CHAPTER I

INTRODUCTION

1.1   BACKGROUND OF THE STUDY

Tax is one of the important parts of goverment's financial source which is used to defray both routine operational expenditures or long term development government expenses in Indonesia. To develop the country, the government needs a large amount of fund that comes from the citizens who perform their duties to pay tax. Tax is imposed by the state to all citizens or individuals and business entities that have the ability to work and earn income from work. Therefore, every taxpayer should fulfill the tax obigation that have been stated and applied in general provisions of taxation.

In order to carry out the duty of tax payment, a taxpayer should understand the current general provisions and taxation prosedures. Tax collection system that has been applied is called as Self Assesment System. Through self assessment system, the taxpayers are trusted to do their tax obligation, such as : register themselves to tax offices and in return they will be given a taxpayer Identification Number (TIN), calculate the tax credit, pay the remaining amount of tax, fill out their tax returns and submit to tax offices. It means that taxpayers are given the trust by the government through Director General of Taxation to conduct their own tax calculation correctly, truthfully, completely and clearly.

In doing calculation of income tax, taxpayer often miscalculates their tax payable. Miscalculation could happen because taxpayers are lack of knowledge and understanding in reporting their business activities in tax return. Mistakes of taxpayer could be intentional or unintentional. Either it is intentional or not, once the taxpayer is proven for not complying with the rules, then government

will impose sanction on them in form of administrative sanction or criminal sanction depending on the faults. Therefore, it is necessary that the parties understand the obligations and procedures to current taxation. But, for the individual or entity taxpayer who do not understand or familiar with taxation law and procedures are able to hire professional who understands to assist them in fulfilling their obligation and pay the amount of income tax payable properly. It can help the company in increasing the tax compliance, they can povide guideliness, and give correction if there is any mistake in conducting tax obligation.

Moreover, the government has a duties in controlling the tax payment by the companies according to the tax laws. In order to find out wheather a company has performed its obligation under the Tax Law and Provisions applied, one of the ways that can be done is by implementing some tax controlling is in the form of tax review. With tax review, the company can anticipate if there is mistake happens . Tax review is an examination to determine whether a taxpayer has correctly reported and assessed their tax obligations. Tax review function consists of examining the accuracy of the information declared by taxpayers and to verify whether they have correctly and completely reported and assessed their tax obligation. The review function goes beyond just verifying the information provided by the taxpayer in his tax return and detection of discrepancies between the information in the return and supporting books and records and other documents. The review functions also include verifying the taxpayer's reported obligations and detecting discrepancies with available third-party information such as customers, bank, agency and employers (Alink & Kommer, 2016)

An effective review program will have significantly wider impacts. Tax review provides analysis, assessment, recommendation, guidelines and information relate to activities that have been reviewed,

examined and analyzed. By selecting the highest risk cases, efficiently detecting non-compliance, applying appropriate sanctions, and publicizing results of review activity, taxpayers are put on notice that attempting to avoid tax will result in a high likelihood of detection and imposition of significant sanctions. It is important to conduct tax review to financial statement as the basis to preparing income tax return. There are several important elements in the financial statement which should be evaluated by the company such as revenue, cost of goods sold and operational expenses. Besides that, other tax review activities which should also be done is evaluation of the fiscal correction, tax credit an review of the transaction.

PT Grand Mutiara is a company engaged in Hotel business to provide accommodation service in Berastagi, North Sumatera. This company was founded in 2004 and have 123 rooms for customers. Although the company has been established for quite long, it will have a potential of errors in conducting its payment of tax. The writer intends to conduct an tax review to prevent mistakes and the possibility to present inappropriate of wrong data or errors which might give a risk of penalty by tax authority. Company's employee has possibility to make mistakes in conducting tax obligation especially in calculating entity's income tax. It is expected from the tax review that it can avoid tax sanction from government and the company will be prepared to solve all the problems or questions which may be come out and having deeper understanding through tax review. This should continue to get attention from the company. Therefore, the author is interested to prepare a thesis **"The Implementation of Tax Review to Evaluate Tax Compliance of PT. Grand Mutiara"**

1.2   PROBLEM FORMULATION

Based on the background of study which has been described previously, the problem identified by the writer in this research is : " How to implement tax review toward the calculation and reporting of entity income tax in order to evaluate the tax compliance at PT. Grand Mutiara ?"

1.3   RESEARCH FOCUS

This research is investigated in limited time, ability and knowledge. So, the writer will only focus on the calculation of entity income tax, the taxation procedures applied by the company, the fiscal financial statement and the annual entity income tax return of the company in order to Evaluate tax compliance.

1.4   RESEARCH OBJECTIVE

Based on the description problem formulation above, the objective of doing this research is to gain more understanding of how the implementation of tax review applied by PT. Grand Mutiara is adequate to Evaluate tax compliance

1.5   BENEFIT OF THE RESEARCH

1.5.1   THEORETICAL BENEFIT

Based on the objective of the research, the research is expected to generates theoritical benefits as follows:

1. The research is expected to gain more understanding and knowledge for the writer about implementation of review towards tax compliance.

2. The research is expected to be used as theoretical review in further studies about review in relevance to tax compliance.

3. The research is expected to provide information and could be use as reference for other researchers in doing similar research related to tax review towards tax compliance in upcoming periods.

1.5.2   PRACTICAL BENEFIT

Based on the research objective, the research is expected to generate theoritical benefits as follows:

1. For the Readers, it is expected that this research can be useful for those interested in studying this research and can be used as a comparative and assessment material for other parties who need it.

2. For PT. Grand Mutiara, This research can provide information to the company, especially in order to achieve tax compliance

3. For Government, This research can be useful for government in the prevention and detection of fraud and encourage the establishment of compliance program

1.6   SYSTEMS OF WRITING

The purpose of systems of writing is to make it easier for readers to understand the content of this research. The systematic outline of writing in this research will be organized as below :

CHAPTER I: INTRODUCTION

In this chapter, the writer describes about the background of the study, problem formulation, research focus, research objective, benefit of the research

including the theoretical benefit and practical benefit as well as the systems of writing.

CHAPTER II: LITERATURE REVIEW

In this chapter, the writer describes about some supporting theories which are related to the research problem discusses such as tax, the procesures and importance of conducting   tax review, the tax compliance, entity income tax return and the supporting theories. In addition to this chapter, the writer also explains about the previous research related to the topic of study and framework of thinking.

CHAPTER III: RESEARCH METHODOLOGY

In this chapter, the writer explains the methodology done in this research, such as research design, research object, data collection method and data analysis method.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter consist of general view of "research object" such as brief history of the company and organization structure, data analysis and discussion.

CHAPTER V: CONCLUSION

This chapter consists of the conclusion of the whole study which only contains a brief summary and does not include the result of analysis. This chapter also consist of implication as the impact from the result of the research and recommendation for the external parties, such as Grand Mutiara Hotel as well as the limitation in doing the *skripsi*.