The Role of Taxes and BUMD Profitability in Driving Local Revenue in Gowa Regency

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Abstract

This study sets out to explore how two important financial factors—local taxes and the profits from Regional Owned Enterprises (BUMD)—contribute to the increase of Regional Original Revenue (PAD) in Gowa Regency. More specifically, it aims to answer two main questions: (1) how local tax collection affects Gowa's PAD, and (2) how the profitability of BUMDs influences the region's own-source revenue. To answer these questions, the research uses a quantitative approach, relying on numerical data to identify patterns and relationships. The data used in this study comes from official publications by the Central Statistics Agency (BPS) and the Regional Revenue Agency of Gowa Regency, covering the years 2010 to 2020. For the analysis, a multiple regression method is applied. This technique helps determine the extent to which each variable—local taxes and BUMD profits—affects PAD, both individually and together. It provides a clearer picture of which factor plays a bigger role and how they work in tandem to influence regional revenue. By understanding these dynamics, the study hopes to offer practical insights for local government decision-makers, especially in designing strategies to boost financial self-reliance and strengthen the economic foundation of Gowa Regency.

Keyword: *Regional Original Revenue (PAD), Local Taxes, Regional Owned Enterprises (BUMD), BUMD Profitability*

Introduction

Gowa Regency, located in South Sulawesi Province, Indonesia, spans approximately 1,883 km², accounting for about 3% of the province's total area (BPS Kabupaten Gowa, 2023). Its strategic geographical position, situated between 12°33' to 13°15' East Longitude and 5°5' to 5°34' South Latitude, makes it a region with significant economic and developmental potential. As a rapidly growing area, the Gowa Regency government is committed to improving community welfare by strengthening Local Own-Source Revenue (Pendapatan Asli Daerah, PAD). A key strategy in this effort is optimizing revenue from Local Taxes and profits of Regionally-Owned Enterprises (Badan Usaha Milik Daerah, BUMD). These two sources serve as the backbone of regional income, funding public services and infrastructure development. The government's effectiveness in tax collection also serves as an indicator of successful regional autonomy (Law No. 33/2004).

Reform and Regional Autonomy, Since 1999, Indonesia has undergone major reforms in regional governance through Law No. 22/1999 (revised into Law No. 32/2004) and Law No. 25/1999 (revised into Law No. 33/2004). These reforms granted broader authority to local governments to self-manage their administrative and financial affairs (Hofman & Kaiser, 2004). Under this decentralization framework, Gowa Regency has the opportunity to maximize local revenue sources—including local taxes, retributions, BUMD profits, and asset management. However, with this authority comes significant responsibility: ensuring that all tax impositions are conducted transparently and lawfully, in accordance with the 1945 Indonesian Constitution (Article 23A).

Sources of Regional Revenue, According to Law No. 33/2004, regional revenue consists of two main categories: (1) Local Own-Source Revenue (PAD) – Derived from local taxes, retributions, BUMD profits, and other legitimate income. And, (2) Central Government Transfers (Dana Perimbangan) – Including the General Allocation Fund (Dana Alokasi Umum, DAU) and Special Allocation Fund (Dana Alokasi Khusus, DAK). By maximizing PAD—particularly from local taxes and BUMD profits—Gowa Regency can enhance fiscal independence and support sustainable regional development (Bird & Smart, 2002).

Given the substantial potential of local taxes and BUMD contributions in boosting Gowa's PAD, this topic warrants in-depth analysis. Therefore, this study will explore: *"The Influence of Local Taxes and Regionally-Owned Enterprise (BUMD) Profits on Local Own-Source Revenue (PAD) in Gowa Regency."*

Literature Review

Local Taxes: A Key Source of Regional Revenue

Taxes constitute one of the primary sources of state revenue, funding critical development programs and public services. They represent compulsory contributions imposed by the government on individuals and businesses under legal provisions, without providing direct compensation to taxpayers. As defined by Waluyo (2000, p. 2), *"a tax is a mandatory contribution from the people to the state treasury based on law, without direct reciprocal benefits, allocated for public expenditure."* This principle underscores the essential role of taxation in sustaining government operations and equitable resource distribution.

