

DETERMINING FACTORS OF TIMOR-LESTE TAX REVENUE OPTIMIZATION

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Abstract

This research aims to test and find evidence regarding efforts to increase tax revenues, namely extensification of taxes and levies, tax reform, the effectiveness of tax audits, tax knowledge, and foreign investment as determining factors in optimizing tax sector revenues in Timor Leste. The methods used in this research include research approaches, research stages, and data analysis. This research uses quantitative methods to test and analyze the influence of each independent variable on the dependent variable, namely increasing tax sector revenue, with the data collection technique being the survey method. The findings of this research can be helpful for the government in helping to increase tax sector revenues to reduce dependence on the oil and gas sector. The novelty regarding increasing tax revenue, especially in Timor Leste, is seen from various aspects that have the potential to increase tax revenue, namely extensification of tax potential, potential extensification of levies, tax reform, the effectiveness of tax audits, tax knowledge, and foreign direct investment (FDI). Based on the research results, it is known that extensification of tax potential, potential levies, tax reform, the effectiveness of tax audits, tax knowledge, and Foreign Direct Investment (FDI) have a positive and significant effect on increasing tax sector revenues.

Keywords: Foreign Direct Investment (FDI), Tax Sector, Effectiveness of Tax Audits, Oil and Gas Sector.

1. INTRODUCTION

Oil and gas are natural resources that have contributed the most to Timor Leste since the separation from the Unitary State of the Republic of Indonesia. The most considerable state revenue comes from the oil and gas sector, averaging 85% from 2009 – 2019 (Timor Leste APBN Report – book 1). Timor Leste's economy depends on the oil and gas sector. In contrast, the oil and gas sector is a non-renewable natural resource that can run out at any time, with fluctuating prices and climate change. Countries worldwide are trying to reduce carbon emissions by slowly abandoning fossil energy and switching to renewable energy. That is a severe problem for the sustainability of Timor Leste's economy. The IMF report (2019) states that oil resources in Timor Leste from the Bayu Undan field are predicted to stop production in 2023, and also some projections predict that revenues from the oil and gas sector will run out in 2025. Timor Leste will experience economic instability in the future if the government does not take an attitude or action to diversify state revenues in optimizing other sectors, such as the tax and retribution sector. The economy's over-reliance on selling crude oil has severe implications. Oil and gas resource-rich countries in Africa do not perform better than resource-scarce countries regarding revenue mobilization. In addition, the fiscal imbalance caused by falling oil prices can destroy the economy if the country relies heavily on oil revenues to finance government spending (Guajardo & Pagan, 2003). Suppose the government of Timor Leste

continues to make oil and gas the primary source of state revenue. In that case, the main impact of dependence on oil and gas will result in a crisis, and it could experience something similar to the phenomena that have occurred in Venezuela and Nigeria. Venezuela and Nigeria are countries whose primary sources of income are oil and gas but have not been able to improve the welfare of their people (Monaldi, 2015). The oil price, which underpins the country's primary source of income, has fallen since mid-2014 and has hit the economies of most oil-exporting nations. As a result, when the economic crisis hit the Venezuelan state, the Venezuelan government could no longer finance public spending, so it experienced a massive downturn (Monaldi, 2015). The Timor Leste leader has often stated his commitment to learn from the experiences of other countries to avoid the problem of dependence on oil resources. However, this commitment needs to be more than just a political statement and must be implemented in laws and regulations as well as with solid public institutions so that later state revenue can come from all lines, especially from potential taxes and potential levies (La'o Hamutuk, 2008), because this statement is supported by the results of research by Auty (2002); that countries relatively rich in natural resources show prolonged economic growth, over decades and are poor in terms of GDP per capita. In other words, these countries have yet to succeed in lifting people out of poverty despite having rich resources. So the experience and research results described above are a reference for Timor Leste to diversify its income so that it does not only depend on one type of source of the state's revenue sector. Even though Timor Leste has oil resources that contribute the most to the State Budget, these resources have yet to be able to boost the country's economy to date. As previously described, countries rich in oil and gas resources have been unable to escape poverty. Countries rich in oil and gas resources but with poor institutions are most likely to fall into the resource curse trap (Bulte et al., 2005). Therefore it can be assumed that Timor Leste is very vulnerable and has a relatively high risk of falling into the resource curse and deserves to be considered. It is hoped that there will be a need for income diversification by exploring and expanding the tax base with potential sources of sustainable state revenue. Taxes play an essential role in the development of almost all countries in the world and are the largest source of state revenue in the state budget. Prichard (2009) states that taxation is fundamental to sustainable development, as it supports the basic effective functioning of the state and sets the context for economic growth. Taxation is the primary source of government revenue in most countries in the world (Pistone et al., 2019). The government collects taxes on the people to meet public spending, aiming for equitable development and social welfare distribution and reducing poverty within a country. Empirical evidence from previous research has not shown consistency, so further research is needed in developing countries with different economic conditions, such as Timor Leste, with the tax potential extensification variable; the goal is to broaden the tax base both direct tax potential and indirect tax potential. Direct taxes in this study are Land and Building Tax (PBB), Land and Building Rights Acquisition Fees (BPHTB), and E-commerce Tax.

