

Empirical Evidence on the Role of Local Own-Source Revenue in Strengthening Fiscal Independence of Indonesian Local Governments

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ABSTRACT

Regional fiscal independence is a key indicator of local governments' ability to manage development sustainably without excessive dependence on central transfers. However, many regions in Indonesia still face limited fiscal capacity, primarily due to suboptimal management of Local Own-Source Revenue (PAD). This study aims to analyze the influence of each PAD component regional taxes, retributions, proceeds from regional asset management, and other legitimate PAD on regional fiscal independence in Indonesia. The research uses secondary data from 542 provinces, regencies, and municipalities during the 2019–2023 period, with 2,485 observations obtained through purposive sampling. Data were analyzed using panel data regression with the Fixed Effects model in STATA 17. The results show that all PAD components have a positive and significant effect on regional fiscal independence, indicating that greater PAD optimization strengthens local financial autonomy. The findings suggest that local governments should manage PAD professionally and strategically to improve institutional capacity, enhance revenue governance, and reduce dependence on central government transfers. In conclusion, strengthening PAD serves as the foundation for sustainable fiscal independence and long-term regional development.

Keywords: Independence; Local Own-Source Revenue; Panel Data Regression; Regional Autonomy.

INTRODUCTION

Law Number 23 of 2014 concerning Regional Government affirms that the implementation of regional autonomy in Indonesia has significantly transformed the government's financial system by granting regions broader authority to manage their fiscal resources. This policy is expected to strengthen local accountability, improve public services, and reduce dependence on central transfers. A crucial indicator of fiscal autonomy is regional financial independence, which is closely tied to the optimization of Local Own-Source Revenue (PAD) comprising regional taxes, levies, asset management, and other legitimate revenues.

A number of studies have examined the relationship between PAD and fiscal independence in different regions. Nusa & Panggalo (2022) found that regional taxes contributed significantly to PAD in Papua Province, reflecting effective tax administration. In contrast, Panggabean (2022) reported that in Lembata Regency, tax contributions to PAD were less than 2%, resulting in a reliance on central transfers—a case of the flypaper effect. Sulistiyanto (2018) similarly identified the need to improve the effectiveness and efficiency of regional taxes and levies in Central Java to support fiscal independence.

Other empirical studies reinforce the importance of PAD. Rivandi & Anggraini (2022) showed that districts/cities in West Sumatra with higher PAD demonstrate stronger fiscal independence.



Utari, Handayani & NR (2020) noted that although PAD's contribution to independence was only 8.1%, it remained positive and significant. Wasil et al. (2020) emphasized that optimizing tax and levy collection could enhance fiscal independence in Sidoarjo Regency. Zakiah (2022) highlighted PAD's role in reducing reliance on central transfers, while Machfud et al. (2020) underlined that effective management of regional wealth and BUMDs increases the independence ratio.

Despite these findings, most prior research has been limited to specific provinces or districts, lacking a comprehensive national-level analysis that incorporates all PAD components simultaneously. This gap underscores the need for broader empirical evidence on how regional taxes, levies, asset management, and other revenues jointly shape fiscal independence across Indonesia.

Based on this research gap, the present study aims to provide a nationwide assessment of PAD's role in strengthening fiscal autonomy using panel data from 542 provincial, regency, and municipal governments during 2019–2023. The central research question is: "How do the components of PAD (taxes, levies, asset management, other revenues) affect fiscal independence at the national level?"

LITERATURE REVIEW

Fiscal Decentralization Theory

Fiscal decentralization is the delegation of authority from the central government to local governments in managing revenues and expenditures, aiming to increase the efficiency and effectiveness of public services according to local needs. This concept was developed by Oates (2005), which emphasizes that local governments are more aware of the conditions and preferences of their communities. In Indonesia, fiscal decentralization is the main foundation of regional autonomy, as stipulated in the Law Number 33 of 2004 concerning the Financial Balance between the Central and Regional Governments.

