

Implications of the HKPD Law: Is it Beneficial for Local Governments?

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Abstract

Purpose: Implementing Law No 1 of 2022 on Financial Relations Between The Central and Regional Governments (HKPD Law), has implications for regional governments, to amend their respective Regional Regulations. However, is the implementation of the HKPD Law really beneficial for the fiscal capacity of regional governments? This research aims to analyze the comparative policies in regional regulations, before and after the implementation of the HKPD Law.

Methodology/approach: This research uses descriptive analytical. Data collecting through documentation, by analyzing several district head or mayor regulations that have changed, before and after the implementation of the HKPD Law.

Results/findings: This study found that there were differences in the realization of regional taxes and regional retribution before and after the enactment of the HKPD Law and Regional Regulations, which had an effect on the Provincial Gross Domestic Product (GDP). However, for the fiscal budget before and after the enactment of the HKPD Law, although there were differences in the tax budget before and after the enactment of this regulation, for retribution, there was no difference in the value of the retribution budget before and after the enactment of the HKPD Law and Regional Regulations.

Limitations: The data realization of regional taxes and regional retribution that have been processed are only limited to data up to October 2024. In addition, the effect on Gross Domestic Product cannot be assessed with certainty, because this regulation only came into effect this year.

Contribution: This research is a policy analysis, it is hoped that it will be useful for local governments.

Novelty: using policy analysis, by estimating its effects on future fiscal capacity

Keywords: *HKPD Law, Local Regulation, Implications*

1. Introduction

Based on Under Law No. 1 of 2022 on Financial Relations Between the Central and Regional Governments (2022), local regulations covering local taxes and retributions are under changes. The drafting period and tariff changes under this law must be carried out from the beginning of 2024. Based on the regulations of Law Number 1 of 2022 Concerning Financial Relations Between the Central and Regional Governments (2022), the tax provisions of the HKPD Law will come into effect on 5 January 2024.

Through 2024, the provinces have been redrafting their regional regulations. While the regent regulations are still in the stage of drafting regulations from adjusting provincial government regulations. Regulatory changes in Law Number 1 Year 2022 on Financial Relations Between the Central and Regional Governments (2022) mainly occur in Specific Goods and Services Tax, especially in the types of entertainment tax and tax on electricity consumption. Thus, there are provinces that implement tariff changes in accordance with Law Number 1 of 2022 on Financial Relations Between the Central and Regional Governments (2022) starting in mid-2024, or at the end of 2024. Even in certain types of taxes, such as the Non-Metallic Minerals and Rocks tax and new tax options, there are regions that apply these tariff changes starting in early 2025.

According to Suryani Suyanto & Associates (2021), these changes revolve around changes to the maximum local tax rates. In the rate of Specific Goods and Services Tax, based on Law Number 1 of 2022 concerning Financial Relations Between the Central and Regional Governments (2022), the maximum rate is set at 10%. In the new regulation, the electricity consumption Specific Goods and Services Tax tariff has decreased to a maximum tariff. However, a different thing happened to Specific

Goods and Services Tax type entertainment tax which the minimum rate has actually changed to 40%. Whereas originally the tax rate when it was still an entertainment tax was a maximum of 35%. This certainly affects the amount of Regional Original Revenue. But on the other hand, this may affect taxpayer compliance with regional tax obligations.

Moreover, based on Law Number 1 of 2022 concerning Financial Relations Between the Central and Regional Governments (2022) as written by the Audit Board of Maluku (2023), when viewed in relation to the number of taxes that can be collected by the provincial government, it increases from 5 types of local taxes to 7 types of local taxes. This is due to the addition of tax types, namely Heavy Equipment Tax and Non-Metallic Mineral and Rock Tax Opsen

Meanwhile, related to local retribution, according to Audit Board of Maluku (2023), the types of retribution objects regulated in the Law of The Republic Indonesia Number 2008 Year 2009 concerning Local Taxes and Charges (2009) are 30 types, then simplified to 18 types of retribution. However, this is due to the elimination of several types of local retribution that are less relevant to their potential and types, such as Retribution for Inspection of Fire Extinguishers and Retribution for Reimbursement of Map Printing Costs.

