

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The government expects to develop the country for public welfare. Tax is one of the forms of independence of the country in the financing of development in various sectors especially the economy. Tax is a potential alternative as the largest source of state revenue and has a tendency to increase from year to year. In addition, tax payments represent the realization of obligations and the role of the taxpayer to directly and collectively implement the tax obligations for state financing and national development. Tax is a compulsory levy imposed on any taxpayer that can be imposed on the tax object owned under the law without any direct reward which will be used for the welfare of the society. Tax revenues are divided into two categories that are direct tax such as income tax and indirect tax such as value added tax.

Value added tax is an indirect tax imposed on consumption in the country (in customs areas) both consumption of goods and services but not all types of goods and services is imposed with value added tax in accordance with the consideration of economic, social conditions and culture. The value added tax is imposed on the increase in value of the goods or services. An increase in value is created by the activity of generating, distributing and trading goods or services. Tax system that applied is self assessment system, it means that taxpayer supposed can count itself amount of tax payable, pay and report itself the tax payable. It can be done well if the taxpayer understand tax regulation and follow the regulation applicable according to tax law. Because if it is not follow the regulation, it can

be mistake that can make loss either for government and for taxpayer itself.

Value added tax object can be divided into two that are eneral object and special object. The general object of value added tax is regulated in Article 4 Value Added Tax Law No. 42 of Year 2009. Special object of value added tax is regulated Article 16C and 16D Value Added Tax Law No. 42 of Year 2009. Article 16D describes the Value Added Tax object imposed to delivery of asset by taxable person on its original purpose are not for sale along the delivery of asset whose input could be credited. Article 16C Value Added tax object is on self construction activities that is not conducted the course of business or work by an individual or an entity where the results are for personal or other party use whereby such limitation and procedures shall be determined by the Minister of Finance Decree. The imposition of Value Added Tax to self construction activities is done to prevent the avoidance of Value Added Tax imposition for delivering of object that has increasing value and to give same treatment and fairness for the parties that buy the building from developer of real estate or pay construction service of building from contractor. The rate of Value Added Tax for self construction activities is 10% from tax base of self construction activities.

The self construction activity in building is done not in the course of business activity and is used for itself or used by another parties such as employee, owner and so forth. This activity is imposed with value added tax for self construction activities. Finance Minister Decree Number 163/PMK.03/2012 determines scopes and procedures for the imposition of value added tax on self building activity. Value added tax of self building activities is payable for the company that conducts self building activities. Some of criteria in classifying the building as tax object according to Finance Minister Decree Number 163/PMK.03/2012 are construction consists primarily of wood,

concrete, masonry or similar material, and steel, used for the residence or place of business and the overall area of at least 200m². The self building activities is imposed with value added tax in 10% from tax base. The tax base of self building activities is 20% from cost incurred or paid by the company including material and services.

This research is done at PT Runding Putra Persada. The company is engaged as plantation company. The company is located at Jl. S. Parman No. 45 Medan. The company's estate is located in Aceh Singkil. The product of the company is fresh fruit bunches and palm oil. The sales is done to local customer. The company as entity taxpayer is registered as taxable person. Therefore, the company has obligation in reporting, collecting and calculating value added tax. It is required to conduct its tax obligation in Value Added Tax. Value Added Tax is related with taxable goods or taxable service purchase and delivering of taxable goods or taxable service to other parties. One of activity that should be considered by the company is self building activity. The input tax from self construction activities cannot be credited. The company should make fiscal correction cost of building and VAT that cannot be credited.

During in year 2016, there is construction activities in the company such as employee's house building, office building in estate, manager mess and director house in estate in the company. The company has conducted self construction activities to this building. The construction of building is started in year 2016. The cost of building during year 2016 can be seen as follows:

Table 1.1 Cost of Self Construction of Building In Year 2016

No	Building	Wide Area (m ²)	Cost (Rp)
1	Employee's house building	481	762.162.650,-
2	Office building in estate	397	505.099.896,-
3	Manager mess	332	511.117.709,-
4	Director house	315	319.208.920,-

Source : PT Runding Putra Persada Medan (2018)

From table above, it can be known that the area of building is over than 200m². Besides that, the building is form of permanent building that consists primarily of wood, concrete and steel. This building is used outside of business activity. Therefore, the building can be classified as tax object of value added tax in self construction activities. For this self construction activities, the company must pay value added tax based on applicable tax regulation. The company doesn't pay value added tax of self construction activities. The company pays the value added tax based on difference between output tax with input tax. The output tax is collected from sales of products. The input tax is paid from purchase of goods and using of service based on tax regulation. The construction of manager mess and director house has finished in year 2016. The company has made depreciation of manager mess and director house as permanent building based on Income Tax Law. The company doesn't conduct fiscal correction of depreciation of manager mess and director house. If the company has not completed the construction, the cost is recorded as construction in progress and the depreciation is done after construction is completed.