Christia & Ispriyarso, (2019) emphasized that fiscal decentralization strengthens regional independence through strengthening local financial capacity. This suggests that decentralization accompanied by increased regional fiscal capacity can encourage more real and sustainable autonomy.

Regional Taxes and Fiscal Independence of Regional Finance

Regional taxes are the main source of Regional Original Revenue (PAD) which reflects the fiscal capacity and level of financial independence of a region. The ability of local governments to manage taxes effectively and accountably contributes directly to strengthening the fiscal structure, reducing dependence on central transfer funds, and improving the quality of public services. Optimization of collection, capacity building of apparatus, and community participation are key factors in supporting the strategic role of regional taxes as the main pillar of sustainable fiscal autonomy.

Empirical research supports the relevance of regional taxes to fiscal independence. (Nurrahmadani, et al., 2024) found that regional taxes and regional levies simultaneously had a significant positive effect on the level of regional financial independence in East Java Province, with a contribution of 77.3% to the regional financial independence variable. Sakir et al., (2023) shows that the contribution of regional taxes to financial independence in Tolitoli Regency reached 49.1%. Similar support was also found in studies by Febriyanti & Faris, (2019). Regional taxes made the most dominant contribution with the highest coefficient value and strong significance, which was 0.766, indicating that regional taxes were able to explain 77.3% of the change in the level of fiscal independence in the regions studied. Therefore, regional taxes are considered a crucial factor in increasing the fiscal independence of local governments, because they reflect the ability of the regions to explore the potential of original revenue optimally. With accountable and responsive management to local needs, local taxes can strengthen sustainable fiscal autonomy and reduce dependence on transfer funds from the central government. So the first hypothesis (H1) in this study is:

H1: Regional Taxes Have a Positive Effect on Regional Financial Fiscal Independence.

The Effect of Regional Levies on Regional Financial Fiscal Independence



Regional levy is regional revenue based on the principle of "user pays", where the recipient of the service finances the services received. From the perspective of fiscal decentralization, regional levies are a source of financing that strengthens regional fiscal autonomy without excessive dependence on the central government.

Research by Magilu et al., (2016) shows that regional levies have a significant influence on regional fiscal capacity in Sulawesi. Similar findings put forward by empirical research support the strategic role of regional levies in strengthening the fiscal independence of local governments. Khasanah & Susilowati, (2025) found that simultaneously regional taxes and regional levies have a significant positive effect on regional financial independence in 38 districts/cities in East Java Province. However, partially, only regional taxes have a significant effect, while regional levies have not shown a significant influence, which indicates the need for optimization in levy management. Instead, research by Lukitawati, (2020) concluded that both regional taxes and regional levies have a significant effect partially and simultaneously on increasing regional financial independence in XYZ Regency. These findings reinforce the view that regional levies can be an important fiscal instrument when managed in a transparent, efficient, and service-oriented manner. Therefore, regional levies are considered one of the keys in encouraging sustainable fiscal autonomy and reducing dependence on transfer funds from the center. With transparent and efficient management, regional levies can increase Regional Original Revenue (PAD) and reduce dependence on transfer funds from the center. So the second hypothesis (H2) in this study is:

H2: Regional Levy Has a Positive Effect on Regional Financial Fiscal Independence.

Results of Regional Wealth Management Separated from Regional Financial Fiscal Independence

The results of segregated regional wealth management refer to income derived from regional capital participation, such as in Regionally Owned Enterprises (BUMD), which are managed separately from the APBD. Within the framework of Fiscal Decentralization Theory, segregated regional wealth is a strategic instrument in increasing regional fiscal capacity independently. Local governments have the authority to manage these assets productively to support regional development without dependence on transfers from the central government.

