

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Source of state revenue comes from a variety of sectors, both internal and external sectors. One source of revenue is taxes the internal sector, while external revenue sources such as foreign loans. In an effort to reduce dependence on external sources of revenue, the government is continuously striving to maximize internal revenue. A tax is a financial charge or other levy imposed upon a taxpayer by a state or the functional equivalent of a state to fund various public expenditures. The tax has an important role in the financing of the country. It can be seen from the continuous increase of revenue targets from the tax listed in the country budget. A major source of fund for any government is the tax revenue. State revenue from the tax sector continues to increase from year to year.

Self-assessment system has been implemented as a system of taxation in Indonesia gives full trust to the taxpayer to calculate, deposit, and report their tax obligations. Responsibility of taxpayer's associated with awareness taxpayers to fulfill their duties. Therefore, the belief that the state must be balanced by putting awareness of the taxpayer. The application of self-assessment system and a mission to bring some awareness can give the consequences on the citizens to pay their taxes voluntarily (voluntary compliance). With the reform of the tax, citizens are expected to be more open in expressing their tax data.

Taxpayer compliance is an important aspect of enhancing state revenue from the tax sector. A high level of service quality from tax officers will encourage taxpayers to perform their obligation of paying taxes. If a good number of taxpayers are compliant in paying and

reporting tax return, the ratio of tax compliance will increase. Low tax compliance can be seen from the two sides of the facts that are the low rate of compliance in paying taxes and the low level of compliance in the report or submit tax return. The government, through the Directorate General of Taxation, has made various efforts to improve taxpayer compliance in Indonesia, both by extending and intensifying tax. However, many factors affect the taxpayer in carrying out its tax obligations. Attitudes play important aspects when deciding to evade tax such as tax moral. Each tax payer type have different value in declared their income and different taxpayers' reactions to detection probabilities and fines.

Taxpayers tend to pay taxes to a minimum, or even they try to avoid paying taxes. Tax avoidance happens when an individual's manipulation of his affairs within the law so as to reduce his tax liability. On the other hand, tax evasion is illegal manipulation to reduce tax. However, accountants are the planner to tax avoidance with tax planning and tax mitigation. Tax evasion therefore can significantly reduce government revenues. Noncompliant tax intentions leading to tax evasion renders a recess in the economic growth of most developing and emerging economies. Tax evasion will affect the public expenditure, which in turn will reduce the projects and investment. Tax evasion is using illegal means to avoid paying taxes. Tax evasion is a phenomenon that is very difficult to observe and investigate. The difficulty in observing cannot be separated from the difficulty in controlling and verifying taxpayers' behavior. Tax evasion is a taxpayer action for not paying his taxes deliberately contrary to the tax law. Most taxpayers exploits various loopholes in tax systems by employing techniques.

One of the many problems facing tax office is tax evasion. Measurement of the magnitude of intentional and unintentional non-compliance can be difficult as it involves estimating levels of uncollected tax. There are many factors such as economic, social, psychological and demographic issues that give impact on the compliance behaviour of taxpayers. Income level fluctuations have had an impact on taxpayers evading behaviors. Income components is a major driving force in tax evasion. Increasing income levels can increase tax with result that it can increase in tax evasion behavior. High income taxpayers are expected to exhibit his wealth by complying to tax. They often hide their actual income from tax office. that age plays a crucial role in compliance. With respect to age, it is expected that the aging taxpayers tend to be more compliant. Some taxpayers are more risk seeking and less sensitive to penalties. Young taxpayers are more compliant than old payers. This is because older taxpayers would have sufficient income that can be imposed with high tax.

This research is done of individual taxpayer in Pematangsiantar. Individual taxpayer in Pematangsiantar has target in increasing tax revenue. Tax office has duties with optimizing the tax potency from taxpayer in its area. Besides that, tax office has effort in increasing tax compliance. Taxpayer of Individual taxpayer Pematangsiantar should give optimal contribution to government with payment of tax. Average of income and tax payment in year 2014-2016 from some taxpayers can be seen as follows:

Table 1.1 Average of Income and Tax Payment in Year 2014-2016

Year	Average Income (Rp)	Average Tax Payment	Ratio Tax to Income
2014	55,735,686.-	6,001,536.-	10.77%
2015	60,003,765.-	5,975,666.-	9.96%
2016	65,895,735.-	5,863,272.-	8.90%

Source : Taxpayers of Individual taxpayer Pematangsiantar (2018)

From table above, it can be known that there is decreasing the percentage ratio between tax payment to income in year 2014-2016.