At the same time, the indirect taxes in the study are Value Added Tax (VAT) and Sales Tax on Luxury Goods (PPn-BM). The FDI factor, one of the determining factors for tax sector revenue in previous studies, the results are still different from one another. Research by Castro et al. (2014) analyzed the impact of economic factors, including FDI, structural, institutional, and

social, on tax revenues using a panel data approach in 34 OECD countries. The results of the study prove that FDI harms tax revenues. Meanwhile, the same research by Tsaurai (2021) in middle and upper-income countries found that FDI significantly positively affected tax revenues. These studies were conducted in middle and upper-income countries, but the results needed more consistency. So this is a motivation to continue research using foreign direct investment (FDI) variables in lower-middle-income countries, in this case, Timor Leste. FDI variables include legal certainty, economic stability, politics and security, and natural/human resources. All variables analyzed in this study are observations of low tax sector revenue in Timor Leste, which, if optimized, will increase tax sector revenue. This study attempts to explain different strategies in optimizing tax sector revenue through 6 (six) variables with their indicators, namely: Tax extensification variables with indicators of VAT, PBB, PPn-BM, BPHTB, and E-commerce; Extensification Variables Potential levies with indicators of Market levies, Terminal levies, Parking levies, IMB levies, and Excavation C levies; tax reform variable with Tax Administration Reform indicators; Tax et al.; Tax Policy Reform and Tax Bureaucratic Reform; Tax audit effectiveness variable with indicators of Tax Auditor Quality, Tax Auditor Quantity, Facilities and Infrastructure, Financial Compensation; Tax Knowledge Variable with indicators of Formal Tax and Non-Formal Tax Education, Tax Socialization or Counseling and Tax Seminars or workshops and Foreign Direct Investment (FDI) Variables with indicators of Legal Certainty, Economic Stability, Politics and Security, Natural/Human Resources. The description of the variables with the abovementioned indicators is assumed to be a determining factor in increasing tax sector revenue in Timor Leste. Increased tax contribution to total tax revenue can maintain fiscal sustainability and reduce dependence on oil and gas. The variables in this study are supported by the Tax Optimization Theory developed by Stiglitz (2014), which states that efficient taxation can be achieved if the economy adopts not only one type of tax but many types of taxes. This study uses a quantitative method in testing and analyzing the effect of each independent variable on the dependent variable, namely the increase in tax sector revenue, with the data collection technique being the survey method.

2. LITERATURE REVIEW

Taxation aims to create welfare for the community by providing public services, protecting property, defense costs, infrastructure, economics, society, and others. Aamir et al. (2011) compared the types of taxes in India and Pakistan; the collected tax revenue samples ranged from 1999-2000 to 2008-2009. The results show that Pakistan generates more tax revenue through indirect taxes, whereas India comes from direct taxes. Comparing the two regression equations and standard beta, in Pakistan, more revenue is accrued by collecting indirect taxes, while India is on the opposite side. The right combination of direct and indirect taxes will optimize the positive impact of taxes on the economy (Nguyen, 2019).

2.1 Tax Sector Revenue

Increasing tax revenues is fundamental for developing countries wishing to increase public spending, reduce dependence on foreign aid, and limit borrowing. For most developing countries, taxation goes hand-in-hand with economic growth, and taxes are the lifeblood for

governments to provide essential services and to make long-term investments in public goods (Organization for Economic Co-Operation and Development. According to Michael (2012), tax instruments are how governments generate large amounts of revenue. Since Timor Leste's population continues to increase yearly, a more significant revenue pool is needed in public financing. The role of the government in this situation is to diversify income, one of which is through taxation sector revenue which can be an essential and significant source. Furthermore, Terefe and Teera (2018) argue that the impetus towards sustainable development, which is the basis of increasing welfare and living standards, is highly dependent on the availability of enormous resources mobilized in the economy through tax revenues.

