

**REGIONAL REGULATION OF LOCAL REVENUE: A STUDY OF IMPROVEMENT ON
OWN SOURCE REVENUE OF TULUNGAGUNG REGENCY**

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Abstract

The process of establishing the Regional Regulation in increasing local revenue was not enough with the publication of legislation in question, but should be able to provide the SE for the improvement of socio-economic development and the ability of the community, therefore it is necessary to synchronize between the planned program/activity by public organizations to plan community activities and stakeholders by promoting the principles of empowerment , equitable, democratic, decentralized, transparent, accountable, responsive, and participatory by involving all elements of the state institutions, government agencies, communities and stakeholders. This is in line with the spirit of democratization and good governance. Local Revenue obtained from the Local sector § Taxes, Levies, regionally Owned Company Results, the Results of Regional Wealth Management separated and other legitimate income areas. Regional Income is an indicator which is a barometer of the success of the fiscal decentralization in Indonesia. Growth that occurred in the area should be supported by strong local revenue, local revenue because the element of local § taxes and levies as well as other sources of income that were actually excavated from the region itself. But in fact, regional revenue contribution to the local budget generally ranges from 9% to 14%, so very far from the fiscal independence of local governments.

Keywords: *policy, public finance, regional revenue*

1. INTRODUCTION

According to Law No. 32 of 2004 on Local Government, the organization of Local Government is implemented based on: the principle of decentralization, the principle of de-concentration and accommodation. The principle of decentralization in this Law embraced the notion that: (1) the devolution of the governmental authority in autonomous region, except for the authority of the Defense and Security, Foreign Policy, Justice and Monetary/Fiscal, Religion and other governmental authorities; (2) the process in the formation of the new autonomous region is based on the principle of decentralization, or by acknowledging the autonomous region who have been formed based on the previous legislation.

The principle of de-concentration embraced in this Law consists of: (1) the devolution of the governmental authority by the government to the regional subordinates; (2) the establishment of Provincial Administrative Areas and the governmental authority devolution by the government to the Governor. Basically, the Local Government is no longer has the de-concentration subordinates except those who run the authority of Defense and Security, Foreign Policy, Justice, Fiscal/Monetary, Religion as well as the other governmental authorities and/or strategic policies defined by the government regulations.

In the implementation of the Local Government authority, the Central Government will transfer a Regional Fiscal Balance Funding (*Dana Perimbangan*) which consists of the *Dana Alokasi Umum* (DAU) or General Allocation Fund, *Dana Alokasi Khusus* (DAK) or Specific Allocation Fund, and *Dana Bagi Hasil* or Revenue Sharing Fund. The policy of all those funds is handed over to the Local Government. The money will be used effectively and efficiently by Local Government in order to improving the public service. Each area has different ability in managing the fund for its operational activities; it raises the fiscal imbalances between regions. To address these imbalances, the Central Government transfers the Regional Fiscal Balance Funding for each region. One of those is namely *Dana Alokasi Umum* (DAU) or General Allocation Fund. DAU is an allocation of money (fund) which is coming from the Central Government taken from the APBN (*Anggaran Pendapatan dan Belanja Negara*) or Indonesian State Budget to achieve a financial equalization between regions in financing the needs of the Local Government in line with the implementation of the decentralization.

Based on the general explanation of the Law No.23 of 2014 about Local Government Article 279 Paragraph 2 regarding to the Regional Financial, it is mentioned that "The relation between financial and governance implementation in an area as stated in the paragraph (1) which included the distribution of local revenue in the form of regional taxes and levies; the funding is sourced from financial equalization between the Central Government and Local Government; the funding for a specific autonomy management in a certain Local Government which has been assigned in the legislation; and the distribution of loans and/or grants, emergency fund, and incentives (fiscal)."

Resources and money are both required to be ready for the regional autonomy management as well as the responsibility and accountability from every region. In line with that, the implementation of Local Government is supported by the financial equalization between Central Government and Local Government which is customized to the needs and potential of the region as regulated in the Law No. 33 of 2004 concerning the Financial Equalization between Central Government and Local Government. While Kaho (1995:252) explained that "the organization of the regional autonomy which is completely good will be reached when the income comes from the local revenue". Kaho expresses that a regional autonomy will push the region to explore the potential of the financial resources, because the regional autonomy policy itself is actually centralized to the independence of that region, both in terms of financial matters as well as construction activities in attempt of developing its territory.

The issue of tax management conflict of the Central Government and the Local Government is being a push and pull topic that includes three things: the authorities and duties of the region (*expenditure assignment*); The regional authority to collect taxes (*tax assignment*); inter-governmental fiscal transfer.

Those three things are the crucial problems in the multi-level government as a result of the interaction between the Central Government and the Local Government. The second thing about tax assignment is in regard with the condition that occurs during this time and the estimation of the autonomous region problems in the future. All those problems are the foundation of this dissertation that a local taxing power is quite important and that it is a necessary condition for the realization of the vast autonomous region.

