

THE EFFECT OF REGIONAL TAX POLICIES ON LOCAL ECONOMIC DEVELOPMENT

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A B S T R A C T

Regional Own-Source Revenue (PAD) is largely derived from local taxes, which play a crucial role in supporting development financing and the provision of public services. An effective tax policy can stimulate local economic growth, whereas an inefficient policy may hinder investment and reduce tax compliance. In Baubau City, the management of local taxes still faces challenges such as limited data availability, insufficient socialization, and a relatively low level of taxpayer compliance. The objective of this study is to examine how local tax policies influence the development of the local economy, with particular emphasis on the Micro, Small, and Medium Enterprises (MSME) sector. Method This research employs a descriptive quantitative approach, with data collected through questionnaires distributed to employees of the Regional Revenue Agency and business actors in Baubau City. The data were analyzed using simple linear regression, t-tests, and the coefficient of determination to identify the relationship between the variables studied and to measure the extent to which local tax policies influence the local economy. Results The findings indicate that local tax policies have a positive and significant impact on the local economy, with a significance value of $0.000 < 0.05$. Support in the form of tax reductions for MSMEs and investment s has been shown to encourage business growth, job creation, and increased community income. These results are consistent with fiscal decentralization theory and endogenous growth theory, which emphasize that taxes function not only as a source of revenue but also as a key instrument in driving local economic growth.

INTRODUCTION

Regional taxes are a crucial instrument for increasing Regional Original Income (PAD) and play a strategic role in financing development and driving local economic growth. Regional taxes consist of provincial taxes and district/city taxes, each of which plays a vital role in strengthening regional finances and supporting greater regional autonomy (Siregar, et all 2025).

The implementation of regional tax policies in Baubau City still faces obstacles, including limited data, lack of socialization, and low taxpayer compliance (Nadimin, 2024). Meanwhile, the Micro, Small and Medium Enterprises (MSMEs) sector as the backbone of the regional economy has not been fully accommodated in regional tax policies (Susati, 2023).

Previous research has shown mixed results such as Fitrianti (2023), which found that the implementation of an online tax monitoring system has not significantly increased tax revenue. Then, the results of research on PAD and regional taxes conducted by According to Rustiana & Ningsih, (2025) stated that Regional Original Income (PAD) and regional taxes have been proven to have a positive and significant influence on the rate of economic growth." Then research by Tavares, et all, (2023) also shows that regional taxes, levies, and the Special Allocation Fund (DAK) have a significant impact on regional spending. Research conducted by Sari & Andiny (2024) this indicates the importance of further analysis regarding the effectiveness of regional tax policies in encouraging local economic growth, especially in Baubau City.

The development of endogenous growth theory emphasizes the important role of internal policies, including regional taxes, in creating sustainable economic growth (Sudiartana,et all ,2024). Regional taxes are not only seen as a fiscal instrument, but also as a tool to increase local economic competitiveness and support MSMEs (Rahma Filasti, 2015). As well as reducing social inequality (Saudi & Santoso, 2024). Therefore, the design of an appropriate tax policy will have a double

impact, namely strengthening PAD revenues while expanding the local economic base (Haryani & Susianti, 2024).

Digital transformation in regional tax management is increasingly relevant to address the challenges of the modern era (Ikhsanuddin, 2023). The implementation of a technology-based tax system is expected to increase transparency, improve oversight, and encourage taxpayer compliance. The economy itself is a key factor in driving progress and community welfare in every region (Saputri A. 2023). However, research specifically examining the relationship between regional tax policy and MSME development in Baubau City is still very limited. Therefore, this study seeks to fill this gap by analyzing the impact of regional tax policy on the local economy, particularly through the contribution of MSMEs (Sari & Mustaqim, 2023).

METHODOLOGY

This study adopts a quantitative descriptive approach as explained by (Sugiono, 2019). Primary data was obtained by distributing questionnaires to 94 respondents, consisting of Bapenda employees, taxpayers, and MSMEs in Baubau City. The sampling technique used purposive sampling for Bapenda employees and random sampling for MSMEs and taxpayers. The independent variable was regional tax policy (tax rate, tax object and subject, collection mechanism) (Martaviona & Nurhalimah (2025), while the dependent variable is the local economy (business growth, community income, and economic welfare) (Haryani & Susianti, 2024). Data analysis included validity tests, reliability tests, and classical assumption tests. The hypotheses were tested using simple linear regression, t-tests, and the coefficient of determination (R^2) with a 5% significance level (Ghozali, 2024).