At the regional level, local taxes serve as a vital fiscal instrument for financing governance and regional development. Local governments possess the authority to levy taxes in accordance with statutory regulations, and their effectiveness in optimizing local tax potential reflects both fiscal autonomy and the successful implementation of regional autonomy. The legal framework for local taxation in Indonesia is established under Law No. 34/2000 on Regional Taxes and Levies, further reinforced by Government Regulation No. 65/2001 on Local Taxes. These regulations empower regional governments to design tax policies tailored to local economic conditions while ensuring compliance with national standards (Resosudarmo & Yusuf, 2009).

The strategic management of local taxes directly influences a region's capacity to fund infrastructure, education, healthcare, and other public services. Consequently, enhancing local tax systems remains a priority for achieving sustainable fiscal decentralization and equitable development across regions.

Regionally-Owned Enterprises (BUMD): Challenges and Strategic Role in Local Development

1. **The Strategic Role of BUMD**

   Regionally-Owned Enterprises (*Badan Usaha Milik Daerah*, BUMD) serve as a critical instrument for local governments to stimulate regional economic growth and harness local potential for public welfare. As highlighted by Ginandjar Kartasasmita (1996), the establishment of BUMDs aims to empower communities, particularly marginalized groups, by fostering economic participation through locally managed enterprises. This approach aligns with sustainable development goals, enabling self-reliance and equitable prosperity.

2. **Systemic Challenges in BUMD Management**

   Despite their potential, BUMDs face multifaceted operational and governance challenges. Rutiam Kamaludin (2000) identifies five key issues:

   a. **Regulatory Overlap**

   BUMDs often grapple with inconsistent sectoral regulations, creating ambiguities in authority and operational frameworks. The lack of synchronization across legal provisions impedes effective management (World Bank, 2018).

   b. **Weak Corporate Governance**

Many BUMDs fail to implement *Good Corporate Governance* (GCG) principles due to structural diversity. Some operate as *Perusahaan Daerah* (regional public service entities), while others adopt *Perseroan Daerah* (regional limited liability companies), leading to fragmented management systems and conflicting objectives (OECD, 2015).

   c. **Human Resource Deficiencies**
   Political appointments frequently compromise the professionalism of BUMD leadership. Directors and commissioners are often selected based on political patronage rather than merit, undermining operational efficiency (Asian Development Bank, 2020).

   d. **Ineffective Oversight Mechanisms**
   Supervision varies by legal form:
   - *Perseroan Daerah* are monitored by boards of commissioners under **Law No. 40/2007** on Limited Liability Companies.
   - *Perusahaan Daerah* are overseen by regional government-appointed supervisory boards.
   Disparities in local oversight structures frequently result in misaligned accountability (IMF, 2019).

   e. **Restructuring Barriers**
   Restructuring to enhance efficiency is complicated by the sheer diversity of BUMDs. Local governments must conduct comprehensive mapping of BUMD types, performance, and regional characteristics to design targeted reforms (Djankov et al., 2018).

3. **Policy Recommendations**
   To address these challenges, local governments should: Harmonize regulations through inter-sectoral collaboration; Enforce GCG standards and merit-based recruitment; Centralize oversight under independent audit bodies; and Prioritize data-driven restructuring.

Local Own-Source Revenue (PAD): The Foundation of Regional Fiscal Autonomy

Local Own-Source Revenue (Pendapatan Asli Daerah, PAD) represents income generated and managed directly by regional governments from their local potential, serving as a crucial indicator of a region's financial independence. As emphasized by Natalia Rawun (2016), PAD encompasses revenues from four primary sources: local taxes, regional levies, returns on separated regional wealth management, and other legitimate income sources. The proportion of PAD in a region's total revenue directly correlates with its fiscal autonomy - regions with higher PAD contributions demonstrate greater capacity to finance development projects without relying on central government transfers (Bird & Smart, 2002). This financial independence is particularly critical in Indonesia's decentralized governance system, where regional governments bear increasing responsibility for local development initiatives.