The company had 158 employees in year 2016. Tax and accounting activities is done by finance department. The employees in finance department are 12 employees. The finance department also handles the financial activities, controls the cash flow and obtains fund from bank. The employees in accounting and finance department do not have sufficient training and qualified skill in taxation because they cannot implement tax obligation in self construction activities properly. Employees in finance department have many works in financial activities. Therefore, the company doesn't have good focus in fulfilling tax obligation. The company doesn't use service from tax consultation and accounting firm. Besides that, the company never get tax audit from tax office. This condition can make the company

doesn't know the level of tax compliance. The writer will conduct self audit in recalculating the value added tax and income tax expense with considering self construction activities in the company based on tax regulation.

Based on the description above, the writer intends to conduct research entitled **“The Analysis of Self Construction Activities on Value Added Tax Payment and Income Tax Payment at PT Runding Putra Persada Medan ”**.

1.2 PROBLEM FORMULATION

Problem that can be formulated in this research is as follows:
What is the impact of self construction activities on value added tax and entity's income tax at PT Runding Putra Persada Medan?

1.3 RESEARCH FOCUS

The writer determine research focus in impact of self construction activities on value added tax and entity's income tax in year 2016 at PT Runding Putra Persada Medan.

1.4 RESEARCH OBJECTIVE

The objective of doing this research is to know the impact of self construction activities on value added tax and entity's income tax at PT Runding Putra Persada Medan.

1.5 BENEFIT OF THE RESEARCH

The benefits from conducting this research are as follows:

1.5.1 THEORITICAL BENEFIT

1. This research can be used as reading material for student of Universitas Pelita Harapan Medan in understanding application of tax theory in the company especially value added tax of self construction activities.

2. This research can give contribution to taxpayer in understanding of tax calculation based on applicable tax regulation especially the impact of self construction activities in value added tax and income tax calculation.

1.5.2 PRACTICAL BENEFIT

1. This research can give recommendation for the company in implementing tax regulation especially value added tax and income tax.
2. This research can add knowledge of writer in tax especially value added tax and income tax.
3. This research can be used as reference in conducting other research with same topic.

1.6 SYSTEM OF WRITING

The systems of writing in this *skripsi* will be as follows :

CHAPTER I : INTRODUCTION

This chapter consists of the background of the study, problem formulation, research focus, research objective, benefit of the research and systems of writing. In background of the study, it will describe the brief overview of tax, value added tax, value added tax of self construction activities, the company's activities, self construction activities in the company and condition of the company in handling the tax.

CHAPTER II : LITERATURE REVIEW

In this chapter, the writer explains some theories that are related to the *skripsi* such as definition of tax, definition of financial statement, definition of value added tax, definition of self construction activities, time and place of self construction activities VAT, procedure of self construction activities construction and income tax calculation. The writer also

presents previous research and framework of thinking related with self construction activities.

CHAPTER III : RESEARCH MEDOLOGY

This chapter consists of the research design, research object, data collection method and data analysis method. Research design used is qualitative and descriptive research design. This chapter describes data collection method in this research that are interview, documentation and literature review. Data analysis method used is with descriptive analysis method that analysis of value added tax on self construction activities and recalculation of value added tax and income tax with considering self construction activities.

CHAPTER IV : DATA ANALYSIS AND DISCUSSION

This chapter consists of general view of research object, data analysis and discussion. The general view of research object describes the company's history, company's business activities, vision, mission and organization structure. The data analysis and discussion is done to building that can be classified as tax object in value added tax on self construction activities, recalculate value added tax on self construction activities, recalculate value added tax payment, recalculate taxable income after fiscal correction, and recalculate income tax expense based on applicable tax regulation.

CHAPTER V : CONCLUSION

This chapter contains the conclusion, the implication and recommendations. The writer will gives conclusion of implementation of value added tax on self construction activities based on tax regulation and its impact on value added tax and income tax payment. The implication of this research is improving the value added tax and income tax with considering self construction activities. The recommendation

is done to company in improving implementation of value added tax on self construction activities.

