

LOCAL OWN REVENUE MOBILIZATION IN INDONESIA

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ABSTRACT

Decentralization policy in Indonesia has given an increase of authority to local government in managing their own local finance. One of the characteristics of the decentralization policy is to increase local taxing power, with the objective to optimize local own revenue in supporting local spending. Given the current data observation, it is obvious that many local governments do not have significant local own revenue to support their local spending. This paper-adopting tax elasticity method-attempts to evaluate the present local own revenue optimization. Furthermore, by adopting a decomposition of tax elasticity, this paper also attempts to elaborate factors affecting local own revenue collection.

The estimated local own revenue elasticity show that most taxes and user charges, which are the main sources of local own revenue, are considered not a buoyant tax. More analysis using a decomposition of tax elasticity shows that tax to base elasticity is weak, suggesting that local governments need to improve discretionary tax changes at local level, such as local base changes, collection changes, and enforcement changes. The analysis also shows that some local tax bases are not responsive to the economic growth, which leads to the recommendation to improve local business environment, such as streamlining local regulations and reducing harmful local taxes and user charges.

Keywords: *local finance, local government owned revenue, fiscal decentralization, local tax elasticity, local tax base, nuisance local taxes, local economic growth*