Research by Siagian & Kurnia, (2022) shows that the results of segregated regional wealth management have a positive and significant effect on the level of regional financial independence in West Java Province, indicating that strengthening the role of BUMD is able to make a meaningful contribution to the region's fiscal capacity. In addition, the research Hafandi & Romandhon, (2020) Emphasizing the importance of professionalism and accountability in the management of BUMDs so that the potential results of separated regional wealth can be optimized as a sustainable source of PAD. With these various evidences, strengthening governance and optimizing regional wealth management results is an important pillar in the strategy to increase fiscal independence. Thus, the results of segregated regional wealth management have an important position as an autonomous and sustainable development financing instrument. So the third hypothesis (H3) in this study is: H3: The results of segregated regional wealth management have a positive effect on regional fiscal financial independence.

Other Legal PAD and Regional Financial Fiscal Independence

Other components of legitimate Regional Original Revenue (PAD) include various sources of revenue stipulated in laws and regulations, such as interest income, current account services, administrative fines, asset auction results, and other legitimate revenues that are not included in the category of taxes, levies, or the results of segregated regional wealth management. Although often considered a minor component, this source of revenue has considerable potential to increase regional fiscal capacity if optimally managed.

Novianti & Ishak, (2022) stated that other legitimate Regional Original Revenue (PAD) has a positive and significant influence on the level of regional fiscal independence. This component often receives less attention, even though it can be a potential source of financing if managed optimally and sustainably. The results of this study show that local governments need to maximize the use of income from legitimate and untapped local sources as a strategy to reduce dependence

on central transfer funds. Meanwhile, research Verawaty et al., (2017) reminded that the undirected use of this component can actually have a negative impact on fiscal independence, thus emphasizing the importance of professionalism in the management of alternative sources of income. Therefore, other legitimate PADs are seen as relevant strategic instruments in strengthening regional fiscal autonomy, especially in the context of fiscal decentralization that requires regions to be more financially independent. So the fourth hypothesis (H4) in this study is: H4: Other Valid Pads Have a Positive Effect on Regional Financial Fiscal Independence

In addition to domestic research, international studies offer valuable comparative insights into the issue of fiscal independence. Rodden, (2005), in Hamilton’s Paradox: The Promise and Peril of Fiscal Federalism, demonstrates that federal states such as the United States and Germany encounter the challenge of the soft budget constraint, wherein substantial central transfers weaken the fiscal autonomy of subnational governments. Similarly, Bird & Smart, (2001) highlight that the design of intergovernmental fiscal transfers plays a decisive role in shaping the effectiveness of decentralization and the degree of fiscal autonomy across OECD countries. Taken together, these studies underscore the importance of strengthening locally generated revenues as a foundation for sustainable fiscal independence. Within the Indonesian context, the optimization of Local Own-Source Revenue (PAD) serves as a parallel strategy to mitigate excessive reliance on central government transfers and to reinforce long-term financial autonomy at the regional level.

Table 1. Literature Mapping Table

Researcher	Year	Location/Country	Main Variables	Key Findings
Nusa & Panggalo	2022	Papua, Indonesia	Regional Tax - PAD	Regional taxes contribute significantly to PAD, reflecting the effectiveness of tax administration.
Panggabean	2022	Lembata, Indonesian	Regional Taxes – Fiscal Independence	Tax contribution <2%, Dependence on central transfers (flypaper effect).
Sulistiyanto	2018	Jawa Tengah, Indonesian	Taxes & Levies – Fiscal Independence	Effectiveness and efficiency remain low; improvements are needed to Support fiscal independence.
Rivandi & Angraini	2022	Sumatera Barat, Indonesian	PAD – Fiscal Independence	Regions with high PAD show Stronger fiscal independence
Utari, Handayani & NR	2020	Indonesian	PAD – Fiscal Independence	PAD is only 8.1%, but the correlation is Positive and significant.
Wasil et al.	2020	Sidoarjo, Indonesian	Taxes & Levies – Fiscal Independence	Optimizing taxes and levies Increases fiscal independence.