2.2 Optimal Taxation Theory

Optimization of taxation theory developed from Ramsey's scientific publication (1972) entitled A Contribution to the Theory of Taxation. The initial goal was to answer the economic problems questioned by Pigou, one of the economists at the time, as it is known that taxes can cause distortions that affect changes in consumer behavior. Based on this, Pigou (1920) questioned the right strategy to increase tax revenues. In the tax optimization model, a social planner functions as a government or ruler responsible for improving people's welfare. In the Ramsey model, the limited government has a revenue target from the commodity tax sector. Stiglitz (2014) argues that Ramsey's publication can explain how best to optimize commodity taxes by setting commodity tax rates proportionally based on the elasticity of demand for each commodity. Ramsey can prove that the optimal commodity tax rate is inversely related to the elasticity of demand and supply, meaning that a commodity with inelastic demand is subject to a higher tax rate. Mirrlees' research (1971) contributes to optimal taxation theory by focusing on income tax rates. Mirrlees developed a model that assumes heterogeneous consumer preferences that are different from the assumption of homogeneous preferences in the Ramsey model. Mirrlees is interested in researching how income tax rates can be increased to finance subsidies for people in need to minimize income inequality. Opinion Mankiw (2009), in explaining his theory of optimal taxation, Mirrlees mentions one crucial factor that allows conditions that are not optimal, namely the existence of imperfect information (imperfect information). The government imposes taxes on those with higher incomes and allocates subsidies to those with lower incomes. However, the government does not have sufficient information to detect those with high incomes pretending to be poor, so they do not pay taxes. In that case, they may receive subsidies instead of paying taxes. The problem raised by Mirrlees above is that information needs to be improved in optimizing taxation. The answer to this problem is the integration of tax authority data with taxpayers in order to prevent the possibility of incorrect information occurring. Currently, Timor Leste uses the Integrated Government Taxation Administration System (SIGTAS) standard. However, this system has yet to be integrated with taxpayer information systems, especially for companies in the retail sector. With the rapid development of information technology, it is now possible to develop SIGTAS, where Tax Authorities and Taxpayers can be connected directly. Utilizing new integrated technology is expected to benefit both parties. The tax authority can have an accurate and comprehensive taxpayer account, where the income information of a taxpayer is directly linked to various data related to his income. On the taxpayer's part is an increase in the quality of

financial management, especially the taxation aspect. The government can make efforts to finance the construction of public facilities by collecting new taxes or changing the tax rate from the existing tax base. On the one hand, the imposition of this new tax increases tax revenues but, on the other hand, creates a substitution effect; for example, going from working to reducing work has the potential to cause additional (distortion) in the economy. Tax analysis is generally carried out to answer various problems in tax collection, changes in tariffs, and expanding the tax base, with an orientation to optimizing revenue from the tax sector. However, the theory of tax optimization focuses on tax policies to improve people's welfare. Several findings related to optimal taxation show that there are still differences in the views and conclusions generated, which may occur due to differences in the economic models used, including differences in the assumptions and constraints used. The utilization of research results on optimizing the taxation sector high depends on how realistic the economic model is. Apart from the simplification of the model used, there are also many results of optimal tax studies that can be used to determine tax policy. The optimization theory of taxation argues that the tax system should maximize the social welfare function subject to constraints (Mankiw et al., 2009). The objective of optimal taxation is to obtain the best tax system. The right strategy to increase tax sector revenue is not only through a strategy of optimizing commodity tax rates and income tax but through a strategy of broadening the tax base (tax objects and subjects); it is assumed to optimize tax revenues by intensifying potential taxes and potential levies as well as intensifying the effectiveness of tax audits, tax reform, tax knowledge, and extension to attract foreign direct investors can increase tax sector revenue. The tax optimization strategy through the effectiveness of tax audits is related to the concept of agency theory (Jensen & Meckling, 1976) which holds that agents are tax collectors and examiners who go directly to the field to deal with taxpayers or taxpayers. Agents are people who are supposed to make efforts to achieve the principal (government) goal, namely optimizing tax collection. However, often an agent needs to act in the best interest of his principal. This condition occurs when the agent can get more excellent personal benefits even when he does not pursue his principal's interests. Agents prioritize personal interests over the interests of the state. This condition can be prevented by increasing the professionalism of tax examiners with adequate quality and quantity. Tax auditors can properly plan audits to detect significant malpractice and prevent non-compliance. Alignment between principal and agent will result in costs which are known as agency costs. Agency costs are implemented by compiling an appropriate compensation system for managers so that managers can act by the principal's interests. Financial compensation given to tax auditors motivates them to carry out tax audits properly so that they run effectively. The tax optimization strategy through FDI is related to the concept of neoclassical economics (Solow & Swan, 1970), which states that economic growth is influenced by three factors, namely capital, labor, and technological development. This theory argues that Foreign Direct Investment (FDI) positively contributes to the host country's economic development (Zaidun, 2005). The facts show that foreign capital brought to the host country encourages domestic capital used for various businesses. Based on the description above, the tax optimization strategy through extensification of taxes and fees, tax reform, the effectiveness of tax audits, tax knowledge, and foreign direct investment are determining factors for optimizing tax sector revenue in Timor Leste.