Law No. 28 of 2009 described that the transfer of the resources management is handed over to the region in part 17 about BPHTB (*Bea Perolehan Hak Atas Tanah dan Bangunan*) or Duties on Land and Building Transfer. The purpose of the PBBP2 (*Pajak Bumi dan Bangunan Perkotaan dan Pedesaan*) or Urban and Rural Land and Building Tax management transfer into a local tax is in accordance with its law of local tax and levy which are: enhancing the accountability of the regional autonomy, providing new opportunities to the region to impose new charges (add several types of regional taxes and levies), providing a greater authority in tax and levy by expanding the base of the regional taxes, giving authority to the region in local tax assignment, using tax functions as an instrument of budgeting and setting in the region.

Regarding with the local sources of income in Law No.23 of 2014 Article 290 Paragraph 6, it is stated that the fiscal capacity of the region is an income that comes from PAD (*Pendapatan Asli Daerah*) or Region Own Source Revenue and DBH (*Dana Bagi Hasil*) or Revenue Sharing Fund. The existence of this Law is expected to be able to improve the system of Local Government. Besides that, the orientation changes of the sheer power into public service should be able to increase the communities' welfare.

In the budget management, the principle of independence is used by the Local Government to optimize the acceptance from its territory which is the PAD sector. According to Law No. 23 of 2014, PAD is a source of Local Government income which comes from the region itself based on its capabilities. PAD consists of regional taxes, regional levies, regional wealth management which is being separated and other legitimate incomes (Kawedar, 2008). With the PAD enhancement, it is expected to increase the investment capital expenditure of Local Government so that it could deliver a good and qualified public service.

Local Government could be organized due to the support of various resources that are able to run the Government Organization's wheel in order to achieve its goal. Financial factor is a major factor which is the resources for financing the wheel of the Local Government. Region financial is the entire order, subordinates, institutional, and budgeting policy that includes local income and expenditure (Tangkilisan, 2005:71). A common financial phenomenon faced by most of the Local Government in Indonesia is the relatively small role (contribution) of the PAD in the structure of *Anggaran Pendapatan dan Belanja Daerah* (APBD) or Regional Government Budget. In other word, the role/contribution that comes from the Central Government in the form of donations and accommodations, revenue sharing of taxes and not taxes, it dominates the structure of the APBD.

The problems of *Dana Alokasi Umum* (DAU) or General Allocation Fund lies between the Central Government and Local Government different viewpoints. As for the Central Government, DAU is used as a horizontal imbalance instrument for equalization or as the fiscal gap filler. As for the Local Government, DAU is intended to support the sufficiency. The problems arise when the region ask for DAU according with their needs. While on the other hand, DAU allocation based on regional needs cannot be organized because the calculation of the fiscal needs is inadequate (limited data, no minimum service standard for each region, and the system of budgeting which has not been on the expenditure standard analysis). Moreover, the total expenditure budget, particularly APBD, has yet reflected the real necessity and tend to be inefficient.

According to Surtikanti (2012), the region is often blamed for such local tax and levy that causes a high economy cost. It's kind of just few crumbs of the PAD because the tax source is already intercepted in the Central. In this case, the Local Government asks for a justice with a greater revenue sharing system, otherwise the tax source should be handed over to the region. Therefore, it is necessary to consider the needs and the potentials of the region in determining DAU. The region needs at least concerning the population, extensive area, geographical circumstances, the level of people's income, and the poor people.

Natural resource management in fiscal decentralization raises many problems. It is characterized by the investment decline and low economic growth in the region which is rich in SDA. The Central Government is considered to be predatory state that exploits massively areas, especially oil and gas-rich regions such as Aceh, Papua, Riau and East Borneo. As evidence, even though it is said to be a wealthy area, the development of economic infrastructure in the region was still lagging compared to other areas. The expression of dissatisfaction over this area become a general phenomenon. For example, is the revenue sharing of oil and gas. The 48 Case by mid-2002, the oil and gas-producing area that threaten to blockade the oil and gas production in its territory. At that time, the determination of the Decree by Minister of Finance No. 24/KM 66/2002 about revenue sharing of oil and gas is not considered to be transparent. Because, only 1-2 percent of the actual number of oil and gas in each area was given.

The improvisation of PAD is the conventional efforts that can be made by the Local Government in improving the financial capability in its region. The big difference of the economic potential allows some specific areas to increase this PAD through the excavation of the existed economic potential and those which has not been explored. However, the creativity in the formation of local regulations as optimizing PAD should also be based on the concrete law. It means that to keep the principle of the *lex superior derogate lex inferior* legislation hierarchy. So, the rules in the area especially the one which is related with PAD can run effectively and will not be cancelled in the future.

The role of Local Government in exploring and developing various potential areas as a source of income is a major factor in determining the success of the Government organization, development and the community service. So the main characteristics that define an autonomous region capable on running its autonomy lies in the ability to finance the Government organization with the smaller level of dependency to the Central Government and the PAD is expected to be the part of the largest mobilization in organizing the Local Governments. Therefore, it is common that PAD is used as one of the milestones in the implementation of the regional autonomy.