The first component of PAD, local taxes, includes various levies authorized under Law No. 34/2000 and Government Regulation No. 65/2001. These encompass vehicle-related taxes (for both land and water-based transportation), title transfer taxes, fuel taxes, and taxes on groundwater and surface water utilization. Additionally, regional governments collect taxes from hospitality businesses (hotels and restaurants), entertainment venues, advertisements, street lighting operations, small-scale mining activities (Category C), and parking facilities. The second major component consists of regional levies - user charges for specific public services such as healthcare, waste management, document processing, cemetery maintenance, roadside parking, market operations, vehicle inspections, and fire services, all regulated under Law No. 34/2000 and Government Regulation No. 66/2001.

A third significant source of PAD comes from returns on separated regional assets, primarily comprising dividends from Regionally-Owned Enterprises (BUMD). When these enterprises operate efficiently, they contribute substantially to local revenue through profit

distributions (OECD, 2019). The final category includes miscellaneous legitimate income such as proceeds from sales of non-separated regional assets, bank interest, foreign exchange gains, commissions, discounts, and other authorized receipts. This comprehensive revenue structure enables regional governments to maintain financial stability while addressing local development needs.

The strategic importance of PAD optimization cannot be overstated. By improving local tax administration and enhancing BUMD performance, regional governments can achieve sustainable fiscal capacity. This strengthened financial position allows for greater investment in critical infrastructure projects, improved public service delivery, and reduced dependence on central government transfers (Resosudarmo & Yusuf, 2009). Moreover, as noted by the World Bank (2018), robust PAD performance fosters greater accountability in local governance by creating a direct connection between revenue mobilization and public service provision. The ability to generate and manage local revenue effectively thus represents a cornerstone of successful regional autonomy, enabling local governments to respond more effectively to their constituents' needs while maintaining fiscal responsibility.

Methods

Research Methodology

This study employs a quantitative research approach, which presents data in numerical form and utilizes statistical analysis techniques to test formulated hypotheses. According to Subagyo (2011), the quantitative method aims to test theories through the collection of numerical data and statistical analysis to explain the phenomena under investigation. This approach enables researchers to objectively and systematically measure relationships between variables, providing measurable and verifiable results.

Research Location and Timeline

The study was conducted in Gowa Regency, South Sulawesi Province, selected for its accessibility to secondary data available at the Central Statistics Agency (BPS) of Gowa Regency and other relevant institutions. The research was carried out over a two-month period, encompassing data collection, processing, and analysis stages. This timeframe was designed to ensure comprehensive data acquisition while maintaining research efficiency.

Data Types and Sources

The study utilizes quantitative data in numerical form, processed using statistical methods. All data were obtained from secondary sources through intermediary parties or third parties, including:

- Central Statistics Agency (BPS) reports
- Regional Revenue Service documents
- Other official reports and publications

The collected data includes: Population of Gowa Regency (as demographic control), Regional inflation rates, Realization of Local Own-Source Revenue (PAD), Regional tax receipts, and Profits of Regionally-Owned Enterprises (BUMD)

Data Analysis Method

The study employs multiple linear regression analysis to examine the simultaneous and partial effects of independent variables on the dependent variable. This method helps identify the contribution of each independent variable to Local Own-Source Revenue (PAD). The regression model used is:

$$Y = b_0 + b_1X_1 + b_2X_2 + e_i$$

Where:

- Y = Local Own-Source Revenue (PAD)
- X_1 = Regional Taxes
- X_2 = BUMD Profits
- b_0 = Constant

- b_1, b_2 = Regression coefficients of independent variables
- e_i = Error term (residual error)

This analysis allows researchers to examine the combined and individual effects of regional taxes and BUMD profits on PAD.

Operational Definitions and Variable Measurement

1. Regional Tax Variable (X_1):
    Defined as mandatory contributions paid by the public to local governments based on applicable laws without direct compensation (Waluyo, 2000). Measured through total regional tax receipts recorded in official financial reports.

2. BUMD Profit Variable (X_2):
    Represents profits earned from business activities of Regionally-Owned Enterprises managed by local governments (Kartasasmita, 1996). Measured through annual profit reports submitted to regional finance departments.

3. Local Own-Source Revenue Variable (Y):
    Defined as revenue derived from regional taxes, levies, returns on separated regional assets, and other legitimate local income sources (Rawun, 2016). Measured through total PAD realization in regional budget reports.