Researcher	Year	Location/Country	Main Variables	Key Findings
Zakiah	2022	Indonesian	PAD – Regional Financial Structure	PAD reduces dependence on central transfers.
Machfud et al.	2020	Indonesian	BUMD/Wealth Management – Fiscal Independence	Asset management and BUMD increase the fiscal independence ratio.
Nurrahmadani et al.	2024	Jawa Timur, Indonesian	Taxes & Levies – Fiscal Independence	Taxes & levies have a significant positive effect (77.3%).
Sakir et al.	2023	Tolitoli, Indonesian	Regional Taxes – Fiscal Independence	Tax contribution reached 49.1% towards fiscal independence.
Febriyanti & Faris	2019	Indonesian	Regional Taxes – Fiscal Independence	Regional taxes are the dominant contribution, with high significance (0.766).
ngilu et al.	2016	Sulawesi, Indonesian	Levies – Regional Fiscal Capacity	Levies have a significant impact on Regional fiscal capacity.
Khasanah & Susilowati	2025	Jawa Timur, Indonesian	Taxes & Levies – Fiscal Independence: Simultaneously significant	only taxes are significant. Taxes & Levies – Fiscal Independence: Both are significant partially and simultaneously.
Lukitawati	2020	XYZ Regency, Indonesian	Regional-Owned Enterprises – Fiscal Independence	Asset management and Regional-Owned Enterprises have a significant positive impact.
Siagian & Kurnia	2022	West Java, Indonesian	BUMD – Fiscal Independence	Asset management & BUMD have a significant positive impact.

Researcher	Year	Location/Country	Main Variables	Key Findings
Hafandi & Romandhon	2020	Indonesian	BUMD – Fiscal Independence	The importance of professionalism & accountability in managing BUMD.
Novianti & Ishak	2022	Indonesian	Other legitimate PAD – Fiscal Independence	This component has a significant positive influence, although it is often overlooked.
Verawaty et al	2017	Indonesian	Other PAD – Fiscal Independence	Improper use can have negative consequences; professionalism is required..
Oates	1999	International Theory	Fiscal Decentralization	Desentralisasi fiskal meningkatkan efisiensi layanan public adaptif lokal.
Christia & Ispriyarso	2019	Indonesia (teoritis)	Desentralisasi Fiskal – Kemandirian Daerah	Fiscal decentralization increases the Efficiency of local adaptive public services.
Rodden	2006	Internasional (federal)	Fiscal Federalism – Fiscal Independence	Variations in fiscal independence experiences across federal states; the challenges of soft budget constraints.
Bird & Smart	2001	Internasional (OECD)	Intergovernmental Transfers – Fiscal Autonomy	Transfer design influences the effectiveness of decentralization and regional independence.

METHOD

Data

This study employed a purposive sampling technique with a population comprising 542 regencies, 96 cities, and 34 provinces in Indonesia during the 2019–2023 period. Several regions were excluded from the research sample, including six administrative cities located within the Province of the Special Capital Region (DKI) of Jakarta, as their financial reporting is consolidated into the provincial reporting entity. In addition, four regencies—Raja Ampat, South Sorong, Maybrat, and Tambrauw—were excluded because they were only established in 2023 and therefore had no data



available for the 2019–2022 period. Other regions were excluded due to incomplete data, namely 11 missing observations for regional taxes, 19 for regional levies, and 57 for separated regional wealth management. After these adjustments, the final sample consisted of 297 regencies/cities, representing approximately 79.44% of the total regencies/cities in Indonesia for one year of observation. Over the five-year period, the total number of observations used in the analysis amounted to 2,485. All data were obtained from official Indonesian government sources and include information on fiscal independence and PAD components, as measured based on the Local Government Financial Statements (LKPD). This study uses Regional Fiscal Independence (Y) as the dependent variable and four independent variables: Regional Taxes (X1), Regional Levies (X2), Results of Separated Regional Wealth Management (X3), and Other Legitimate PAD (X4).

