurred flypaper Effect.

Effect of DAU to BDT greater than the effect of PADt against BDT in 2012

### Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.847*</td>
<td>.717</td>
<td>.660</td>
<td>6.00276E5</td>
<td>2.322</td>
</tr>
</tbody>
</table>

* a. Predictors: (Constant), DAU2012, PAD2012
  
* b. Dependent Variable: TOTALBD2012

### ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
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<td>2</td>
<td>4.565E12</td>
<td>12.668</td>
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<tr>
<td></td>
<td>Residual</td>
<td>3.603E12</td>
<td>10</td>
<td>3.603E11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1.273E13</td>
<td>12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* a. Predictors: (Constant), DAU2012, PAD2012
  
* b. Dependent Variable: TOTALBD2012

### Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-52638.962</td>
<td>459115.639</td>
<td>.186</td>
</tr>
<tr>
<td>PAD2011</td>
<td>1.260</td>
<td>.227</td>
<td>.666</td>
<td>5.548</td>
</tr>
<tr>
<td>DAU2011</td>
<td>1.719</td>
<td>.461</td>
<td>.448</td>
<td>3.730</td>
</tr>
</tbody>
</table>

* a. Dependent Variable: TOTALBD2012

Based on calculations in the model summary table shows the value of R square is the coefficient of determination is the result of squaring the value of R (correlation coefficient). The coefficient of determination in the range of values 0 and 1, with the smaller R square then the weak relationship in the
independent variable in this case is the PAD and DAU. Rated R Square of 0.717 means that 71.7% of BD can be explained by the value of PAD and DAU while the remaining 28.3% is explained by other factors. To determine whether there flypaper effect or not, Judging from the level of significance. Flypaper Effect occurs when the level of significance of the effect of PAD to BD is greater than the significance level DAU influence on BD. Based on test results obtained from the data on the effect of PAD SW of 0.004 while the influence of the DAU to the SW of 0.777 so that it can be concluded that in 2012 occurred flypaper Effect.

Conclusion
Based on test results and discussion in the previous chapters, it can be concluded as follows:
1. In 2011 occurred Flypaper Effect on regencies municipality before applying the act number 28 of 2009.
2. In 2012 occurred Flypaper Effect on regencies municipality after applying the act number 28 of 2009, this condition indicates that the regencies municipality government is still more extravagant in the use of funds for expenditure DAU compared using funds PAD.
3. Policy act number 28 of 2009 has not been effective, in the early years of the application of this rule. And is expected to districts / cities that implement / adopt these rules can improve their fiscal autonomy.

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