2. RESEARCH METHOD

This study used a qualitative research approach with descriptive research type. Refers to the selected research type, it is intended to address the problem of the research by describing and analyzing a variety of regulations, documents, phenomenon, and researchers' observation about the PAD. The reason of using this qualitative research approach is that a qualitative research is one of the scientific research which approaches by: examine the condition of the objects naturally; researchers as the key instruments to dig and gather data; triangular technique is used to ensure the correctness of the data; data analysis and interpretation is carried out by means of inductive. Furthermore, the reason of the researchers to choose descriptive research is that an exploratory research is a kind of qualitative research which is more focused on extracting the information deeper and broader about the less well-known research phenomenon and problems. The reason as outlined above is in line with the statement of Strauss & Corbin (1997:14) that there are basically three components in the qualitative approach, namely (1) the existence of the data can come from a variety of sources (2) the presence of different analysis or interpretation procedures is in order to obtain results and theories, and (3) the presence of a writing and verbal reports.

Then, the reason why the researchers used a qualitative research method in this study is because they observe precisely on the qualitative research characteristics and the phenomenon examined. In addition, the relevance of the use of qualitative research methods can be understood that in every issue there are many specific and interlinked phenomena, whether on the mechanisms, implementation as well as the obstacles faced by Kabupaten Tulungagung on improving its PAD.

3. RESULT AND DISCUSSION

Bridgeman and Davis (2004:4-7) explains that public policy has at least three interlocked dimensions, i.e. as an *authoritative choice*, as a *hypothesis*, and as an *objective*. The choice of an action in the regulations is a legal or authoritative action because it is made by the person who has the legitimacy in the governance. The decisions were binding the civil servants to act or to direct the actions or activities like allocating the budget to implement a specific program or preparing the draft of the Law or Government Regulations to be considered by Parliament.

Public policy is an ongoing process, so the most important thing in that process is the policy cycle. The policy cycle includes policies formulation, implementation and evaluation (Parsons, 1997). The policies that have been formulated tend to achieve a particular goal. In this context, it is understandable that the policy will not be successful if in the practice there is no connection with the purpose. Oftentimes, there is a presumption after the policies enacted by the authorities on its own. The policies will be implemented and its results would be almost the same as the expectation. In applying the public policy by passing through a long process/step, Thomas r. Dye (2001) in Parson (2005:145) outlines the process in several stages which are: identify the problems of agenda preparation policy, policy formulation, policy legalization, policy implementation, policy evaluation.

Implementation is one of the stages in the public policy process. Before the policy is being implemented, it must be formulated with a clear purpose first. Implementation is a string of activities with

the purpose of conducting a policy to the public so that it could bring the expected results (Gaffar, 2009:295). Those activities include the preparation of several advanced rules which is the continuation of that policy interpretation. For example, there is a law where it contains a number of Government Regulations, Presidential Decree, as well as Local Regulations to prepare resources in order to drive the implementation including infrastructure, financial resources, and of course who is responsible for implementing the policy, and how to deliver concrete policies to the public.

Implementation in a broader sense is the tool of administration law by which various actors, organization, procedures, and techniques are working together to apply the policies in order to achieve the expected purpose or impact (Winarno, 2002:102). According to Hogwood and Gunyang, the terms of implementing the Government Regulations perfectly are the external condition faced by the agency must not experience a serious disruption or constraint, it could be physical, political and etc. As for the implementation of the program, there has to be an availability of time and resources, the combination of the resources required are actually available, the policy that will be implemented are defined in a reliable causality, the causality relationship has to be straightforward and just a bit of a connecting link, the dependency nature needs to be small, a deep understanding and a deal on the objectives, the tasks have to be itemized and placed in the proper sequence, perfect communication and coordination, the parties which have the authority could deliver a demand and get a perfect obedience (Wahab, 1997:71-78).

The policy made by the Government not only intended and held for internal government, but it is intended and should be implemented by all communities that are in the surrounding area. Anderson in Sunggono (1994) stated that the public could know and carry out the public policy due to respect for the members of the public towards the government authorities and decisions; The existence of consciousness to receive such policy; The existence of a belief that the policy was made legally, constitutionally, and made by the authorized party through a defined procedure; The attitude of accepting and implementing the public policy because it is more in line with private interests; The presence of certain sanctions which would be imposed if the related parties do not apply the policy.

According to Sunggono (1994), the implementation of the policy has some obstacles, namely:

a. Policy content

First, the implementation of the policies got failed because the contents itself are still vague, means that the objectives are not sufficiently detailed, instrumentalities and priorities implementation, or the policy programs are too general or completely none.

Second, due to the lack of internal and external provision of policies which will be implemented.

Third, the policies which will be implemented could also indicate that the deficiencies were very meaningful.

