

CHAPTER I

INTRODUCTION

1.1 Research Background

Local income takes an important role in implementing the local government program. The authority to finance its local government program is as the result of decentralization. This system helps the central government to distribute the authority to the local government in realizing the national development. Decentralization in Indonesia is virtually identical with the phrase “Regional Autonomy” (Green, 2005;1). It will be used interchangeably in this research. Regional autonomy will help the central government to be more responsive to the local needs (Charty & John, 2004;1215). In addition, it also states that regional autonomy is designed to create the competition between provinces and lower levels of government and allow the central government to act as a mediator.

Local government through regional autonomy has given the authority to finance the needs of a region. The expenditure needs of local government are divided into five categories (Nasution, 2016;15): (i) education; (ii) health and social welfare; (iii) government administration; (iv) infrastructure and public works; and (v) economic development including transport, agriculture, industry and trade, capital investment, land, cooperatives, labor force, and environment. To

finance all of these expenditures, local government will use the resources of its region in term of local income. It will be better for local government to do not rely on the transfer from central government. When the local government can organize the local income very well, the local government program can be realized completely. On the other hand, when the local government can't organize the local income, the local government will face the problem in implementing the local government program, such as the constraint of finance. Consequently, the local government must be more active to find out the potential resources of income in its own region. For instance, the income that is collected from natural resources and receipts from public for services provided.

According to Act No.23, Article.285 in 2014 about local government, local government revenues that can be used to finance the needs of a region consist of: (1) local income (well known as *Pendapatan Asli Daerah/PAD*) that can be divided into local tax, retribution, the result of separated regional property, and other lawful local income; (2) intergovernmental transfer (*Dana Perimbangan*) that can be divided into revenues sharing fund (*Dana Bagi Hasil/DBH*) from taxes and natural resources, general allocation fund (*Dana Alokasi Umum/DAU*), and specific allocation fund (*Dana Alokasi Khusus/DAK*); and (3) other local revenues that can be divided into revenue sharing fund from province, donation, and grants (*Hibah*). All of these sources of revenue will be used for providing the public services to improve the prosperity of society.

Local income is the backbone to finance the local government program and it can be used based on the local government initiative (Juliawati, E., Darwanis, & Jalaluddin, 2012;16). It means that local government is allowed to use the local income based on the needs of region without any intervention from central government. On the contrary, intergovernmental transfer must be used based on central government instruction. The total of local income will indicate the dependence of local government finance. So local government must take more attention in managing the local income because it is the indicator to measure whether the local finance is dependence toward the transfer from central government or not. Local income contributes 96.95% toward the total of revenues of the region in West Kutai Regency (Ishak, Y., Soegiarto, E., & Hariyadi R. M., 2014;1). It is the highest percentage of local income that is reached in 2007. Actually, the contribution level of each local revenues in a region is quite different and usually the local income has the greatest contribution for most of region. Although the local income has the greatest contribution, the other sources of local revenue also have to be considered by local government.

The development of a region will be not realized without the contribution of local revenues. If the development of a region can't be realized, the national development also will not be realized, then the society prosperity can't be improved. This issue is so interesting to be researched. Although this study has been previously conducted by other researchers but there is no research that is

conducted in Pesisir Selatan Regency. The author is initiated to conduct the research in Pesisir Selatan Regency. The reason behind is because Pesisir Selatan is well known as a tourism area that provides many tourism destinations for tourists. The tourism destination will provide the opportunities for local government to maximize the potential of tourism sector in order to increase the local income in Pesisir Selatan Regency. Total tourist to tourism object in Pesisir Selatan Regency is shown in table 1.1.

Table 1.1
Total Tourist to Tourism Object in Pesisir Selatan Regency for Period 2009-2016

Year	Foreign	Domestic	Total
2009	317	13 333	13 650
2010	357	110 906	111 263
2011	431	116 127	116 558
2012	476	306 670	307 146
2013	578	587 056	587 634
2014	1 551	1 544 684	1 546 235
2015	1 600	2 000 000	2 001 600
2016	1 500	1 980 000	1 981 500

Source: Department of Youth, Sport, Culture, and Tourism of Pesisir Selatan Regency (2016)

It can be seen that the tourists of tourism object in Pesisir Selatan Regency has increased year by year. As an autonomous region, the local government of Pesisir Selatan Regency has the authority to manage the tourism object in order to attract the tourists to visit Pesisir Selatan Regency. The tourism sector has the greatest contribution to the local income in Pesisir Selatan Regency (Ranggeni, 2017;1). Hence the local government must maximize the potential of the tourism sector to decrease the dependence toward the central government transfer. In addition, the tourism sector will attract the other businesses to provide the services for tourists such as restaurant and hotel. Local government will take the advantage from the other businesses in the form of local tax. This research is only focused on the local income of Pesisir Selatan Regency that consist of local tax, retribution, the result of separated regional property, and other lawful local income.