RESULTS AND DISCUSSION

Validity Test

Validity testing serves to ensure that research instruments, such as questionnaires or surveys, accurately measure the intended variables. This testing ensures data accuracy, improves the quality of research findings, and minimizes the potential for errors in data interpretation (Kuncoro, 2023). With validity testing, researchers can ensure that the instruments used are appropriate and reliable as data collection tools. The results of this validity testing can be seen in tables 1 and 2 below.

Table 1. Validity Test Results for Regional Tax Policy Items

		Correlations						
		P1	P2	P3	P4	P5	P6	TOTALX
P1	Pearson Correlation	1	.244*	.064	.132	.287**	.257*	.518**
	Sig. (2-tailed)		.018	.541	.206	.005	.012	.000
	N	94	94	94	94	94	94	94
P2	Pearson Correlation	.244*	1	.105	-.121	.153	-.060	.332**
	Sig. (2-tailed)	.018		.312	.247	.141	.564	.001
	N	94	94	94	94	94	94	94
P3	Pearson Correlation	.064	.105	1	.177	.588**	.187	.574**
	Sig. (2-tailed)	.541	.312		.087	.000	.071	.000
	N	94	94	94	94	94	94	94
P4	Pearson Correlation	.132	-.121	.177	1	.275**	.697**	.678**
	Sig. (2-tailed)	.206	.247	.087		.007	.000	.000
	N	94	94	94	94	94	94	94
P5	Pearson Correlation	.287**	.153	.588**	.275**	1	.218*	.680**
	Sig. (2-tailed)	.005	.141	.000	.007		.035	.000
	N	94	94	94	94	94	94	94
P6	Pearson Correlation	.257*	-.060	.187	.697**	.218*	1	.720**
	Sig. (2-tailed)	.012	.564	.071	.000	.035		.000
	N	94	94	94	94	94	94	94
TOTALX	Pearson Correlation	.518**	.332**	.574**	.678**	.680**	.720**	1
	Sig. (2-tailed)	.000	.001	.000	.000	.000	.000	
	N	94	94	94	94	94	94	94

*, Correlation is significant at the 0.05 level (2-tailed).

Source: data processed with SPSS 25

Based on the validity test results for the regional tax policy variable (X) with $\alpha = 0.05$ and $N = 94$, the r table value is 0.203. The test results indicate that all question items are valid because the significance value of each item is less than 0.05 and the calculated r value is greater than 0.203. All items meet the validity criteria and can be considered valid.

Table 2. Results of the Validity Test for Local Economic Variable Items

		Correlations						TOTALY
		P1	P2	P3	P4	P5	P6	
P1	Pearson Correlation	1	.425**	.313**	.400**	.211*	.321**	.712**
	Sig. (2-tailed)		.000	.002	.000	.041	.002	.000
	N	94	94	94	94	94	94	94
P2	Pearson Correlation	.425**	1	.225*	.030	.171	.103	.510**
	Sig. (2-tailed)	.000		.029	.774	.099	.324	.000
	N	94	94	94	94	94	94	94
P3	Pearson Correlation	.313**	.225*	1	.207*	.644**	.010	.616**
	Sig. (2-tailed)	.002	.029		.045	.000	.927	.000
	N	94	94	94	94	94	94	94
P4	Pearson Correlation	.400**	.030	.207*	1	.208*	.613**	.695**
	Sig. (2-tailed)	.000	.774	.045		.044	.000	.000
	N	94	94	94	94	94	94	94
P5	Pearson Correlation	.211*	.171	.644**	.208*	1	.114	.582**
	Sig. (2-tailed)	.041	.099	.000	.044		.274	.000
	N	94	94	94	94	94	94	94
P6	Pearson Correlation	.321**	.103	.010	.613**	.114	1	.614**
	Sig. (2-tailed)	.002	.324	.927	.000	.274		.000
	N	94	94	94	94	94	94	94
TOTALY	Pearson Correlation	.712**	.510**	.617**	.700**	.585**	.614**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
	N	94	94	94	94	94	94	94

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Data processed using SPSS 25

Based on the validity test of the questionnaire items on the local economic variable (Y) with a significance level of $\alpha = 0.05$ and the number of respondents (N) = 94, the r table value was obtained at 0.203. The test results show that all question items are declared valid because the significance value is less than 0.05 and the calculated r value exceeds the r table. For the first question item (P1), the significance value is $0.000 < 0.05$, while the calculated r-value is $0.712 > 0.203$ (r-table). Therefore, it can be concluded that the first question item is valid.