Fourth, the failure could be occurred because of the lack of supportive resources, such as the time, budget/funding and manpower.

b. Information

The implementation of public policies assumes that the parties who are directly involved in the field have any important or related information just to be able to play the role well. The fact is, this information does not exist, for example due to communication error.

c. Support

The Implementation of a public policy would be very difficult if in reality the support is not enough for the policy implementation.

d. Subdivision Potential

The reason related to the failure of the public policy implementation is also determined by the potential division between the people involved in the implementation, it is related to the task and authority differentiation. The organization structure can lead to a problem if the division of authority and responsibility is less adapted to the division of tasks, or could be characterized by the unclear restrictions.

The existence of a period adjustment, especially for controversial policies, is getting more rejection in its implementation by the citizens. According to James Anderson cited by Sunggono, the factors that cause the public do not want to obey and implement the public policy, are: The existence of the selective disloyalty concept against the law, where there are few laws or public policy that is less binding on the individuals; Because the members in a group or association have a different or contrary idea/thought to the law and the

government's intention; The people's desire to seek quick profits among community members which will lead them to cheating or doing such an illegal way; The existence of an uncertainty law or the vagueness of the policies "size" that may be contrary with each other, it could be a source of that law or public policy non-compliance; If a policy is sharply opposed (contrary) by the society at large or specific groups (Sunggono, 1994).

In Indonesia, regional taxes and levies are regulated in Law No.28 of 2009. This is the third Law of a local levy. The first Law about levies was in Law No.18 of 1997, but then in the early years of decentralization, the Law on levies renewed by Law No. 25 of 1999, which provides a large authority in conducting the regional taxes and levies collection. However, this Law does not provide limits for the types of levies that may be charged and the amount of that levies itself. After that, in 2000, Law No. 34 of 2000 was issued. The law regulates several things including the types of levies, but there is no strict regulation of the levies that may be charged, so that the Local Government still tend to publish a regulation that ultimately burden the community, particularly businessmen.

It is different with the law No. 28 of 2009 about regional taxes and levies, the regulation here is common and has a limit on where local governments may collect taxes and levies. For the implementation in each region, Act No. 28 of 2009 mandates that it should be established by the Local Regulations.

It is quite understandable that regional taxes and levies is merely a means of local revenue. It is the authorities of the area that types and amount of regional taxes and levies will be set as the supplier of the APBD based on the local potential. Then the collection of regional levies and taxes should not become counterproductive because of the competitive factors in the region to attract investors. On the other hand, the setting of regional taxes and levies with Local Regulations should not be contrast to the hierarchy of laws and regulations as set Law No. 12 year 2011 article 7 paragraph (1).

Tax function is very vital and strategic in the general government administration, economic governance, equitable distribution of opinion and then the development enhancement led each state to organize the taxes collection well. Moreover, state revenue from tax sector became one of the key indicators of the success of the Government. If it is pulled further, no matter what tax system which is being implemented, the measure of success will be on the tax deposit amount to the State. It is not an easy job for the Ministry of Finance particularly the Directorate General of Taxes apparatus, seeing that the level of tax payer still remains low, while the state revenue through tax sector tended to rise in every year.

After that, the implementation of local tax collection should pay attention to the local aspirations, the operations must be implemented effectively, efficiently, transparently, accountably, equitably, credibly, and sustainably. Thuronyi (1998) suggested four criteria for drawing up the good policy of tax:

(1) Understandability refers to making the law easier to read and follow 2;() Organization refers to both the internal organization of the law and its other tax laws coordination with;(3) relates to the law's Effectiveness to enable the desired policy to be implemented;(4) Integration refers to the consistency of the law with the legal system and drafting style of the country.

The tax policy which is part of the fiscal policy could be a tool in the selection of the financial relationship policy between the Central and Local Government. A country's choice of how to draft the tax system depends on several factors such as the level of development, needs and desires to improve the public services, the capacity to impose the taxes effectively as well as the Local Government empowerment.

Since the autonomous region was rolled out in 2001, the region had been given such authority to collect and manage their own resources in the form of regional taxes and levies. Regional Tax and Regional Retribution/Levy or *Pajak Daerah dan Retribusi Daerah* (PDRD) is the main component of Region Own Source Revenue or *Pendapatan Asli Daerah* (PAD). As the main source of PAD, Local Government always try to improve the PAD with regional taxes and levies. This revenue is then used to finance the organization of Local Governments as well as delivered a service to the community. Then, the taxes distributed through the expenditure in accordance with the appropriate functions and business.

There are four fundamental policies that are set in Law No. 28 of 2009. The first is the *Closed-list system* of taxes and levies that can be charged by the Local Government. It is intended to provide assurance and business to the public about the types of charges that they have to pay. The second is to strengthen the *local taxing power*. It could be done through the expansion of the existed regional taxes and levies base, adding the type of regional taxes and levies (such as cigarettes taxes and the Land and Building Tax or *Pajak Bumi dan Bangunan* (PBB) diversion into regional taxes), increasing the maximum rate of some regional tax type, as

well as the discretionary determination of the tax rate. The third is the improvement of regional taxes and levies management system through the provincial tax-sharing mechanism that is more ideal and the regulation of *earmarking* certain regional tax types (such as *earmarking* some of the vehicle taxes for road maintenance). The fourth is to increase the local taxes supervision effectiveness by changing the repressive supervision mechanism to be a preventive and corrective supervision.