2.3 Direct Tax

Direct taxes, namely taxes whose burden must be borne by the taxpayer concerned and cannot be transferred to other parties (Official, 2009, p. 1). Direct tax is a form of tax imposed directly on taxpayers bearing the tax burden. The tax burden cannot be transferred to others (Nguyen, 2019). Aggrey (2011) states that in economics, direct taxes refer to taxes collected from people or organizations that are taxed. For example, income tax is levied on people who earn income. Income tax is calculated based on gross income minus expenses minus non-taxable income and tax credits that have been repaid (Rani, 2014). In this study, the indicators of direct tax to extensive tax potential are Income Tax (PPh) attached to e-commerce, Land and Building Tax (PBB), and Land and Building Acquisition Fees (BPHTB).

2.4. Indirect Tax

Perst and Barr (1974) define indirect taxes as taxes imposed on expenditures, including all consumption taxes such as Sales Tax, Value Added Tax (VAT), etc. Another opinion by Official (2009) and Rani et al. (2014) states indirect taxes are taxes whose burden can be transferred to other parties. Aggrey (2011) argues that taxes are not directly collected from people other than those who appear responsible for paying taxes. In this study, the indicators of indirect taxes to extensively tax potential are Value Added Tax (VAT), Luxury Goods Sales Tax (PPnBM), and E-commerce Tax.

2.5 The Extensification of Tax Potential

Potential taxes in this study are defined as taxes that have not been collected but have indications to be collected and, if collected, can increase tax revenues. An increase in tax revenue that is more acceptable is in line with an increase in the tax base for a certain level of income, an increase in tax revenue because expanding the tax base is more critical than increasing tax rates (Terefe et al., 2018). Previous studies have shown that several types of taxes have a significant effect on increasing tax sector revenue. Meanwhile, if the regions have yet to explore sources of taxes and fees other than the existing ones, then extensification can be carried out. Namely, efforts to explore new sources of income by applicable regulations so that PAD can increase dependence on the central government can be minimized, or regional financial independence can be achieved.

2.6 Potential Value Added Tax (Vat)

Martinez and Bird (2011) argue that political decisions about determining the basis of Value Added Tax can significantly affect potential revenue from Value Added Tax in any country. In Indonesia, VAT was introduced in 1983 as part of a comprehensive tax reform to replace the non-revenue sales tax due to the complex exclusion structure and multiple rates (Gillis, 1989). So, Indonesia's tax reform which replaces the sales tax with a value-added tax is a reference for Timor Leste in exploring the potential for a value-added tax that has yet to be implemented even though it has the potential to be implemented in Timor Leste. Onaolapo et al. (2013) and Okoli and Afolayan (2015) prove that Value Added Tax (VAT) has a statistically significant effect on revenue generation and is the second long-term source of income in Nigeria. Hartanti,

Pujiwidodo, and Sianturi (2018) show a strong, positive, and significant relationship between Value Added Tax and Tax Revenue in Indonesia.

2.7 Potential Tax on Sales of Luxury Goods (Ppn-BM)

One way to increase tax revenues, reduce income inequality and environmental impact and at the same time shift the tax burden from labor taxes to consumption taxes is to introduce a luxury goods tax (sales tax on luxury goods) which can increase income and will not leave a burdensome tax burden. Detrimental to low-income communities (Juruss et al., 2020). Tax on Luxury Goods can help reduce income inequality between the rich and the poor. Therefore, the main objective of the luxury tax is not a fiscal aspect but a distributional aspect and encourages more sustainable consumption patterns by imposing a tax on non-essential goods. The idea behind the luxury tax is that those furthest away from necessities should be the ones taxed the most (Orain, 2010). Luxury goods are not essential commodities, and their demand is not flexible, so price changes will not significantly affect their consumption, thus guaranteeing state budget revenue (Juruss, 2020).

