Analysis of Tax Revenue on Capital Expenditure in Kupang City

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Abstract: The coronavirus pandemic (SARS-Co-V-2) has had a major impact on the development sector. The sustainability of the development sector is supported by economic development that the government continues to strive for, especially during the COVID-19 pandemic. Effective regional economic development requires the empowerment of economic actors and regional economic potential, as well as paying attention to physical and social spatial planning so that there is an even distribution of economic growth supported by the availability of regional finance. Regional financial sources consist of regional income and regional financing. With limited resources, local governments must be able to allocate revenues for productive regional expenditures. So far, regional governments have used regional revenues more for operating expenses than for capital expenditures. The higher the level of capital expenditure is expected to be able to improve the quality of public services which have an impact on increasing the public's contribution to development which is reflected in the increase in PAD. The research is focused on examining the effect of taxes on capital expenditures. This research will be conducted at the Kupang City Regional Revenue Service office located on Jalan Perintis Kemerdekaan and the Kupang City Regional Revenue and Finance Office. The study was carried out from June to October 2021. To answer the goal using regression analysis. The types of data used are primary data and secondary data. Data collection techniques: Interview, Document Study. Based on the research results show that local taxes have a significant effect on capital expenditures. This means that an increase in local tax revenue will increase capital expenditure in Kupang City.

Keywords: Taxes, Capital Expenditures, Analysis\

Background

To accelerate effective regional economic development, it is necessary to empower economic actors and regional economic potential, as well as pay attention to physical and social spatial planning so that there is an even distribution of economic growth supported by the availability of regional finance.

Regional financial sources consist of regional income and regional financing. The fundamental source of regional finance, owned and managed by regional governments, is Regional Original Revenue (PAD). PAD is revenue originating from the region itself which consists of regional tax proceeds, regional retribution proceeds, regionally owned companies and separated regional wealth management results, and other income.

In the administration of government, the Regional Government compiles the Regional Revenue and Expenditure Budget (APBD) which is used as a guide in carrying out various activities.

The problem faced by local governments in public sector organizations is regarding budget allocation. With limited resources, local governments must be able to allocate revenues for productive regional expenditures. So far, regional governments have used regional revenues more for operating expenses than for capital expenditures.

Local governments must be able to allocate capital expenditure budgets properly because capital expenditure is one step to provide services to the public which are expected to be able to attract investment opportunities in a region. To support an increase in investment in a region is to increase capital expenditures further. The higher the level of capital expenditure is expected to be able to improve the quality of public services which have an impact on increasing the public's contribution to development which is reflected in the increase in PAD.

However, the phenomenon that occurs, it seems that the allocation of capital expenditure has not become a top priority. Allocation of capital expenditures or productive spending, on average local governments are still minimal to support equitable economic growth (<20%) [1]

In managing their finances, local governments must be able to apply the principle of regional independence by optimizing revenues from the PAD sector. PAD should be able to encourage increased income in a region so that it can increase the allocation of capital expenditures. The more regional needs that can be financed by PAD, the higher the quality level of regional autonomy, so that the region is more independent in its financial sector. The following will show the PAD of Kupang City.

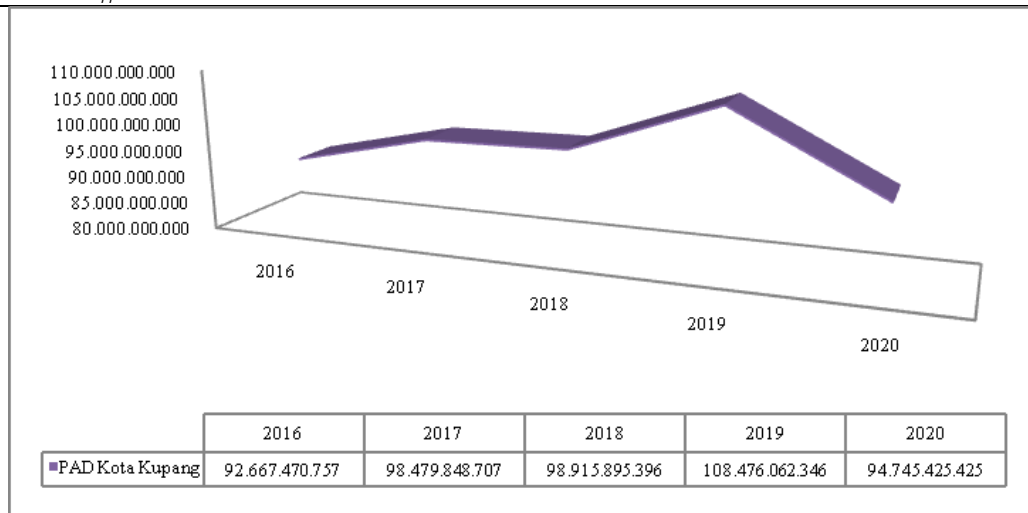|	2016	2017	2018	2019	2020
■PAD Kota Kupang	92.667.470.757	98.479.848.707	98.915.895.396	108.476.062.346	94.745.425.425