Based on the research of William McCleary, a researcher of the World Bank, *earmarking* approach has been implemented in several countries with a different model or variation. Turkey and Colombia are some of the examples that use *earmarking* approach almost in all sectors of their administration.

The application of the *earmarking* approach in Indonesia is often resisted in the *general fund budget* system. The Law No.17 of 2003 stated that the approach in the *general fund budget* is the *unified budget*. Pros and cons of those two systems has been the subject of long discussion by the experts. This condition is a logical consequence of the *earmarking* application in the *general fund budget* system with the *unified budget* approach. In the *general fund budget* system, the income of the state comes from the sources that have been assigned in the Law, i.e. tax revenues, grant revenue and PNB (Penerimaan Negara Bukan Pajak) or Non Tax Revenues. This is budgeted in accordance with the Government's national priorities and the programs/activities which are proposed by their respective ministries/agencies.

Secondly, from the side of the subject, the subject of the local revenue are those who are involved in the management particularly Local Government and its subordinates, regional companies, and other agencies that are related with the local revenue, such as DPRD (*Dewan Perwakilan Rakyat Daerah*) or Regional House of Representatives and BPK (*Badan Pemeriksa Keuangan*) or Supreme Audit Agency. Third, from the side of the process, the local revenue includes a whole series of activities related to the objects management ranging from policy formulation up to its accountability. Fourth, from the side of the financial objectives, the local revenue includes all policies, activities and legal relations which are related to the possession and/or authority of the objects in connection with the Local Government organization.

Meanwhile, according to Mardiasmo (2006:63):

" *Anggaran Pendapatan dan Belanja Daerah* (APBD) or Regional Government Budget is the main policy instruments for Local Government. As an instrument of policy, the regional budget occupies a central position in the capability and effectiveness development. The regional budget is used as a tool to determine the amount of the income and expenditure, help determine the decision-making and development planning, authorize the expenditure in the future, a source of the standard measurements development for the performance evaluation, a tool to motivate employees, and coordination tools for all activities from various work units ".

APBD is a Local Government annual financial plan approved by the DPRD (Act No. 17 of 2003 article 1 paragraph 8 about the Local Revenue). All the regional income and expenditure should be recorded and maintained in the APBD. This is within the framework of the implementation of decentralized tasks. While those which are related with the implementation of the Deconcentration are not recorded in the APBD.

According to the decree of the Minister of Home Affairs no.13 of 2006, APBD is one unified structure consisting of:

- a) Regional Revenues;
- b) Regional Expenditures
- c) Regional Financing

That APBD structure is classified according to the government and the organization affairs that are responsible for carrying out the governance in accordance with the legislation. The description about regional financing is regulated in the Minister of Home Affairs No. 13 of 2006 Article 62-77.

The description of PAD based on Law No. 33 of 2004 about the Financial Equalization Between the Central and Region article 1 number 18 which states that "The region own source revenue, which then is referred as the "PAD" is a local revenue that is charged based on the local regulations in accordance with the Laws and Regulations".

Regional financial policies geared to increase region own source revenue that can be used by the regions in organizing the governance and development of the area, it means to be in accordance with their needs to minimize the dependency on the Central Government (subsidies).

Thus, the enhancement of region own source revenue should be viewed from a broader perspective that not only be reviewed by the side of the regional respective but it has to be in relation to the unity of

Indonesian economy. The region own source revenue itself is considered as an alternative to acquire additional income which it can be used for various purposes of expenditure especially for such convenience routines. Therefore, the region own source revenue improvement is something that is agreed in each area.

As already outlined previously that the region own source revenue is one of the local sources which in purpose is to financing the regional development, but in fact, the contribution for the growth of the region is still not enough. Concerning to that, Local Government needs to explore and increase the income of the area especially the region own source revenue potential.

Region Own Source Revenue or *Pendapatan Asli Daerah*(PAD) is a regional income sourced from the regional taxes and levies, the separated regional wealth management and other legitimate incomes which aims to give such authority to the region in exploring the local revenue in the implementation of the autonomous area as the realization of the decentralization principle. (Explained in Law No. 33 of 2004)

According to Mardiasmo (2005:132), "PAD is a local revenue which is obtained from the regional taxes and regional levies, the separated regional wealth management, the regionally owned company results, and other legitimate incomes".

In the implementation of a good governance, Local Government is in need of financing its system from the APBD. In the financial sector, each region has the financial resources that are a source of income for financing its development.

Locally raised revenue or in the Indonesian Local Government terminology called "PAD" is the income that is determined and collected locally. This type of income should be a main source of income for the region. There are three categories in this type of income, include regional taxes, regional fines and levies, as well as the regional company's earnings. A lot of people viewed the regional taxes as the main sources of income. In this case, the Central Government generally determines which tax that can be charged in each region. In many countries, the legislation also specifies the limits for the levies and gives the authority to the Central Government to check and verify it.