2.8 Land and Building Tax Potential (PBB)

Land and Building Tax (PBB) has long been the primary source of revenue at the local government level. It has an impact on the economies of many countries, both developing and developed countries. Mathur, Thakur, Rajadhyaksha, and Bahl, R. W (2009) stated that Land and Building Tax is an essential source of revenue for local governments in many developing and developed countries. Another opinion from Adi, Djamaludin, and Suhaya (2020) argues that PBB is a tax with considerable potential to increase Regional Original Income (PAD), so it must be maximized. UN-Habitat (2011) concluded that the potential for Land and Building Tax (PBB) is relatively high to contribute to improving local communities. Realizing this potential requires efficient administrative policies and procedures to produce a fair and stable tax system. Likewise, for Timor Leste, Land, and building tax is a potential that needs to be considered by the government to optimize revenue from the tax sector in Timor Leste to reduce dependence on the oil and gas sector.

2.9 Tax Audit Effectiveness

Timor Leste's tax system is a self-assessment system, which gives the taxpayer complete trust to calculate, pay and report as fulfillment of their tax obligations. That can allow for non-compliance with the tax collection process because this often occurs by taking advantage of legal loopholes or through tax smuggling efforts. Thus, the critical role of the tax authority in the success of tax collection with the self-assessment system lies in the ability to optimally carry out the oversight and law enforcement functions for the occurrence of all forms of irregularities in fulfilling tax obligations, whether in the form of administrative violations or criminal acts. Based on these considerations, the tax authorities conducted a tax audit to test compliance with tax obligations based on generally accepted accounting standards and applicable laws and regulations (Kircher, 2008).

Some of the reasons for tax audits include: assisting the government in collecting tax revenues within budget, maintaining economic and financial order and stability, ensuring satisfactory

returns delivered by taxpayers, minimizing the level of tax evasion and tax evasion, ensuring strict compliance with tax laws by taxpayers, to increase the level of voluntary compliance by taxpayers and to ensure that the amount due, is collected and remitted to the government (Erard & Feinstein, 1994).

3. METHOD

This chapter describes research methods, including research approaches, stages, and data analysis. The research approach section describes the approach method used in this research. The research stages section explains the steps to be carried out. Furthermore, the data analysis stage describes data analysis techniques using a quantitative approach. In the process of collecting data, researchers are based on appropriate data collection methods and techniques for the problem under study and are supported by relevant data collection tools so that that objective data can be obtained by the conditions in the field and the technique used in this study is to use statements or questions known as questionnaires or questionnaires.

4. RESEARCH RESULT AND DISCUSSION

4.1 Research Results and Respondents Description

Overall, 136 questionnaires were obtained, filled in entirely by the respondents, and were feasible to continue in data processing. It is known that the respondents in this study were tax and customs authorities, taxpayers, and academics. In general, it is described in the respondent's description, which includes gender, age, education, and years of service.

4.2 Description of Respondents Based on Gender

Description of respondents based on gender can be presented in the following table:

Table 1: Description of Respondents by Gender

Gender	Amount	Percentage
Man	82 people	60.3%
Woman	54 people	39.7%
Total	136 people	100%

Source: Processed data (2022)

Based on table 1. shows that the majority of respondents were men, as much as 60.3%, while the rest were women, as much as 39.7%. That shows that the respondents studied, namely tax and customs authorities, taxpayers, academics, the Ministry of Trade in issuing Business Permits and Foreign Investment Officers (PMA), and taxpayers in Timor Leste studied, were predominantly male.

Respondents with male gender are more than female because respondents with male gender are more related to and take care of taxes. However, women are currently starting to realize the importance of taxes, but it is still done mainly by men.

4.3 Description of Respondents by Age

Description of respondents based on age can be presented in the following table:

Table 2: Description of Respondents by Age

Age	Amount	Percentage
< 30 years	Eight people	5.9%
31 - 40 years	43 people	31.6%
41 - 50 years	62 people	45.6%
51 - 60 years	22 people	16.2%
> 60 years	One person	0.7%
Total	136 people	100%

Source: Processed data (2022)

Table 2 shows that most respondents are between 41 and 50 years old, namely 45.6% and 31.6% aged between 31 and 40 years. So in terms of age, it shows that most respondents are of productive age and are related to taxes as tax officers and taxpayers. In addition, respondents also understand the importance of taxes so that they understand the variables examined in this study.

4.4 Description of Respondents Based on Education

Table 3: Description of Respondents by Education Level

Level of education	Amount	Percentage
D3/D4	13 people	9.6%
S1	78 people	57.4%
S2	39 people	28.7%
S3	Six people	4.4%
Total	136 people	100%

Source: Processed data (2022)

Table 5.3 shows that the majority of respondents have an undergraduate education background of 57.4%. Furthermore, respondents with a Master's educational background were 28.7%, then a D3/D4 educational background were 9.6%, and finally with a Doctoral educational background were 4.4%. So most respondents have a relatively high educational background. Educational background will affect one's mindset; with a reasonably high educational background, one knows and understands taxes and the importance of taxes, especially for development.