To address the research questions and test the hypothesis, the empirical model in this study is formulated as follows:

$$\ln KEM_{it} = \alpha + \beta_1 \ln PDI_{it} + \beta_2 \ln RDI_{it} + \beta_3 \ln HPKDI_{it} + \beta_4 \ln LLPDI_{it} + \dots + \epsilon_{it}$$

where:

- $\ln KEM_{it}$ represents the level of fiscal independence in the regency/city/province iii in year t , measured as the ratio of PAD to total regional revenue.
- $\ln PDI_{it}$, $\ln RDI_{it}$, $\ln HPKDI_{it}$, and $\ln LLPDI_{it}$ represent the four PAD components. All variables were transformed into natural logarithms to stabilize variance and allow elasticity-based interpretation.

The model is analyzed using panel data regression with the Fixed Effects Model. This model assumes that the differences between entities are captured by a constant term for each regency/city/province, ensuring that the variation within entities over time is accounted for. By using this model, the study is able to assess the relationship between the different components of PAD and regional fiscal independence, considering the regional heterogeneity. The data is processed with robust standard errors to correct for any potential issues of heteroskedasticity.

Table 2. Operationalization of Variables and Data Sources

Variables	Operationalization of Variables	Data source
$\ln KEM_{it}$	Regional financial independence is measured through Regional Original Revenue (PAD) divided by total regional revenue	Permendagri no.19 of 2020
$\beta_1 \ln PDI_{it}$	Natural Logarithm (LN) Regional Tax	Ministry of Finance
$\beta_2 \ln RDI_{it}$	Natural Logarithm (LN) Regional Levy	Ministry of Finance
$\beta_3 \ln HPKDI_{it}$	Natural Logarithm (LN) Results of Segregated Regional Wealth Management	Ministry of Finance
$\beta_4 \ln LLPDI_{it}$	Logarithm Natural (LN) Other Results Other Legitimate Original Revenue	Ministry of Finance

Data Source: Processed by Researchers (2025).

Table 3. Chow/Hausman test results

Fixed effects (within) regression	Number of obs = 2.485
Group variabel = tahun	Number of groups = 5
R – squared:	Obs per group:
Within = 0.7355	Min = 497
Between = 0.3127	Avg = 497.0
Overall = 0.7346	Max = 497
Corr(u _i , xb) = 0.0220	Wald chi2(7) = 1721.45
	Prob > F = 0.000

Source: STATA-17 output, secondary data(Processed, 2025).

RESULTS

Descriptive Statistics

Table 4. Descriptive Statistics of Variables

Variables	Obs	Mean	Std. dev.	Min	Max
lnKEMit	2.485	2.361	1.155	-1.57	7.35
β1lnPDIit	2.485	40.04	2.155	0.00	43.51
β2lnRDIit	2.485	16.55	31.32	0.00	58.73
β3lnHPKDIit	2.485	18.87	64.73	0.00	1.34
β4lnLLPDIit	2.485	13.27	29.28	1.05	6.24

Number of Observations = 2,485
*) In billions of rupiah
Table 1 explains the variable operationalization.

Source: Secondary Data, STATA-17 output (Processed, 2025).

Table 2 above shows the results of descriptive statistical testing for all variables in this study. The mean of the lnKEMit variable shows a value of 2,361, this figure indicates that the average fiscal independence of local governments in Indonesia during the observation period is still relatively low, with most regions not able to finance their fiscal needs independently without high dependence on transfers from the central government. The mean of the β1lnPDIit variable or regional tax shows a value of 40.04 billion rupiah, which shows that in general, the fiscal capacity of regions in exploring tax potential as the main source of PAD varies considerably between regions. The mean of the β2lnRDIit variable or regional levy is 16.55 billion rupiah, which indicates that the contribution of the levy to PAD is still relatively small and not optimal in most regions. Meanwhile, the mean of the variable β3lnHPKDIit, which is the result of segregated regional wealth management, was recorded at 18.87 billion rupiah, which shows that regional assets as a source of income are still not fully utilized equally. The β4lnLLPDIit variable, which represents other legitimate PADs, has the highest mean value of 13.27 billion rupiah, which means that most regions rely on this component significantly in their PAD structures. This data as a whole provides an idea that the contribution of each component of PAD to regional fiscal independence is very diverse and shows that there is fiscal inequality between regions. Furthermore, the results of the correlation analysis between each variable are presented in the following table 3.