In detail, the first item (P1) has a significance value of 0.000 with a calculated r of 0.712, thus meeting the validity criteria. A similar thing is seen in the second item (P2), which obtained a significance value of 0.000 and a calculated r of 0.510, higher than 0.203. In the third item (P3), the test results showed a significance value of 0.000 with a calculated r of 0.616, also exceeding the r table limit. Furthermore, the fourth item (P4) has a significance value of 0.000 with a calculated r of 0.695, thus declared valid. Meanwhile, the fifth item (P5) shows a significance value of 0.000 with a calculated r of 0.582, which is above the r table. Finally, the sixth item (P6) obtained a significance value of 0.000 and a calculated r of 0.614, thus also meeting the validity requirements. Thus, all questionnaire items in this variable are suitable for use in research.

Reliability Test

Reliability testing was conducted using Cronbach's Alpha statistics (Santoso, 2020). A variable is considered reliable if it produces a Cronbach's Alpha value greater than 0.60. Details of the reliability test results are presented in Tables 3 and 4.

Table 3. Results of the Reliability Test for Variable X

Reliability Statistics	
Cronbach's Alpha	N of Items
.621	6

Sumber: Data diolah dengan SPSS 25

Table 4. Results of the Reliability Test for Variable Y

Reliability Statistics	
Cronbach's Alpha	N of Items
.680	6

Sumber: Data diolah dengan SPSS 25

Based on the reliability test results, the Regional Tax Policy variable (X), consisting of 6 question items, showed a Cronbach's Alpha value of 0.621, which is higher than the threshold of 0.60. This

indicates that the measurement instrument for the related variable has an adequate level of consistency so that it is worthy of being used as a reliable tool in research. Likewise, the Local Economy variable (Y), which also consists of 6 question items, produced a Cronbach's Alpha value of 0.680, which exceeds the minimum value of 0.60, so it can be concluded that the measurement instrument for this variable is also reliable and consistent. Although the value is at the lower limit, it is still acceptable, especially for exploratory research. Thus, the measurement instrument for the Local Economy variable is also declared reliable.

Normality Test

This study applies the Kolmogorov-Smirnov test to assess the normality of variable distribution. Data are considered normally distributed if the significance value obtained exceeds 0.05. Details of the normality test results are presented in Table 5.

Table 5. Results of the Normality Test
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		
Normal Parameters ^{a,b}	Mean	.00000
	Std. Deviation	2.12257
Most Extreme Differences	Absolute	.0
	Positive	.0
	Negative	-.0
Test Statistic		.0
Asymp. Sig. (2-tailed)		.1
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Sumber: Data diolah dengan SPSS 25

The test results show that the unstandardized residual value has a significance level of 0.123, which is greater than the threshold of 0.05. Based on the test results, it can be concluded that the research data meets the assumption of normality. This indicates that the residuals are normally distributed and therefore suitable for use in further regression analysis.

Multicollinearity Test

The multicollinearity test is used to assess the presence or absence of a strong relationship between independent variables in a regression model. High correlations between independent variables can lead to excessive multicollinearity, making it difficult to separate the influence of each variable on the dependent variable and potentially compromising the accuracy of the analysis. Multicollinearity detection is generally performed using two main measures: the Variance Inflation Factor (VIF) and Tolerance. If the VIF value exceeds 10 or the Tolerance is below 0.1, this indicates significant multicollinearity. Conversely, the absence of multicollinearity indicates that the regression model is relatively stable and the analysis results are more reliable. Details of the multicollinearity test results are presented in Table 6. Table 6. Results of the Multicollinearity Test.

Table 6. Multicollinearity Test Results

		Coefficients ^a	
		Collinearity Statistics	
Model		Tolerance	VIF
1	X	1.000	1.000

a. Dependent Variable: Y

Source: Data processed using SPSS 25

The results of the multicollinearity test show that the Regional Tax Policy variable has a tolerance value of 1,000, which exceeds the limit of 0.1, and a VIF value of 1,000, which is below the threshold of 10. This indicates that the regression model used in this study does not

experience multicollinearity problems, so that the relationship between independent variables in the model can be considered not highly correlated with each other. Thus, the results of the regression analysis on the Local Economy can be considered stable and accurate.

Simple Linear Regression Analysis

This study tests the hypothesis through simple linear regression analysis to assess the relationship between the independent and dependent variables. This analysis aims to measure the extent to which the independent variables influence the dependent variable and to test their significance level. Data processing was performed using SPSS version 25 software at a 5% significance level ($\alpha = 0.05$). Details of the simple linear regression test results are presented in Table 7.