4.5 Description of Respondents Based on Working Period

Description of respondents based on years of service can be presented in the following table:

Table 4: Description of Respondents Based on Years of Service

Years of service	Amount	Percentage
< 5 years	19 people	14.0%
6 – 10 years	27 people	19.9%
11 – 15 years	22 people	16.2%
16 – 20 years	39 people	28.7%

> 20 years	29 people	21.3%
Total	136 people	100%

Source: Processed data (2022)

Table 4 shows that most respondents have worked between 16 and 20 years, namely 28.7% and 21.3% have worked for more than 20 years. That shows that the majority of respondents have had a long working period, so they know and understand more about the importance of taxes, mainly when it is associated with tax extensification, levy extensification, tax reform, the effectiveness of tax audits, tax knowledge, and foreign direct investment (FDI) in order to optimize revenue from tax sector.

4.6 Descriptive Statistical Analysis

Descriptive statistics aim to provide an overview of the respondent's answers to the questionnaires that have been distributed in order to be able to conclude the answers of the average research respondent. Based on the descriptive analysis results, the distribution of the frequency of answers from each item on the research variables will be known. This study uses a total of seven variables, namely six independent variables, namely tax potential extensification (X1), levy potential extensification (X2), tax reform (X3), tax audit effectiveness (X4), tax knowledge (X5) and foreign direct investment/FDI (X6), one dependent variable Optimization of Tax Sector Revenue (Y). The research variables were tested with 37 (thirty-seven) statement items in a questionnaire. Respondents' answers were given a score using a Likert scale of 1-4, where the better the respondent's answer would get the higher score. Then the basic interpretation of the respondents' answers uses calculations from Keller (2018), as follows:

$$\text{Interval value} = \frac{\text{Nilai tertinggi} - \text{Nilai terendah}}{\text{Jumlah Kelas}} = \frac{4 - 1}{4} = 0.75$$

Based on the results of these calculations, the interval values of each category are summarized as follows:

Table 5: Basic Value Conclusion

No.	Score/Score	Conclusion
1	1.00 – 1.75	Low / Poor
2	1.76 – 2.50	Not enough
3	2.51 – 3.25	High / Good
4	3.26 – 4.00	Very High / Very Good

Source: Noermijati (2010); Keller (2018); Lind, et al. (2021)

In Table 5.5, it can be seen that if the average value of the respondent's answers is in the range of 1.00 - 1.75, it can be concluded that the respondent's response is "low or bad" to the items in the questionnaire. Then if the average value of the respondent's answers is 1.76 - 2.50, it can be concluded that the respondent's response is "low" on the items in the questionnaire. Furthermore, if the average value of the respondent's answers is in the range of 2.51 - 3.25, it can be concluded that the respondent's response is "high or good" for the items in the questionnaire. Finally, the average value of the respondent's answers is 3.26 - 4.00. In that

case, it can be concluded that the respondent's response is "very high or excellent" for the items in the questionnaire. The below will be described in detail regarding the results of respondents' answers to the questionnaire that has been distributed.

4.7 Inner Structural Model

The PLS structural model was carried out in this study using the SmartPLS software. The structural diagram is formed as follows.