Due to the above changes, in order to avoid tax evasion and to optimise local tax and retribution revenues, the digitalisation of local tax and retribution collecting is targeted to be completed and applied this year (Kurniati, 2024). This research is important to analyse the effects of changes in local tax and retribution regulations on the regions. Especially in 2024, according to Hikam (2024), the leaders of 16 mining companies will build various tertiary facilities, such as restaurants and theme parks. In the early stages of establishment, the researcher assumes that it is possible for the revenue generated from these facilities to be granted tax breaks, in order to trigger development in IKN.

This research will be conducted through different test. The analysis will be conducted using data on local tax and retribution revenues between 2023 and 2024 (up to October 2024). This research is expected to be useful for analysing whether there is an effect of changes in local regulations on revenue from local taxes and retribution, before and after the enactment of Law No. 1 of 2022 on Financial Relations Between the Central and Regional Governments (2022).

2. Literature review and hypothesis/es development

This study uses the theory of taxpayer compliance based on the Slipper Slope Model (SSM) Pickhardt & Prinz (2014). According to Pickhardt & Prinz (2014), the interaction in the form of fulfilling tax obligations between the taxpayer concerned and the tax authority can be described as a tax game. Taxpayer compliance depends on the power of the tax authority and the service of the tax authority, which in turn will affect taxpayer confidence.

As explained above, the effect of Law No. 1 of 2022 on Financial Relations Between the Central and Regional Governments (2022) on rate changes in local taxes varies, depending on the decision of the governor of each province, as well as the decisions of mayors and regents of each region. However, under Law No. 1 of 2022 on Financial Relations Between the Central and Regional Governments (2022), there are minimum and maximum rates for each type of local tax and local retribution.

In the rate of Specific Goods and Services Tax, there is a decrease in the maximum rate applied to the tax object of electricity consumption. However, the opposite happens to Specific Goods and Services Tax type of Entertainment Tax. In entertainment tax, whose tax objects include fashion shows, beauty contests, discotheques, karaoke, nightclubs, agility games, massage parlours, and steam baths/spas, the lowest Entertainment Tax rate is up to 40% and the highest rate is 75%. However, according to Wildan (2024), this rate range is fair because this rate applies to tertiary needs or for pleasure, not primary needs. The following is an example of changes to local tax regulations in the Banyuwangi Regency Government. This area is famous for its tourism objects, which are the source of income for entertainment tax and tourism object retribution.