Table 7. Results of the Simple Linear Regression Analysis

Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	7.944	1.991	
	X	.666	.086	.628
a. Dependent Variable: Y				

Source: Data processed using SPSS 25

Based on the data presented in the previous table, the following regression equation is obtained:

$$Y = 7.944 + 0.666 X + \varepsilon$$

The explanation of the components of the regression equation is as follows:

1. If the Regional Tax Policy variable (X) remains at zero, then the Local Economy (Y) value is estimated at 7.944, which is a constant value in the equation.
2. Each one-unit increase in the Regional Tax Policy variable (X) will result in a 0.666-unit increase in the Local Economy (Y), according to the obtained regression coefficient.

t-Test

The t-test is used to assess the contribution of each independent variable to changes in the dependent variable individually. The purpose of this test is to determine whether each independent variable has a significant influence on the dependent variable. The analysis is conducted with a significance level (α) of 0.05. If the significance value obtained is below 0.05, the independent variable is declared significant in influencing the dependent variable. Conversely, if the significance value exceeds 0.05, the independent variable is not proven to have a significant influence. The complete results of the t-test are presented in Table 8.

Table 8. Results of the t-Test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.944	1.991		3.991	.000
	X	.666	.086	.628	7.744	.000
a. Dependent Variable: Y						

Source: Data processed using SPSS 25

Based on the results of the t-test, it indicates that the Regional Tax Policy variable (X) is positively related to the Local Economy (Y), with a significance level of $0.000 < 0.05$ (Gujarati & Porter, 2023). This indicates that regional tax policy has a positive and significant impact on the local economy. Therefore, the better the implementation of regional tax policy, the better the local economy will be.

The regression results show that regional tax policy has a positive and significant effect on the local economy with a significance value of $0.000 < 0.05$. The coefficient of determination (R^2) shows a substantial contribution of the tax variable to increasing (Ikhsanuddin, 2023) local economy.

Supportive tax policies, such as taxes for MSMEs and investment relief, have been shown to encourage business growth, job creation, and increased community income (Panigoro & Walewangko, 2023). This finding aligns with endogenous growth theory, which emphasizes the role of internal policies, including taxation, in supporting sustainable economic growth. However, limited tax technology infrastructure and low taxpayer awareness remain obstacles (Hartono & Silalahi, 2025). Therefore, digitizing the tax system and improving taxpayer education are strategic steps to strengthen policy effectiveness.

The results of this study indicate that the Regional Tax Policy (X) has a positive and significant impact on the Local Economy (Y) in Baubau City. The implementation of supportive policies, for example through tax reductions for small businesses and the provision of incentives for new investments, encourages economic actors to increase production capacity while expanding employment opportunities. The Head of the Baubau City Bapenda Division emphasized that the implementation of effective tax policies can build a conducive economic ecosystem, encourage increased investment, strengthen production capacity, and improve people's purchasing power, ultimately strengthening local economic growth. Tax rates that are appropriate to taxpayers' capabilities, such as the MSME rate of 0.5% of turnover, help businesses continue to operate and grow. Clear tax objects and subjects, such as hotel, restaurant, entertainment, and advertising taxes, provide stable regional revenues, while simple and transparent collection mechanisms increase taxpayer compliance. This policy not only increases tax revenue allocated for infrastructure and public facility development, but also strengthens the foundation of important sectors in the local economy, encourages business growth, and improves community welfare by increasing employment opportunities and purchasing power. Thus, appropriate tax policies can encourage sustainable and equitable economic growth.

"The results of this study align with the studies of Sayuti Mirza et al. (2023) and Jefarina Tavares, Dyah Ani Pangastuti, and Edi Subiyantoro (2023), which show that regional taxes and government spending have a positive and significant impact on economic growth. These findings confirm that appropriate tax policies, accompanied by effective regional spending management, can encourage investment, innovation, and job creation, thereby strengthening the local economy. However, this study has limitations, primarily due to the limited analysis period and the failure to consider other factors such as macroeconomic conditions, monetary policy, or differences in regional characteristics. Further research is needed to test and strengthen these results in various contexts and other regions.

CONCLUSION

This study concludes that regional tax policies have a positive and significant impact on strengthening the local economy in Baubau City. Tax reductions for small businesses or incentives for new investment will further motivate economic actors to increase production capacity and create jobs, contributing to local economic prosperity. Local governments are advised to strengthen digital-based tax administration, increase outreach, and encourage taxpayer compliance. Thus, regional taxes can serve as a strategic instrument for inclusive and sustainable economic development.

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