Table 5. Correlation Analysis of Variables

	lnKEMit	β1lnPDIit	β2lnRDIit	β3lnHPKDIit	β4lnLLPDIit
lnKEMit	1.0000***				
β1lnPDIit	0.8198***	1.0000			
	0.0000				
β2lnRDIit	0.6413***	0.6944***	1.0000		
	0.0000	0.0000			
β3lnHPKDIit	0.6127***	0.6488***	0.4590***	1.0000	
	0.0000	0.0000	0.0000		
β4lnLLPDIit	0.7605***	0.7425***	0.5437***	0.5875***	1.0000



	lnKEMit	β1lnPDIit	β2lnRDIit	β3lnHPKDIit	β4lnLLPDIit
	0.0000	0.0000	0.0000	0.0000	
Number of Observations = 2,485 *** = P-value significant 1% Table 1 explains the variable operationalization.					

Source: Secondary Data, STATA-17 output (Processed, 2025).

In Table 3, the results of the correlation analysis show a significant positive relationship between Lnkem and various sources of regional original income (PAD). Regional taxes had the highest correlation of 0.8918, followed by other legitimate local revenue (0.7605), regional levies (0.6413), and the results of segregated regional wealth management (0.6127). These findings indicate that all components of PAD make an important contribution to strengthening regional fiscal independence. Hypothesis testing in this study was carried out using the Fixed Effects method. The analysis was carried out with the help of STATA 17 software. The results of the hypothesis testing can be seen in the following table

Hypothesis Testing

Table 6. Hypothesis Test

lnkemit=α+β1lnpdit+β2lnrdit+β3lnhpkdit+β4lnllpdit+ eit		
Variables	Expected Sign	Sdgacit
Consit		-16.423 0.000
β1lnpdit*	H1 : (+)	2.935*** 0.000
β2lnrdit*	H2 : (+)	1.113*** 0.000
β3lnhpkdit*	H3 : (+)	0.752*** 0.000
β4lnllpdit*	H4 : (+)	2.923*** 0.000
Prov > F		0.0000
Adj R-Square		0.1471
Obs		2.485
*** = P-value significant 1% Number of Observations = 2,485 Table 1 explains the variable operationalization.		

Source: Secondary Data, STATA-17 output (Processed, 2025).

The results of multiple linear regression analysis in this study show that the model used has an R-square value of 0.7346. This indicates that around 73.46% of the variation in regional financial independence can be explained by independent variables included in the model, namely regional taxes, regional levies, the results of segregated regional wealth management, and other legitimate PADs. A Prob > F value of 0.000 indicates that this model is statistically significant at a significance level of 1 percent, which means that overall, the model is able to explain the influence of the components of Regional Original Revenue on the level of fiscal financial independence of local governments.

Partially, all independent variables showed a positive and significant influence on the fiscal and financial independence of local governments. Local taxes make the most dominant contribution, with a coefficient of 2,935 and significant at the level of 1 percent, which supports the first hypothesis (H1). Regional levies also showed a significant positive relationship, with a coefficient of 1.113, which strengthens the second hypothesis (H2). Furthermore, the results of the segregated regional wealth management have a coefficient of 0.752 and are significant at the level of 1 percent, thus supporting the third hypothesis (H3), which emphasizes the importance of asset management and BUMD performance in the PAD structure. Finally, the other valid variable of PAD shows a

coefficient of 2,923, also significant at the level of 1 percent, which confirms the fourth hypothesis (H4) and indicates that alternative sources of income have a substantial role in strengthening the fiscal capacity of the regions.