Based on the explanation above, the researcher wants to do a research with a tittle “**Analyzing Growth and Contribution of Local Tax, Retribution, The Result of Separated Regional Property, and Other Lawful Local Income to Total Local Income in Pesisir Selatan Regency for Period 2013-2017**”.

1.2 Problem Statement

Based on the discussion above, the research problems are formulated in the form of questions as follow:

1. How is the impacts of growth and trend of local tax, retribution, the result of separated regional property, and other lawful local income on decisions made by related officer in Pesisir Selatan Regency for period 2013-2017?
2. How is the impacts of contribution and trend of local tax, retribution, the result of separated regional property, and other lawful local income on decisions made by related officer in Pesisir Selatan Regency for period 2013-2017?

1.3 Research Objectives

Based on the problem statement that has been presented, the objectives to be achieved in this research are as follow:

1. To understand and analyze the growth and contribution of local tax, retribution, the result of separated regional property, and other lawful local income to total local income in Pesisir Selatan Regency for period 2013-2017.
2. To understand and analyze the impacts of growth and contribution trend of local tax, retribution, the result of separated regional property, and other lawful local income on decisions made by related officer in Pesisir Selatan Regency for period 2013-2017.

1.4 Research Benefits

Based on the objectives of this research, the results of this study are expected to be useful as follow:

1. Local Government of Pesisir Selatan Regency

This study is expected to be useful for local government in Pesisir Selatan in order to take the decision regarding the local income. It is also expected to generate a well management of local finance in Pesisir Selatan Regency.

2. Society

A good performance of local government in managing the local income will lead to the development of every aspect in the society. While the society is expected to be aware that by paying the tax, it will help the local government to finance its program. The awareness of society to pay the tax can be realized by giving the socialization regarding the important of tax in increasing the society prosperity.

3. Tax Payers

Tax payers need the information related to how much their money contribute to total local income and to where or to what for their money

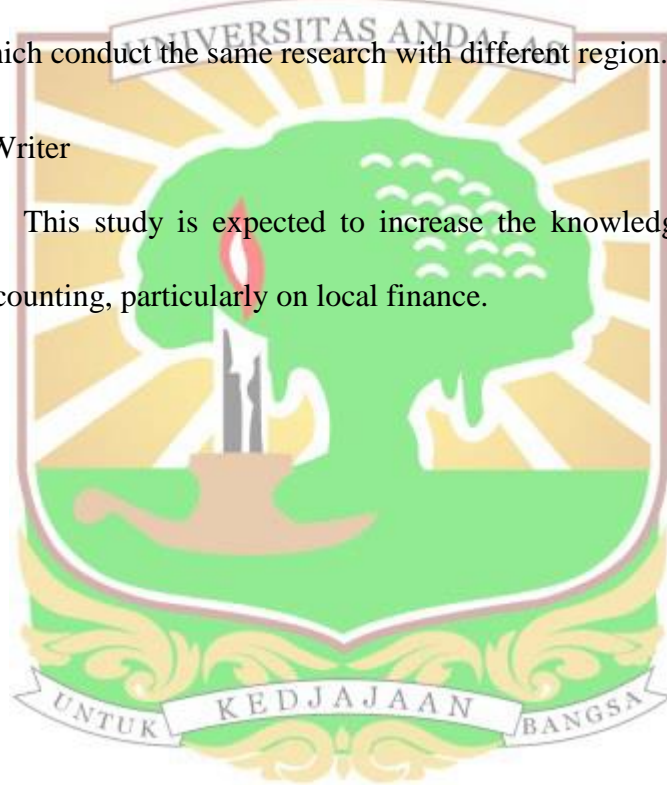
is spent. To achieve this, the administration is expected to prepare the subsidiary report or the breakdown of existing report.

4. Other Researchers

This study can be a reference and information for future research which conduct the same research with different region.

5. Writer

This study is expected to increase the knowledge in the field of accounting, particularly on local finance.



1.5 Writing Systematic

This research consists of five parts or chapters as follow:

1. CHAPTER I: INTRODUCTION

This chapter explains about the research background, problem statement, research objectives, research benefits, and writing systematic.

2. CHAPTER II: LITERATURE REVIEW

This chapter explains about the theory that will support the research, review of previous research, and research framework.

3. CHAPTER III: RESEARCH METHODOLOGY

This chapter explains about the research design, research variable and operational definition, type and source of data, data collection method, and data analysis method.

4. CHAPTER IV: RESULT AND DISCUSSION

This chapter explains about the description of research object, analysis of data, and discussion.

5. CHAPTER V: CONCLUSION AND RECOMMENDATION

This chapter explains about the conclusion, research implication, research limitation, and recommendation for the research that has been done.