ABSTRACT

The role of government in economy is very important, particularly in providing of public goods and services. The government requires funds that come from state receipt to provide public goods and services. As a major source state receipt, tax revenue has some problems every year. One of problems occurred during the last five years is related the number of realized tax revenue are smaller than the specified target or commonly called shortfall. To solve that problem, condition of macroeconomic factors also need to be considered in addition to tax base and tax rate policies.

This study analyzes the behavior of long-run and short-run effect of macroeconomic factors, such as real Gross Domestic Product (GDP), inflation rate, exchange rate and state spending on Indonesia's tax revenue during the period 1976-2013. In this study used Error Correction Model (ECM) to analyze effect of each macroeconomic factor on tax revenue in long-run and short-run. The results of estimation find that Indonesia's tax revenue is affected by real GDP, exchange rate, and state spending. Meanwhile inflation rate don't has significant influence on Indonesia's tax revenue in long-run model. In short-run model, Indonesia's tax revenue is only affected by state spending, while others variable don't have significant influence on Indonesia's tax revenue. In short-run model estimation also obtained Error Correction Term (ECT) coefficient is 0.221. That value explains incompatibility tax revenue occur in long-run will be corrected of 22 percent.

Keywords: *role of government, tax revenue, macroeconomic factors, state spending, Error Correction Model (ECM)*