The increasing of income should increase the tax payment. However, the some taxpayers of Individual taxpayer in Pematangsiantar do not pay the tax in line with the increasing of income. It can occur because the taxpayers has implemented the way in minimizing tax expenses. Some of taxpayers do not conduct reporting all of income to tax office. There are some income that are not reported by taxpayers. It can indicate that there is effort in conducting tax evasion. Some people in Pematangsiantar do not have tax identification number although they have income that can be imposed tax such as restaurant owner, shop owner and so forth. Without tax identification number, they do not make payment and reporting of tax. They feel that the payment of tax doesn't give direct benefit for society. They also feel that the tax payment is used for corruption with result that they do not have awareness to make payment of tax optimally.

Based on this background study, then the writer is interested to conduct the research with title as follows : “The Influnce of Age and Level of Income toward Tax Evasion of Individual taxpayer in Pematangsiantar”

1.2 PROBLEM LIMITATION

The writer makes problem limitation as follows:

1. The research object is Individual taxpayer in Pematangsiantar
2. The independent variables are age and level of income and dependent variable is tax evasion
3. The research period is year 2017.

1.3 PROBLEM FORMULATION

Problem formulation in this research is do age and level of income have influence on tax evasion of Individual taxpayer in Pematangsiantar?

1.4 OBJECTIVE OF THE RESEARCH

The objective of doing this research is to know whether age and level of income influence on tax evasion of Individual taxpayer in Pematangsiantar

1.5 BENEFIT OF THE RESEARCH

The benefits from conducting this research are as follows:

1.5.1 THEORETICAL BENEFIT

1. This research is expected in giving contribution in developing the tax theory especially tax evasion.
2. This research can give benefit in understanding the theory of tax.

1.5.2 PRACTICAL BENEFIT

1. This research is expected in giving input and suggestion for government and taxpayer in improving tax compliance.
2. This research is expected in giving the information to government in increasing tax revenue.
3. This research can be used as reference for other researchers in conducting research with same topic.

1.6 SYSTEMS OF WRITING

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

Chapter I : Introduction

This chapter is introduction of this research. The writers will presents the background of the study, problem formulation, research focus, research objective, benefit of the research and systems of writing. This chapter describes self-assessment system has been implemented as a system of taxation in Indonesia gives full trust to the taxpayer to calculate, deposit, and report their tax obligations. Responsibility of taxpayer's associated with awareness taxpayers to fulfill their duties.

Chapter II : Theoretical Background

This chapter is background of theory used in this research such as tax and tax evasion. The writer presents theoretical background, previous research and framework of thinking. This chapter describes taxpayer's contribution to a country that is payable by an individual or entity enforced based on law without obtaining direct reward and is used for the purposes of country to prosperity of the people and society's contribution to state treasury based on law that can be enforced without the direct reward that can be shown and used for general expenditure.

Chapter III : Research Methodology

This chapters consists of research quantitative, population and sample, data collection method, operational variable definition and variable measurement and data analysis method. This chapter describes the hypothesis is multiple linear regression model because it involves two independent variables and one dependent variable. Multiple linear regression models is regression models that have more than one independent variable in order to estimate or predict the average population, average value of the population and the average dependent variable based on the value of independent variables.

Chapter IV : Data Analysis and Discussion

This research is analysis of data from the Individual taxpayer in Pematangsiantar. This chapter consists of general view of research object, data analysis and discussion. This chapter describes that relationship between age with tax evasion can be caused by experience and difference in generation. The older tax payer has willingness to take risk and less sensitive to the law. Younger taxpayers have a higher perceived threat of legal sanctions which, in turn, increases compliance. Taxpayer ethics should improve with age and thereby increase compliance levels. The greater tendency to be less compliant when one

gets older could also be due to the increasing of risk-taking attitudes. Income level is positively correlated to tax evasion. Modern tax systems are designed to redistribute amongst taxpayers and to reduce inequality in society.

Chapter V : Conclusion

This chapter is conclusion in doing this research. The writer will presents conclusion after conducting the research, implication of this research and recommendation. This chapter describes that government should give education and counseling regularly to younger taxpayer. The younger taxpayer has lower tax compliance rather than older taxpayer. With education and counseling of tax, the younger taxpayer will have intention in conducting tax obligation properly and government should consider the effort in increasing the taxpayer awareness with giving information and objective counseling in order to increase the taxpayer's knowledge.