Figure 1. PAD of Kupang City 2016-2020

The percentage rate of Kupang City's PAD achievement from 2016-2019 increased but in 2020 it decreased, this was due to the less than optimal collection of PAD sources due to the spread of the corona virus. If the PAD of Kupang City cannot reach the target that has been set, then the infrastructure development that has been planned by the City of Kupang will be slightly hampered.

PAD consists of regional taxes, regional levies, the results of separated regional wealth management, and others. Local taxes are one of the largest sources of PAD which is used for personnel expenditures to finance various projects for the construction of public facilities such as roads, bridges, schools, hospitals/health centers, police stations, financed using money derived from taxes. Tax money is also used for financing in order to provide a sense of security for all levels of society. Every citizen from birth to death, enjoys facilities or services from the government, all of which are financed with money from taxes. Thus it is clear that the role of tax revenue for a region becomes very dominant in supporting the running of the wheels of government and financing development.

Formulation of the problem
The problem to be investigated in this study is how the effect of taxes on capital expenditures in Kupang City.

Destination
The goal to be achieved is to determine the effect of taxes on capital expenditures in KupangCity.

Research Methodology
Place and time of research
This research has been carried out at the Kupang City Regional Revenue Service office located on Jalan Perintis Kemerdekaan and the Kupang City Regional Revenue and Finance Office. The study was carried out from June to October 2021.

Operational Definitions and Variable Indicators
This research consists of independent variables and dependent variables.
1. Independent variables (X)
   The variables studied in this study are Tax (X1).
2. Dependent variables (Y)
   The dependent variable or the dependent variable (Y) in this study is Capital Expenditure.

Table 3.1 Operational Definitions and Research Variables

No	Variables	Variable operational definition	Indicator
1.	Tax (X)	The transfer of wealth from the people to the state treasury to finance routine expenditures and the surplus is used for public saving which is the main source for financing public investment.	X = Tax
2.	Capital expenditure (Y)	Regional government expenditures whose benefits exceed one fiscal year and will increase regional assets or wealth and will further increase routine expenditures such as maintenance costs in the general administration expenditure group.	Y = Capital expenditures consisting of land capital expenditures, machinery equipment capital expenditures, building and building capital expenditures, road capital expenditures, irrigation and networks and other physical capital expenditures.

Data Types and Sources
The types of data used are primary data and secondary data

Data collection technique
Data collection techniques: Interview, Document Study.

Data Analysis Techniques
To determine the effect of each independent variable on the dependent variable, either simultaneously (simultaneously) or partially, the model used is multiple regression analysis (Sugiyono, 2010; 243) with the following formula:

$$Y = \beta 0 + \beta 1 X_1 + e_i$$

Information :
Y= capital expenditure variable for Kupang
$\beta 0$= constant
$\beta 1$= tax revenue variable regression coefficient
X1= tax revenue variable
e= error

Hypothesis test

a. Simultan Test (Uji F)
According to Priyanto (2009:61) this F test is to determine the significant effect of the independent variables together on the dependent variable. Significant means the relationship that occurs for the population (can be generalized).

The equation:

$$Fhitung = \frac{JKR/(k-1)}{JKE/(n-k)}$$

Information:
JKT= the number of squares of regression
JKR= the number of squares of errors
n= the number of respondents
k= the number of independent variables
Level of significance $\alpha = 0,05$
Decision making rules :

1) If $\rho > \alpha$ (0.005) then H0 is accepted and Ha is rejected
2) If $\rho \leq \alpha$ (0,005) then Ha is accepted and H0 is rejected

Parsial Test (Uji t)

To test the significant effect of tax (X1) on the capital expenditure variable (Y). Supranto(2006:61) states that the t-test formulation used is as follows:

$$t_{hitung} = \frac{bi}{Sbi}$$

Information:
bi = regression coefficient
Sbi = standard deviation Taraf
signifikansi α = 0,05Decision
making rules:

1) If ρ > α (0.005) then H0 is accepted and Ha is rejected
2) If ρ ≤ α (0,005) then Ha is accepted and H0 is rejected

Determination Coefisien (R^2)

To find out the contribution/contribution of all tax-free variables (X1) to the capital expenditure variable (Y) can be seen in the coefficient of determination (R2). Sugiyono (2004) states the formulation to determine the value of the coefficient of determination (R2) used the following formula:

$$R^2 = \frac{JKR}{JKT} X100\%$$

Keterangan:
R^2: Determination coeffisien
JKR: sum of the squares of regression
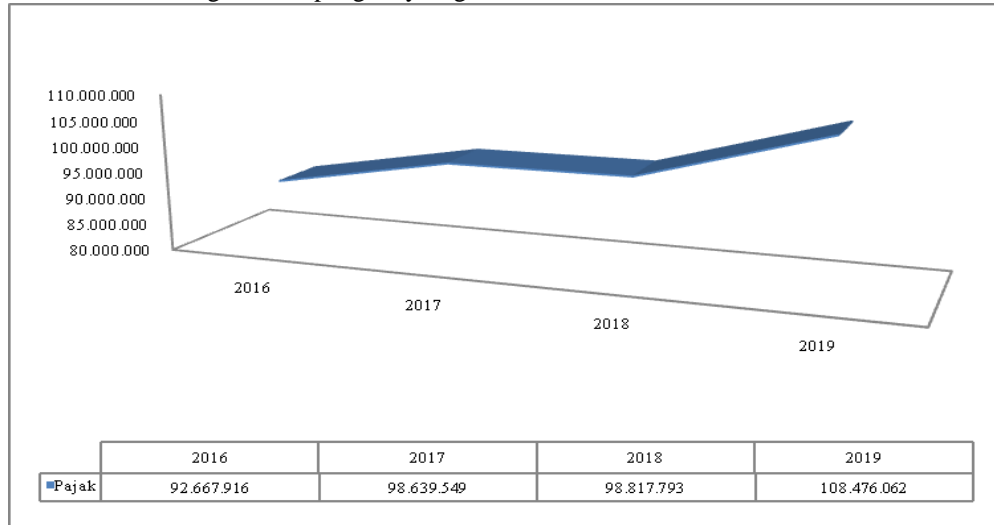JKT: Total Squares

Discussion

Tax Description in Kupang City

Tax is a levy that must be given to the state by individuals or entities/companies based on the law that will be used for the benefit of the state and the welfare of the general public. Furthermore, the above regional taxes are contained in Law No. 28 of 2009 concerning Regional Taxes and Levies (PDRD). This rule replaces Law No. 18 of 1997 as amended by Law no. 34 of 2000.

Types of Regency/City Taxes consist of: Hotel Tax; Restaurant tax; Entertainment Tax; Advertisement tax; Street Lighting Tax; Non-Metal and Rock Mineral Tax, Parking Tax; Groundwater Tax; Swallow's Nest Tax; Rural and Urban Land and Building Tax; and Fees for Acquisition of Land and Building Rights. Based on the results of the Kupang City regional tax research from 2016 to 2019 it can be seen in the following diagram:

Figure 2 Kupang City Regional Tax Amount for 2016-2019

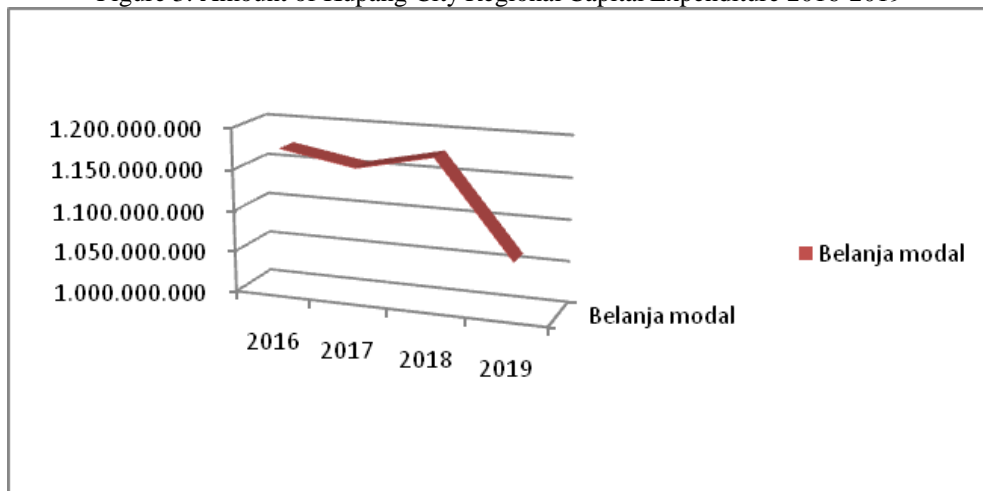|	2016	2017	2018	2019
Pajak	92.667.916	98.639.549	98.817.793	108.476.062