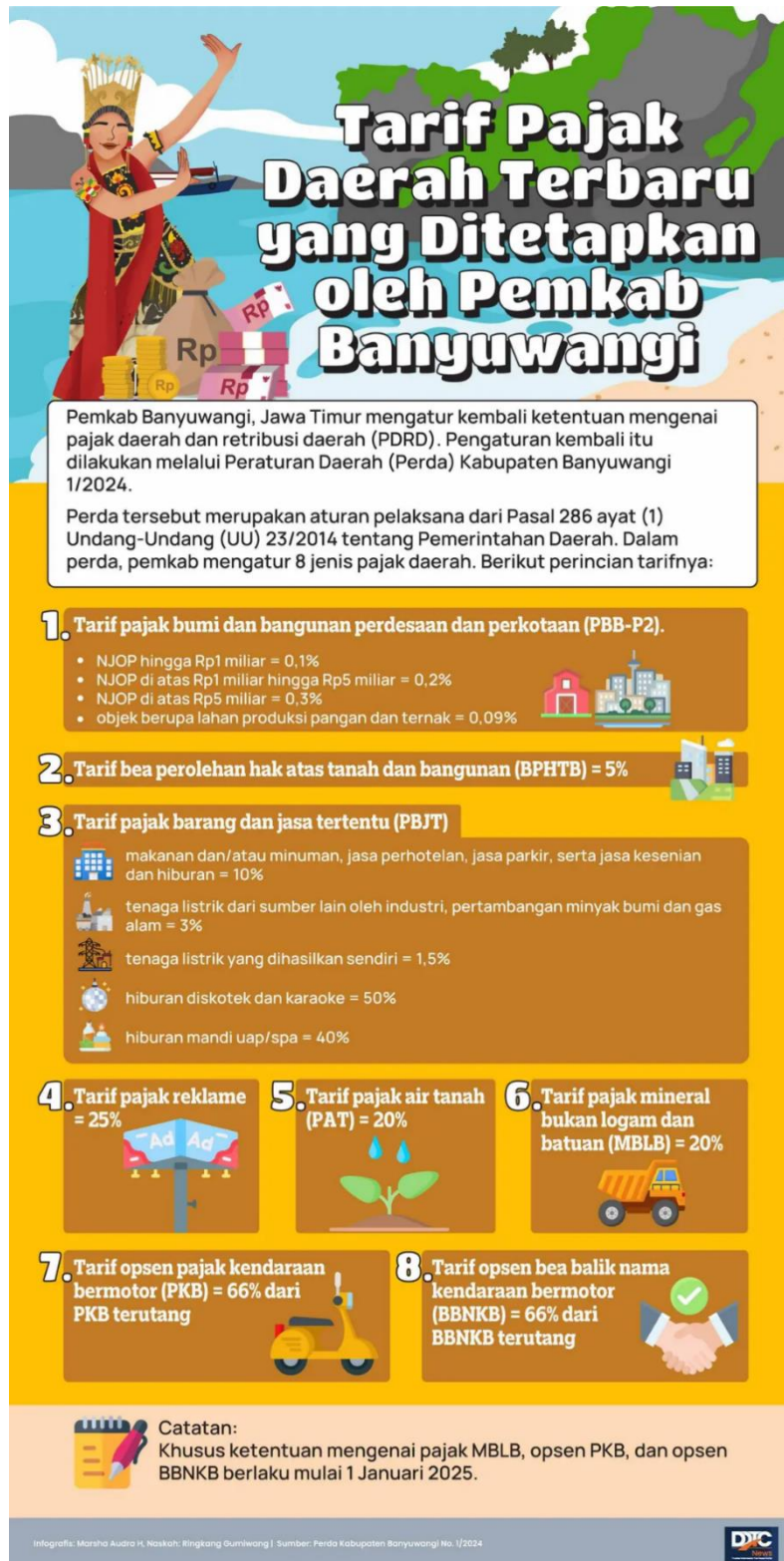


Figure 1. DDTC News (2024)

Previous research related to the effects of Law Number 1 of 2022 concerning Financial Relations Between the Central and Regional Governments (2022) is still minimal, because local regulations as an effect of changes in central fiscal regulations are newly designed and enacted. gradually for each tax

type, starting in 2024 or mid-2024. However, similar research has been conducted by the Audit Board of Maluku (2023).

The result is that conceptually, the government gives the authority to collect tax opsen, both to the provincial government (with the Non-Metal and Rock Mineral Opsen) and to the district/city government (with the Motor Vehicle Tax and Motor Vehicle Title Fee Opsen). Based on these studies, the researcher draws a hypothesis that there is an effect of the enactment of the HKPD Law on local tax revenues and local retribution.

3. Methodology

This type of research is descriptive analytical. Data was collected through documentation of budgets and realisation of local taxes and retribution from the Regional Revenue and Expenditure Budget Portal from Regional Financial Information System. The data were then analysed through a different test. If the significance value of the different test is less than 5% (0.05), then there is a difference between the budget for local taxes and retribution and the realization of local taxes and retribution before and after the enactment of the HKPD Law.