Result and Discussion

Multiple Linear Regression Analysis Results

Regression Equation
The SPSS 2020 output yields the following regression equation:

Table 1 Multiple Linear Regression Results

Variable	Coefficient (B)	Std. Error	Beta	t-stat	Sig.	Remarks
Constant	79,540,513,414.868	43,832,964,223.143	-	1.815	.112	Not significant
Local Tax (X_1)	1.697	0.406	0.888	4.176	.004	**Significant**
BUMD Profit (X_2)	209.508	152.203	0.293	1.377	.211	Not significant

Y = 79,540,513,414.868 + 1.697X₁ + 209.508X₂ + e

Where:

Y = Local Own-Source Revenue (PAD)
X_1 = Regional Tax Revenue
X_2 = BUMD Profits
e = Error term

Partial Test Results (t-test)
Regression Analysis Interpretation

The regression results reveal distinct patterns for each independent variable's influence on Local Own-Source Revenue (PAD) in Gowa Regency. For the regional tax variable (X_1), the analysis shows a statistically significant positive relationship with PAD. The coefficient of 1.697 indicates that for every 1 million rupiah increase in regional tax revenue, we can expect PAD to rise by approximately 1.697 million rupiah, holding other factors constant. This finding is statistically robust, as evidenced by the t-value of 4.176 and a highly significant p-value of 0.004 (well below the 0.05 threshold). The strong beta coefficient (β=0.888) further confirms that regional taxes constitute the dominant predictor variable in the model, explaining most of the variance in PAD.

In contrast, the BUMD profits variable (X_2) demonstrates a different relationship with PAD.

While the positive coefficient of 209.508 suggests that higher BUMD profits are directionally associated with increased PAD (each 1 million rupiah increase in BUMD profits corresponds to a 209.508 million rupiah PAD increase), this relationship fails to achieve statistical significance (p=0.211 > 0.05). The modest t-value (1.377) and lower beta coefficient (β=0.293) indicate that BUMD contributions, though nominally positive, do not currently provide a reliable or substantial boost to Gowa's local revenue. This could stem from inconsistent BUMD performance, management inefficiencies, or the relatively small scale of BUMD operations compared to the regional tax base.

The differential results suggest that while regional taxes currently serve as Gowa's fiscal backbone, BUMD profits represent untapped potential that could be enhanced through strategic reforms. The significant tax coefficient underscores the effectiveness of Gowa's revenue collection system, whereas the non-significant BUMD results may indicate opportunities for improving the profitability and governance of regional enterprises. These findings align with broader literature on regional finance that often finds tax administration typically provides more stable revenue streams than business operations in developing regions.

Simultaneous Test (F-test)

Table 2 Simultaneous Test (F-test)

Model	Sum of Squares	df	Mean Square	F-stat	Sig.	Remarks
Regression	2.170E+18	2	1.088E+18	8.725	.013	**Significant**
Residual	8.729E+17	7	1.247E+17			
Total	3.049E+18	9				

The F-test results demonstrate that regional taxes and BUMD profits collectively exert a statistically significant influence on Local Own-Source Revenue (PAD) in Gowa Regency. With an F-value of 8.725 and a significance level of 0.013 (below the 0.05 threshold), we can confidently reject the null hypothesis that these variables have no joint effect on PAD. This indicates that the combined model of regional taxes and BUMD profits explains a significant portion of the variation in PAD, even though individually BUMD profits showed insignificant impact.

The substantial F-statistic suggests the overall regression model has strong explanatory power, confirming that these two revenue sources work in tandem to affect Gowa's fiscal capacity. This finding is particularly meaningful for policy formulation, as it validates that both taxation and regional enterprise management should be considered together in local revenue optimization strategies. The significant F-test (p=0.013) coupled with the earlier t-test results implies that while regional taxes are the primary driver, BUMD operations still contribute meaningfully when considered as part of Gowa's integrated revenue system. This underscores the importance of maintaining both effective tax administration and continued BUMD development for sustainable local finance.