In the Law No. 33 of 2004 concerning the Financial Equalization Between the Central Government and Local Government, it is mentioned that PAD is a local revenue that is sourced from a. regional taxes, b. regional levies, c. the separated regional wealth management, and d. other legitimate incomes which it aims to give such authority to the region in exploring the local revenue in the implementation of the autonomous area as the realization of the decentralization principle.

It also acquired from the Regional Fiscal Balance Funding which consists of, 1) Part of the individual income tax, Land and Building Tax or *Pajak Bumi dan Bangunan* (PBB), Duties on Land and Building Transfer or *Bea Perolehan Hak Atas Tanah dan Bangunan* (BPHTB), and revenues from natural resources (*Sumber Daya Alam* or SDA); 2) General Allocation Fund or *Dana Alokasi Umum* (DAU); and 3) Specific Allocation Fund or *Dana Alokasi Khusus* (DAK).

As stated by Soemitro cited by Kaho (1995) that: regional tax is a tax which is charged by the region like a province, a town, a district and so on. Furthermore, Siagian in Kaho (1995) states that: regional tax is the tax that is submitted to the region and declared as a legislated regional tax.

From that explanation, then the characteristics of a regional taxes as stated by Kaho (1995) are: regional tax comes from the state tax that is confirmed by the Law, the distribution of the regional tax is carried out by the Law, the regional tax is charged by the region based on the Law, the results of the regional tax collection are used to finance the organization and development of the Local Government.

Furthermore, Soetrisno (1981) suggests that regional taxes have special characteristics, namely: it is being charged by the region based on the assigned principles or laws, the area of the regional tax is outside the target object of the state tax.

Whereas according to Saragih (2003:65), levy is "a regional retribution (payment) for services or specific permissions granting that are provided and/or given by the Local Government for the private persons or institutions". Meanwhile, according to Halim (2004), "Regional levy is a local revenue which comes from the local retribution."

The levy for a city can be divided into two, which are: the retribution for a city is set according to the regional authorities which it consists of: 10 types of public service levies, 4 types of certain permission levies, and secondly is set according to the services provided by each region which consists of: 13 types of service business levies. (Kadajatmiko, 2002).

Hardjono(1984) stated that the levy is a regional retribution as the payment of usage or due to the services of employment, business, or property either directly or indirectly.

Brotodiharjo (1995) explained that in general, the levy which is related with the achievements is a direct retribution, so that the payments were intended solely by the payer to acquire certain achievements from the Government. This opinion is supported by Suparmoko (1974) which explains that levy is a payment from the people to the State where there is a connection between that direct services and the retribution payment.

In general, the efforts that need to be done by the Local Government in order to increase the local revenue through intensification of optimization of regional taxes and levies collection, can be done by these following ways:

1. Expanding the base of the revenue

The actions that are taken to expand the base of the revenue which in the calculation is considered to be potential, among others, i.e. identify the new/potential and the existed taxpayers, improve the objects database, improve the assessment, calculate the capacity to receive each kind of levy.

2. Strengthening the process of voting

Strengthen the process of voting such as accelerating the Regional Regulations preparation, changing the rates particularly the levies, and human resources development.

3. Improving the supervision

Perform impromptu and periodic examination, repair the supervision processes, give the sanctions towards the people who do not want to pay the taxes and the authorized tax parties which do not run the system in the right way, as well as increase the tax payments and services which is provided by the region.

4. Improve the efficiency of the administration and press the levy costs

The actions that need to be conducted by Local Government are by improving the tax administration procedures through the tax administration simplification, increase the efficiency of every type of levies

5. Increase the revenue through a better planning

this can be done by improving the coordination with relevant agencies in the area.

Behind the high dependency of the Local Government towards the Central Government in the implementation of regional autonomy, Widayat (1994) suggested several factors that affect the low acceptance of PAD namely: many revenue sources at the city which have a great potential is being run by higher instances, such as the motor vehicle tax (*Pajak Kendaraan Bermotor* or PKB), the Land and Building Tax (*Pajak Bumi dan Bangunan* or PBB); and the Regional Owned Enterprises (*Badan Usaha Milik Daerah* or BUMD) has not given a profit to local governments; it is due to the lack of public awareness in paying taxes, levies, and other charges; The presence of leaks; retribution cost that is still high; many local regulations that need to be adjusted and improved; the lack of public's ability to pay taxes.

In regard to increase the revenue particularly PAD, the policy that needs to be pursued according to Kamaludin (1983) is in the form of retribution intensification and extensification so it is expected that the PAD will be more instrumental. The policy and intensification is in the form of PAD enhancement from the existed sources. While the policy and extensification is in the form of exploring the local revenue in new areas within the limits of the legislation.

The sources intensification and extensification really depends on the Local Government creativity to coordinate with various PAD agencies and the creativity of the apparatus is very determined by the quality of the apparatus itself.

Meanwhile, Kristiadi (1991) suggested that ideal financial associated with PAD, are: regional own source revenue should be stressed further on the retribution extensification and intensification, considering that the levy is in accordance with the direct services at the community, thus it is expected to simultaneously increase the public's service, the regional taxes only need to be set in a limitative source of potential objects, as for the tax that has less potential then it should be eliminated.