Furthermore, the Mean VIF value of 2.38 indicates that there is no problem of multicollinearity among independent variables, so the regression model constructed is considered valid and can be interpreted econometrically. Thus, the results of this study provide empirical evidence that comprehensive strengthening of all components of PAD is an important strategy in increasing regional fiscal independence in a sustainable manner.

DISCUSSION

The first findings broadly support the results of previous research conducted by Nurrahmadani et al. (2024), Febriyanti & Faris (2019), Sakir et al. (2023), and Winarto & Hanifah (2025), which show that the increase in regional tax revenues has a positive and significant relationship to the fiscal independence of local governments. Effectively managed local taxes not only increase the fiscal capacity of the regions but also reduce dependence on transfers from the central government, as well as strengthen the sustainable local financial foundation. Nurrahmadani et al. (2024) noted that the contribution of regional taxes and levies to regional financial independence in East Java Province reached 77.3%, showing the dominant role of the two components of PAD. Similar results are shown by Febriyanti & Faris (2019), which found that local taxes had the highest coefficient values in the regression model and explained more than 77% of the variation in the fiscal independence of local governments. These findings are reinforced by Sakir et al. (2023), which revealed that the contribution of regional taxes to regional financial independence in Tolitoli Regency reached 49.1%, showing the real impact of the increase in taxes on local fiscal strength. Furthermore, Winarto & Hanifah (2025) highlight that regional tax optimization strategies through potential exploration, data updates, technology utilization, officer competency, and strengthening central-regional synergy are able to increase tax revenue and strengthen the foundation of sustainable development, while reducing dependence on central fund transfers. These findings are consistent with Kumalasari & Samudra (2025), who state that regional taxes have a positive and very significant influence on PAD in Magelang City, with a coefficient value of 7.218. Thus, the findings in this study strengthen the argument that regional taxes are a strategic pillar in building an independent regional financial structure. Tax management that is carried out in an accountable manner, based on local potential, and supported by community participation has been proven to contribute to the creation of sustainable regional finance and to encourage independence in financing development and public services more autonomously.

The second finding broadly supports previous studies that show regional levies as one of the important instruments in strengthening the fiscal and financial independence of local governments. As a form of revenue based on the direct contribution of the community to public services received, regional levies have the potential to be a stable and sustainable source of financing if managed efficiently and accountably. Research by Nggilu et al. (2016) revealed that an effective levy management system contributes significantly to increasing the fiscal capacity of local governments and is able to reduce dependence on transfer funds from the center. These findings are reinforced by Khasanah & Susilowati (2025), which show that regional taxes and regional levies simultaneously have a positive effect on regional financial independence in East Java Province. However, partially, levies have not shown a significant influence, which indicates the need to strengthen their management in order to make a more optimal contribution. Meanwhile, Lukitawati (2020) proved that regional levies, along with regional taxes and other fiscal variables, significantly affect regional financial independence in XYZ Regency, either simultaneously or partially.

Despite these results, the relatively weak influence of levies in some regions suggests structural and governance issues. One possibility is **regulatory rigidity**, where tariff adjustments and levy collection mechanisms are constrained by outdated or overlapping local regulations. Another explanation may be **moral hazard**, where weak supervision and limited transparency in collection reduce efficiency and trust in the levy system. This situation implies that while levies theoretically represent community participation in financing services, in practice their contribution remains suboptimal due to institutional and governance challenges.

To provide a broader perspective, external factors must also be considered. For example, in federal countries, (Rodden, 2005) highlights that subnational fiscal autonomy is often constrained



by *soft budget constraints*, where central transfers weaken the incentive to optimize local revenues. Similarly, (Bird & Smart, 2001) argue that the design of intergovernmental fiscal transfers in OECD countries strongly influences the effectiveness of local fiscal capacity. This comparison suggests that Indonesia's challenge with levies is not unique but reflects a wider problem in decentralized systems: balancing local autonomy with accountability and institutional quality.