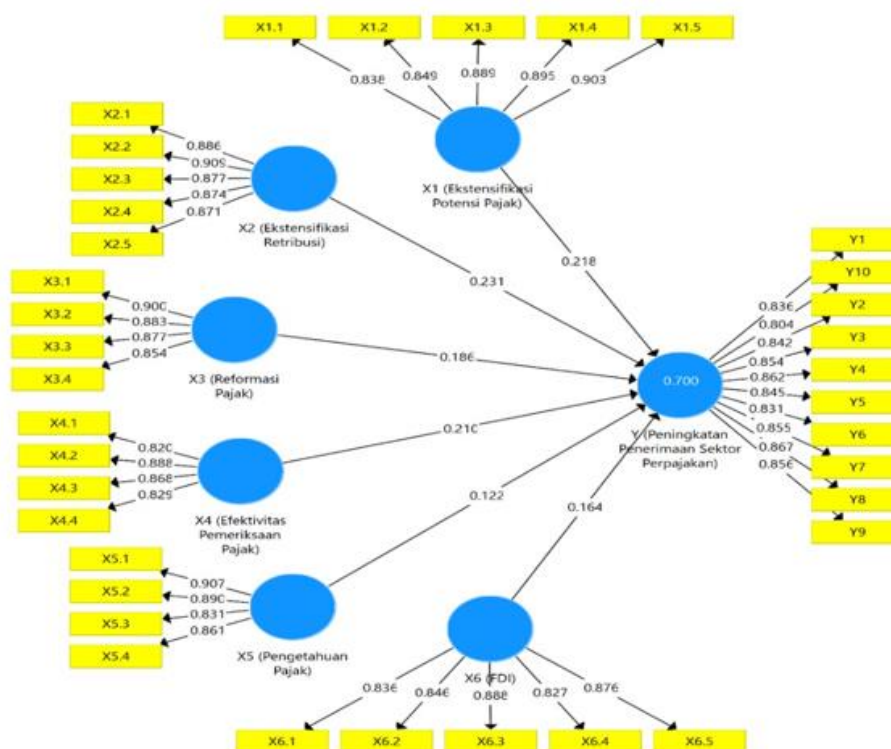


Figure 1: Structural Model Diagram after Data Analysis

Based on the picture above, the structural model equation is as follows.

$$Y = 0.218 X1 + 0.231 X2 + 0.186 X3 + 0.210 X4 + 0.122 X5 + 0.164 X6 + e_i; R^2 = 0.700.$$

with:

X1: Tax Potential Extensification X2: Extensification of Retribution X3: Tax Reform

X4: Effectiveness of Tax Audit X5: Tax Knowledge

X6: FDI

e: residuals

The tests for measuring the inner model consist of the coefficient of determination using R square, predictive relevance with Q square, and the Goodness of Fit Index (GoF).

4.8 Hypothesis Test

The test results can be interpreted to test the hypothesis after testing the measurement and structural models in the previous section. This section evaluates the coefficients or parameters that show the effect of one latent variable on another latent variable. Hypothesis testing was carried out to determine the effect of the extensification of potential tax variables, extensification of levies, tax reform, the effectiveness of tax audits, tax knowledge, and foreign direct investment (FDI) on increasing tax sector revenue. An effect is declared significant if the p-value is less than 0.05, and the effect is declared insignificant if the p-value is more significant than 0.05. The results of calculations with the help of SmartPLS software are as follows:

Table 6: Hypothesis Testing Results

Influence	Path coefficient	T statistics	p- values	Information
X ₁ → Y	0.218	2,432	0.015	Significant
X ₂ → Y	0.231	3,501	0.001	Significant
X ₃ → Y	0.186	2067	0.039	Significant
X ₄ → Y	0.210	2,800	0.005	Significant
X ₅ → Y	0.122	2091	0.037	Significant
X ₆ → Y	0.164	2,557	0.011	Significant

Hypothesis 1: Tax potential extensification has a positive effect on revenue from the Timor Leste tax sector. The analysis results show that the path of the effect of tax potential extensification on increasing taxation sector revenue has a path coefficient with a positive value of 0.218, a t-statistics value of 2.432, and a significant value (p-value) of 0.015. The t-statistics value (2.432) is greater than the critical value (1.96), and the p-value (0.015) is less than α (0.05), indicating that the extensification of tax potential has a significant effect on increasing tax sector revenue. With a positive path coefficient value, it can be concluded that the extensification of tax potential has a positive and significant effect on increasing tax sector revenue. Thus hypothesis 1 is accepted.

Hypothesis 2: Extensification of retribution has a positive effect on revenue from the Timor Leste tax sector. The analysis results show that the influence of levy extensification on increasing tax sector revenue has a favorable path coefficient of 0.231 with a t-statistics value of 3.501 and a significant value (p-value) of 0.001. The t-statistics value (3.501) is greater than the critical value (1.96), and the p-value (0.001) is less than α (0.05), indicating that the extensification of levies has a significant effect on increasing tax sector revenue. With a positive path coefficient value, it can be concluded that the extensification of levies has a positive and significant effect on increasing tax sector revenue. Thus hypothesis 2 is accepted.

Hypothesis 3: Tax reform has a positive effect on revenue from the Timor Leste tax sector. The analysis results show that the path of the influence of tax reform on increasing tax sector revenue has a favorable path coefficient of 0.186 with a t-statistics value of 2.067 and a significant value (p-value) of 0.039. The t-statistics value (2.067) is greater than the critical value (1.96), and the p-value (0.039) is less than α (0.05), indicating that tax reform has a significant effect on increasing tax sector revenue. With a positive path coefficient value, it can be concluded that tax reform positively and significantly influences increasing tax sector

revenue. Thus hypothesis 3 is accepted.