Furthermore, Lains (1985) stated that local revenue will also be improved by increasing the efficiency of tax administration and voting as well as improving the supervision which is conducted by the authorized officer in order to reduce leakage. The regional own source revenue (PAD) can also be improved by enhancing the role of regional company through the increased business profits.

The succeed or failure on implementing the taxes and levies collection is depending on the quality of its Local Government administration and how that policy is being formulated based on the available resources,

as well as the spirit and the soul of its officials, especially the leader. The quality of the Local Government administration can be enhanced through a variety of training both within and outside the country in order to be able to “read” his own policies better and assess the impact on the economy as well as being responsive to the demands of society.

Facing the economic and political developments as well as the greater motivation to get more meaningful role, especially after the expansion of the autonomous region, particularly in the city, it is the time that local revenue policy specifically in increasing the PAD needs to get more attention.

The Government's attempt to build a small business in accordance with the legal aspects include (1) making the small business criteria based on the turnover and labor, (2) realizing a conducive environment on the aspects of (a) funding, (b) competition, (c) infrastructure, (d) information, (e) partnerships, (f) licensing efforts, and (g) protection, (3) conducting a training in the (a) production, (b) marketing, (c) human resources, and (d) technology (4) provide financing that consists of (a) a banking credit, (b) give a loan from a non-bank financial institution, (c) venture asset, (d) providing a loan from a partial profit of State-Owned Enterprises (*Badan Usaha Milik Negara* or BUMN), (e) provide grants, and (f) other financing, (5) facilitate partnerships between small businesses with medium businesses, and medium businesses with the exporter, the buyers abroad. The partnership has already facilitated which is consist of: (a) the core deal, (b) sub contract, (c) general trading, (d) franchised, (e) agents and (f) other partnership.

The most important thing in the management of the autonomous region is that to motivate the Local Government to have such high development through the empowerment of the local economic potential by developing the activities and utilizing the potential to enhance the society welfare.

Helming (2004) defines PEL as a process where there is a partnership between Local Government, community-based groups, and the business world which runs the resources exploration for creating jobs and stimulating the economy in a particular area, Emphasize the local control and the use of potential human resources, physical resources and institutions.

PEL Goals and Objectives are:

- a) The realization of local economic development acceleration through the Local Government, business community, local people, and organizations in a participatory process.
- b) The existence and the development of partnerships and strategic alliances in the acceleration of the local economy development between synergistic stakeholder.
- c) The existence of economic facilities and infrastructure that supports local economic development acceleration.
- d) The realization of the development and growth of Small Medium Enterprises economically and sustainably.
- e) The enhancement of the region own source revenue (*Pendapatan Asli Daerah* or PAD) and Regional Tax and Regional Retribution/Levy (*Pajak Daerah dan Retribusi Daerah* or PDRB)
- f) The enhancement of public's income, the reduction number of the unemployed and the poverty levels.
- g) The enhancement of equalization between groups of people, regions and sectors.
- h) The creation of local communities economic resilience and independence.

PEL is also can also be defined as: "the presence of collective partnership between the Local Government, business world as well as the non governmental sector and community to identified and utilized the existed sources optimally in attempt to create such a strong, sustainable and independent local economy. In that definition, there is two keywords that can be taken which are: 1) a partnership with all components, and 2) the utilization of local resources optimally. Those two keywords are also as a component approach of the PEL and of course both are very relevant to the spirit of decentralization in which the Local Government together with all its components are required to be able to manage its own affairs and able to transform the locally-owned economic power as a potential resource. Generally, the objective of the region potential development is to support the self-reliance through Potential Development and Institutional Strengthening as well as Community Empowerment

The study of the policy drafters is a crucial thing. They are the determiner of the policies content and the one who gives the dynamics on the policy process stages. It is in accordance with Lester and Stewart (2000), if the policy type affects the level of difficulty that can occur in the process of policy formulation, then the implementers/actors and the relationships between them will make a direct effect towards the success of

the policy formulation process. In the perspective of political science, the analysis of the policy process should be focused on the actors. Each of the actors has the characteristics that indicate its power to affect the policy processes.

The policy formulation in practice will involve a range of actors, from state actors or non-state actors or called by Anderson as official policy makers and nongovernmental participants. Official policy makers are those who have the legal authority to engage in the public policy formulation. Anderson formulated that it consists of the legislature; the executive; administrative agencies; as well as the courts. The legislature refers to the members of Congress/Council which is often assisted by the staff. As for the executive it refers to the President and the lineup of his Cabinet. Meanwhile, the administrative agency according to Anderson refers to the policies institutions. On the other hand, the Court is also an actor who played a major role in the policies formulation through their authority to review the policy as well as the basic law interpretation. With this power, the Court decision could affect the content of a public policy.

The stages of the policy formulation that is done on a steady practice involving the *stakeholders* (actors) in order to produce a series of actions in solving the public problems through several alternatives identification and analysis, it is still inseparable from the values that influence the actions of the actors. According to Anderson, quoted by Wahab (2005), the values that are likely to be the decision makers fundamental can be grouped into 5 categories, namely: Political values, Organizational values, Personal values, Policy values, and Ideological values.