Source: Primary Data, processed (2021)

The picture above shows that the amount of local taxes for 4 years has continued to increase even though the increase in 2017-2018 decreased. This is due to the lack of economic growth (number of industries) in Kupang City so that it has an impact on tax revenue.

Description of Capital Expenditure in Kupang City

According to PP No. 71 of 2010 capital expenditure is a regional government expenditure whose benefits exceed one budget year and will increase regional assets or wealth and will further increase routine expenditures such as maintenance costs in the general administration expenditure group.

This type of capital expenditure is included in expenditures whose purpose is to obtain fixed assets. Some types of capital expenditures are as follows: land capital expenditure, equipment and machinery capital expenditure, building and building capital expenditure, road, irrigation and network capital expenditure, other physical capital expenditure includes rental and purchase activity contracts, art goods shopping, archaeological, books and scientific journals. Based on the results of the Kupang City regional tax research from 2016 to 2019 it can be seen in the following diagram:

Figure 3. Amount of Kupang City Regional Capital Expenditure 2016-2019

Source: Primary Data, processed (2021)

The picture above shows that the amount of capital expenditure for 4 years has fluctuated. This is because capital expenditure does not only come from taxes but also comes from Regional Original Income (PAD), General Allocation Funds (DAU), Special Allocation Funds (DAK), and Special Allocation Funds. Profit Sharing (DBH), so that although taxes increase, other sources of income decrease, causing capital expenditures to also decrease.

Analysis of the Effect of Taxes on Capital Expenditures in Kupang City

Capital expenditures are affected by taxes. The results of the analysis of the effect of taxes on capital expenditures in Kupang City can be seen in table 1. The regression model based on the results of the analysis can be seen in the following functions:

$$Y = 1.894E9 + 7.544X_1$$

Table 1. Results of Regression Analysis of Tax Effects on Capital Expenditures in KupangCity, 2022

No.	Variabel	Coefficients	Std. Error	t-Statistic	Sig.
1	C(bo)	1.894E9	2.416E8	7.841	.006
2	Pajak (X₁)	7.544	2.420	3.117	.009
4	R-squared			.911[a]	
5	Adjusted R-squared			.829	
6	Std. Error of the Estimate			2.74188E7	
7	F-statistic			9.717	
8	Prob (F-statistic)			.009[a]	

Sumber: Analisis Data Primer, 2021

Table 1 shows that the calculated F value of 9.717 is greater than the table F value at the 95% confidence level. This means that capital expenditure is affected by taxes.

The magnitude of the diversity of capital expenditure variables that can be explained by the advertising tax variable can be seen from the magnitude of the coefficient of determination (R2) which is 0.911. This means that 91.10% of the diversity of capital expenditure variables can be explained by the diversity of tax variables. While 8.9% is explained by other variables outsidethe model.

To determine the partial effect of the tax variable on capital expenditures using the t test. The results of the analysis show that the value of the t-test (α/2) of the tax variable affects the regional capital expenditure of Kupang City at the 95% confidence level.

The results of the analysis show that the value of b0 is positive 1.894E9 which means that when taxes are not taken into account or equal to zero, capital expenditure is 1.894E9. The value of the regression coefficient b1 is positive 7.544, which means that the tax increases by 1 unit, the capital expenditure will increase by 7.544 units. This is in line with Zahari's research (2018), which explains that local taxes have a significant effect on capital expenditures. This means that if local tax revenues increase, it will increase capital expenditures.

Closing Conclusion

Based on the research results show that local taxes have a significant effect on capital expenditures. This means that if local tax revenues increase, it will increase capital expenditure in Kupang City.

Suggestion

1. The government is expected to increase supervision in terms of tax collection.
2. To increase capital expenditure receipts, the government is advised to use the capitalexpenditure model produced in this study.

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