4. Results and discussion

Based on different test, the results show that there is a difference between the acquisition of local tax revenues and local retribution taxes before and after the enactment of Law Number 1 Year 2022 on Financial Relations Between the Central and Regional Governments (2022). However, there is no difference between the local tax budget before and after the enactment of Law Number 1 Year 2022 on Financial Relations Between the Central and Regional Government (2022). This is probably because the size of the 2024 local tax budget at the beginning of the fiscal year has not been followed by changes in local regulations for each province, so there is no difference in the budget before and after the enactment of Law Number 1 of 2022 concerning Financial Relations Between the Central and Regional Government (2022).

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Anggaran Pajak Daerah Pai 2024- r 1 Anggaran n Pajak Daerah 2023	2782.8994 1	13849.3365 4	2375.1416 2	- 2049.3625 5	7615.1613 8	1.17 2	3 3	.250

Source: SPSS Processed Data (October 10, 2024)

Paired Samples Test

	Paired Differences				t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			

				Lower	Upper			
Realisasi Pajak Paik Daerah 2024 - r 1 Realisasi_Pajak_Dae rah 2023	- 1528.279 12	2164.840 10	371.267 01	- 2283.627 54	- 772.930 70	- 4.11 6	3 3	.000

Source: SPSS Processed Data (October 10, 2024)

A different situation is found in the comparison of local retribution budget before and after the enactment of Law No. 1 Year 2022 on Financial Relations Between Central and Regional Government (2022). There is a difference in the amount of fiscal budget for local retribution in 2023 and 2024. Similarly, with the realisation of local retribution in 2023 and 2024, there is a crucial difference in magnitude.

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Anggaran_Retribusi_20 Paik 24 - r 1 Anggaran_Retribusi_20 23	162.1870 6	338.6544 2	58.0787 5	44.0249 5	280.3491 7	2.79 3	3 3	.009

Source: SPSS Processed Data (October 10, 2024)

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Realisasi_Retribusi_20 Paik 24 - r 1 Realisasi_Retribusi_20 23	151.1423 5	388.1404 4	66.5655 4	15.7137 5	286.5709 5	2.27 1	3 3	.030

Source: SPSS Processed Data (October 10, 2024)

Based on the results of the different test above, the effect of the introduction of new tariffs for local taxes and local retributions, either with higher or lower tariffs, brings changes to the economic development of local governments. The effect leads to provincial economic growth, as measured by Gross Domestic Product (GDP).

According to Revo M. (6 February 2024), the region with the highest economic growth is North Maluku with a GDP percentage of 20.49%. Not only is the region a mining producer, but it is also a tax producer with high realisations until October 2024. According the Regional Financial Information System Data Portal as of October 9, 2024, North Maluku Regency has managed to achieve 74.72% tax realisation. Similarly with Maluku Utara, Bali has reached 96.2% of its local tax realisation as of October 2024. However, this is not the case with local retribution, as of October 2024, these two regions have only managed to achieve local retribution realisation percentages of 12.29% and 25.96% respectively. Nevertheless, it seems that the change in the upper limit of local tax rates has an effect on the growth of provincial Gross Domestic Product.

5. Conclusion

5.1. Conclusion

This study found that there are differences in the realisation of local taxes and retribution before and after the enactment of the HKPD Law and Local Regulations, which have an effect on the Provincial Gross Domestic Product (GDP). However, for the fiscal budget before and after the enactment of the HKPD Law, although there is a difference in the tax budget before and after the enactment of this regulation, but for retribution, there is no difference in the value of the retribution budget before and after the enactment of the HKPD Law and Regional Regulations.

5.2. Limitation

The data on the realisation of local taxes and retribution processed is only limited to data up to October 2024. In addition, the effect on Gross Domestic Product cannot be assessed with certainty, as this regulation only came into effect this year.

5.3. Suggestion

Future research is expected to analyse the effects of local taxes and retributions not only for provincial governments, but also for district and city governments, with a longer observation period.

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