Hypothesis 4: The effectiveness of tax audits has a positive effect on revenue from the Timor Leste tax sector. The analysis results show that the effectiveness of tax audits on increasing taxation sector revenue has a favorable path coefficient of 0.210 with a t-statistics value of 2.800 and a significant value (p-value) of 0.005. The t-statistics value (2,800) is greater than the critical value (1.96), and the p-value (0.005) is less than α (0.05), indicating that the effectiveness of tax audits has a significant influence on increasing tax sector revenue. With a positive path coefficient value, it can be concluded that the effectiveness of tax audits has a positive and significant influence on increasing tax sector revenue. Thus hypothesis 4 is accepted.

Hypothesis 5: Tax knowledge has a positive effect on tax sector revenue. The analysis results show that the influence of tax knowledge on increasing taxation sector revenue has a path coefficient with a positive value of 0.122, a t-statistics value of 2.091, and a significant value (p-value) of 0.037. The t-statistics value (2.091) is greater than the critical value (1.96), and the p-value (0.037) is less than α (0.05), indicating that tax knowledge has a significant effect on increasing tax sector revenue. With a positive path coefficient value, it can be concluded that tax knowledge positively and significantly influences increasing tax sector revenue. Thus hypothesis 5 is accepted.

Hypothesis 6: Foreign Direct Investment (FDI) has a positive effect on Revenue from the Timor Leste Tax Sector. The analysis results show that the influence of Foreign Direct Investment (FDI) on increasing taxation sector revenue has a path coefficient with a positive value of 0.164, a t-statistics value of 2.557, and a significant value (p-value) of 0.011. The t-statistics value (2.557) is greater than the critical value (1.96), and the p-value (0.011) is less than α (0.05), indicating that Foreign Direct Investment (FDI) has a significant effect on increasing tax sector revenue. With a positive path coefficient value, it can be concluded that Foreign Direct Investment (FDI) has a positive and significant influence on increasing tax sector revenue. Thus hypothesis 6 is accepted.

4.9 Discussion of Research Result

The research results show that the extensification of potential taxes, the extensification of potential levies, tax reform, the effectiveness of tax audits, tax knowledge, and Foreign Direct Investment (FDI) have a positive and significant effect on increasing tax sector revenue. The strategy of optimizing revenue from the taxation sector through tax reform means that the government of Timor Leste can make improvements and changes to the tax laws and tax administration system in a comprehensive manner to increase revenue in the taxation sector. Regarding the effectiveness of tax audits, the government of Timor Leste can increase the number of tax auditors to be more optimal in carrying out tax audit duties to increase revenue in the tax sector. It is also hoped that the Timor Leste government will pay more attention to the formal education of tax auditors with relevant backgrounds in taxation, such as accounting and taxation, to improve the quality of tax audits which will impact optimizing revenues in the taxation sector. In order to attract investors to increase revenue from the tax sector through

foreign direct investment/FDI, the Timor Leste government should pay attention to economic and socio-political stability to attract foreign investors to optimize tax sector revenue in Timor Leste.

5. CONCLUSION

Based on the results of analysis, theoretical studies, and empirical studies, as well as referring to the results of hypothesis testing and research discussion that have been described previously, it can be concluded as follows: The extensification of tax potential is proven to be able to increase revenue from the tax sector in Timor Leste. That shows that the wider the tax potential extensification carried out in Timor Leste, the more revenue from the tax sector in Timor Leste will increase. The extensification of potential levies has been proven to increase revenue from the tax sector in Timor Leste. That shows that the wider the extensification of potential levies carried out in Timor Leste, the more revenue from the tax sector in Timor Leste will increase. Tax reform has been proven to increase revenue from the tax sector in Timor Leste. Thus, the better the tax reform carried out in Timor Leste, the more revenue from the tax sector in Timor Leste will increase. The effectiveness of tax audits has been proven to increase revenue from the tax sector in Timor Leste. That shows that the more influential the tax audit in Timor Leste, the more revenue from the tax sector in Timor Leste will increase. Tax knowledge is proven to increase revenue from the tax sector in Timor Leste. That shows that the better the knowledge of taxes, both the knowledge of tax officers and taxpayers in Timor Leste, they will have a higher level of awareness about the importance of taxes and increase tax compliance so that they will increase revenue from the tax sector in Timor Leste. Foreign direct investment (FDI) has been proven to increase revenue from the tax sector in Timor Leste. That shows that if there is more foreign direct investment (FDI) in Timor Leste, revenue from the tax sector in Timor Leste will also increase.

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