The third finding of this study supports various previous studies showing that the results of separated regional wealth management, such as capital participation in Regionally Owned Enterprises (BUMD), have a strategic role in strengthening the fiscal and financial independence of local governments. As one of the components of PAD, this revenue reflects the ability of local governments to manage assets productively to support development financing independently. Siagian & Kurnia (2022) found that income from separated wealth management had a positive and significant effect on regional financial independence in West Java Province, showing that strengthening the role of BUMDs contributes meaningfully to regional fiscal capacity. These results are in line with Hafandi & Romandhon (2020), who emphasize the importance of professionalism and accountability in BUMD management so that the potential of separated wealth can be optimized as a sustainable source of PAD. Thus, the findings of this study reinforce the argument that separated wealth management has an important position as an autonomous and sustainable development financing instrument. Professional and accountable management of regional assets, especially through BUMDs, not only increases PAD but also strengthens independent regional financial structures, thereby reducing dependence on central government transfers.

Furthermore, the fourth finding supports previous studies that show that the miscellaneous components of legitimate PAD also play an important role in strengthening fiscal independence. This component includes various sources of revenue such as interest income, current account services, administrative fines, asset auction results, and other legitimate revenues that are not included in the category of taxes, levies, or separated wealth management. Although often seen as a less strategic incremental revenue, empirical evidence suggests that if managed optimally, this component can make a significant contribution to the structure of PAD and strengthen fiscal capacity. Novianti & Ishak (2022) show that other legitimate PAD has a positive and significant influence on fiscal independence. These findings indicate that targeted and professional management of these alternative sources of income can expand the regional revenue base and increase fiscal capacity in a sustainable manner. In addition, Novindriastuti & Purnomowati (2020) also affirmed that successful management of this component significantly strengthens PAD, making it an important pillar in supporting fiscal autonomy. However, Verawaty et al. (2017) warned that the undirected use of other legitimate PAD can actually have a negative impact on fiscal independence, emphasizing the importance of professionalism, transparency, and accountability in managing these alternative sources. Thus, the findings of this study strengthen the view that other legitimate PAD is a strategic fiscal instrument in the framework of regional autonomy. Careful and sustainability-oriented management of this component can make a significant contribution to the achievement of fiscal and financial independence of local governments, especially in the era of fiscal decentralization that demands increased financing capacity independently.

CONCLUSION

This study empirically confirms that all components of Regional Original Revenue (PAD) regional taxes, regional levies, the results of segregated regional wealth management, and other legitimate PAD have a positive and significant influence on the fiscal independence of local governments in Indonesia. These findings demonstrate that the contribution of these four components is not only important individually, but also collectively strengthens the fiscal capacity of regions. Regional taxes emerged as the most dominant component, followed by regional levies that reflect the quality of public services, while regional wealth management and other components of PAD showed substantial potential to be enhanced through innovation and improved governance. This study expands previous research by providing nationwide empirical evidence, thereby filling the gap left by prior studies that focused only on specific provinces or districts.

The practical implication of these findings is the need for integrated PAD optimization as a key strategy to increase the effectiveness of local fiscal policy, strengthen regional fiscal independence, and support sustainable development. Local governments are advised to implement institutional



and technical reforms, accelerate the digitalization of fiscal administration, and foster multi-stakeholder collaboration. The central government is also expected to provide performance-based incentives and redesign fiscal transfer mechanisms to further encourage fiscal independence.

Nevertheless, this study has limitations, particularly in terms of the 2019–2023 data coverage, the use of a fully quantitative approach, and the exclusion of external variables that may also influence fiscal independence. Therefore, future research is recommended to adopt a mixed methods approach that combines quantitative and qualitative analysis, and to incorporate moderating variables such as governance quality, institutional capacity, or intergovernmental transfer dependency, in order to provide a more nuanced understanding of the dynamics of local government fiscal independence in Indonesia.

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