The value problem in public policy analysis, is *ametapolicy* aspect because it concerns the substance, perspective, attitude and behavior, either concealed or openly stated by the responsible actors in the public policy formulation.

In a democratic system of Government, the Government is operated by the public participation widely (Jones, 2006). Government policy is no longer decided at the back of the table by one or two-three responsible officials, but it should be done through democratic procedures by involving the people, either directly or indirectly. Even nowadays, the most votes in legislative institutions cannot be free on deciding itself in a closed space, without getting public support widely (Abidin, 2004).

Therefore, in the reformation era, public participation is becoming increasingly important. Now, the Government can no longer disregard the public, community organizations, universities, media and non-governmental organizations, as well as the political parties at each stage of the policy process including the regional regulations formulation.

The implementation of the regional regulations is expected to be the event for the public to participate or giving contribution. To that end, the good order of the public is necessary to represent a wide range of interests that this civil society groups is not trying to dominating each other but cooperating to harmonize any public interests. The realization of democracy is existed at the level of the community contribution in formulating the regional policies.

The efforts to upgrade the local revenue particularly the PAD should be directed on the sustainable businesses so that the regional own source revenue is keep on getting better and continues to increase. In the end, it is expected to be able to minimize the dependency towards the Central Government. This effort is basically through the extensification and intensification.

To know better about the Budget Politics, then some explanation will be given here. The Budget Politics is the determination of various policies concerning the budget process which covers various questions on how the government finance its activities; how public money is obtained, managed and distributed; who benefited and disadvantaged; what are the opportunities that are available both for negative deviations as well as to improve public services. (Fauzi & Zacharias, 2007).

Others say that the Budget Politics is an interaction process between the different interested parties in determining the priorities scale of the development due to the limited resources of public funds. Furthermore, the Budget Politics process is affecting the budget allocation policy which is carried out by various parties concerned with the budget.

It is the process of a political powers or authority affirmation from various parties involved in the policy determination or budget allocation. The budget is one of the stages that must be passed in in the financial planning especially as the guidelines in managing its finance. But because of the process of preparing the budget and accountability may not be separated from the involvement of the agency representatives,

thus, it can be also as a supervision towards the Government as well as the gap for the push and pull occurrence of the *stake holders*.

So far, there are three mystification of the budget. *First*, the budget is a complicated and fussy issue. To understand it, one must have a certain level of education and skills. It is not easy to tackle the ingrained assumption because the budget has such structures, systems and mechanisms that usually only understood by those with special skills. And unfortunately (*or fortunately?*) the access to documents related to the budget does not belong to all people. In many cases, especially in developing countries, including Indonesia, the budget still understood as formal rules and something beneficial for the actors or institutions and juridically, the budget is simply understood as a rule that already exists. *Second*, the budget is simply only the development projects and other financial sources. In the end, the Government is being reluctance to get out of the grip that obscures its implications on the vulnerable groups of people. The poor and vulnerable citizens thus become the burden of the budget implications. *Third*, the budget is solely to be monopolized by the Government. At least, since the independence day up to now, the Government has always set a budget as a matter that is very exclusive in their monopoly territories, without any space engagement for society (Fuady, 2002)

Ideally, the budget should be enabled properly such as a function of fiscal policy and management. As a fiscal instrument, the budget can be used to manage the allocation of expenditures for public goods and services. Based on a scale of priorities, the Government can allocate specific values for certain expenditures. The second fiscal function is distribution. Through the budget, the Government could create a policy that aims to create an equitable revenue or it could reduce inequalities between regions, sectoral or social class. The third fiscal function is stabilization. In case of an extreme imbalances such as the higher very low prices of staples, it is potentially detrimental to one layer of society, the Government can intervene that problems via the budget.

Because there are some deviations which arises from political budget, then it is needed new ways in formulating and managing budgets in order to deliver such a good service to the people. Unilateral ways, fighting for the private institution itself, that is a betrayal against the people. According to Shafii (2004) that is a dirty moral politics that could damage a State institution which has been given a mandate by the people. The people have given the authority to the State to set the civilized life together, though there are a group of people in the surroundings that are *a priori*. Such attitudes need to be presented with in a good mood in the current era to achieve a general welfare by directing all political matters for the common interest (Suseno, 2003).

4. CONCLUSION

The PAD (*Pendapatan Asli Daerah*) or Regional Own Source Revenues enhancement strategy with intensification and extensification needs to be more careful with the support of deep study towards the potential of tax subjects or tax objects. If it is not right, either at the time of its study or application, it is very possible to become a counterproductive topic towards regional economic growth, which eventually will become the obstacle of the regional economic development. It needs to be considered to form a Regional Productivity Commission in Tulungagung that is responsible for optimizing the potential in the area through a partnership with private companies. In line with that, there needs to be a regulation for the regional investment climate in order to attract investors and to improve of the regional economic development.

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