Coefficient of Determination (R²)

Table 3 Coefficient of Determination (R²)

Model	R	R²	Adjusted R²	Std. Error of Estimate
1	0.845	0.714	0.632	35,313,200,186.298

The coefficient of determination (R²) of 0.714 indicates that the regression model explains 71.4% of the variation in Local Own-Source Revenue (PAD) in Gowa Regency, while the remaining 28.6% is attributable to other factors not included in the model. This substantial explanatory power suggests that regional taxes and BUMD profits collectively serve as key determinants of PAD in the region. The high R² value validates the model's effectiveness in

capturing the primary revenue drivers, demonstrating that these two variables form the foundation of Gowa's local fiscal capacity. However, the unexplained variance highlights the potential influence of additional economic factors such as central government transfers, regional retributions, local economic growth, or sector-specific performance. These findings underscore the importance of maintaining robust tax administration and BUMD management while simultaneously considering other macroeconomic variables that may impact revenue generation. The adjusted R^2 of 0.632, which accounts for the number of predictors in the model, further confirms the model's reliability while suggesting room for enhancement through the inclusion of additional relevant variables in future research. This analysis ultimately provides valuable insights for policymakers seeking to strengthen local revenue streams, emphasizing both the current model's strong predictive capability and the potential benefits of expanding the framework to incorporate other influential factors.

Discussion

The findings of this study provide important insights into the determinants of Local Own-Source Revenue (PAD) in Gowa Regency. The regression analysis reveals several key patterns that warrant discussion from both theoretical and policy perspectives.

First, the strong positive and statistically significant relationship between regional taxes and PAD ($\beta=1.697$, $p=0.004$) confirms the central role of taxation in local revenue generation. This finding aligns with the theory of fiscal decentralization, which posits that local tax autonomy is crucial for regional financial independence (Bird & Smart, 2002). The high beta coefficient (0.888) suggests that tax revenue serves as the primary engine of PAD growth in Gowa, likely due to the regency's established tax administration system and relatively broad tax base encompassing vehicle, hospitality, and natural resource taxes.

Second, while BUMD profits showed a positive coefficient (209.508), their statistically insignificant impact ($p=0.211$) presents an interesting paradox. This may reflect several underlying issues commonly observed in regional enterprises in developing economies (OECD, 2019):
1. Managerial inefficiencies due to political appointments rather than merit-based recruitment
2. Limited commercialization of BUMD operations
3. Social obligations that compromise profitability
4. Inadequate capital investment in productive assets

The simultaneous F-test results (F=8.725, $p=0.013$) confirm that both variables collectively explain a significant portion of PAD variation, though the dominance of tax revenue is clear. This aligns with Resosudarmo and Yusuf's (2009) findings in other Indonesian regions, where tax instruments typically provide more stable revenue than BUMD operations.

The model's explanatory power ($R^2=0.714$) is robust for social science research, yet the remaining 28.6% unexplained variance suggests opportunities for model enhancement. Potential omitted variables may include: Intergovernmental transfer amounts; Local economic growth rates; Sectoral composition of the economy; Quality of local governance; Demographic factors like population density.

Conclussion and Suggestions

These findings offer valuable policy insights for the local government of Gowa Regency. Based on the results, several practical recommendations can be made:
1. **Maintaining and improving tax administration** should remain a central focus, as it plays a critical role in ensuring steady revenue flows.
2. **Reforming Regional-Owned Enterprises (BUMDs)** could help unlock untapped revenue potential, especially if supported by stronger governance structures.
3. **Diversifying the sources of local revenue**—beyond taxes—may help address the unexplained variations in PAD and improve financial stability.
4. **Regular monitoring of both tax and non-tax revenue performance** is essential to

ensure transparency, accountability, and optimal budget planning.

This study adds to the growing literature on local public finance by presenting empirical evidence from a rapidly developing region in Eastern Indonesia. While the findings are encouraging, several limitations point to opportunities for further research—such as conducting longitudinal analyses, including additional control variables, and engaging in comparative studies with other regions to enhance generalizability.

From a theoretical standpoint, the results align with the principles of fiscal decentralization, but they also highlight the challenges local governments face when trying to develop effective revenue instruments beyond taxation. The inconsistent performance of BUMDs emphasizes the urgent need for stronger regulatory and governance frameworks for regional enterprises operating under decentralized systems.

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