CHAPTER I
INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The welfare for the entire nation of Indonesia can be realized by running a good government and carrying out development in all areas due to Indonesia status as a developing country. Developing countries in general give high priority to economic development because developing countries, including Indonesia require a lot of funds to operate the National Development. The development, of course, should be supported by adequate funding sources. One of the primary sources of income in Indonesia is in the sector of tax as it covers around 70% of the Indonesian Budget (Resmi, 2014). Therefore, tax is very important to ensure the implementation and improvement of National Development to achieve the welfare of the community.

Taxation has a variety of rules that have been set in legislation. Every taxpayer is required to understand all applicable tax rules. But not all taxpayers have full access to the information. In addition, the renewal of the taxation laws is very fast compared with other regulations. Furthermore, tax system in Indonesia is using self-assessment system that is a system that gives more responsibility to each taxpayer to register, calculate, pay and report tax their tax obligations to government itself. Thus, the amounts of individual income tax revenues are highly dependent on the level of compliance and awareness of the taxpayer (Nurlis & Kamil, 2015). However, the low number of registered taxpayers in Indonesia proves that there is lack of public awareness of tax benefits and ownership of Tax Identification Number (*Nomor Pokok Wajib Pajak*).

According to the Law No. 16 Year 2009 Article 1 Paragraph 1, tax is a compulsory contribution to a country owed by an individual or entity deemed to be in accordance with the Act, by not getting a reward directly and used for the purposes of the state for the prosperity of the community. According to Budi (2015), from the perspective of state finances, taxes have the following functions:

1. The allocation function, that is, the overall resource allocation process to be used as private goods and social goods;

2. The distribution function, that is, adjustment to the distribution of income and wealth to ensure the fulfillment of what is perceived by society as a "equitable" and "fair" distribution condition;

3. The stabilization function, that is, the use of budgetary policy as a tool to maintain a high level of employment, the proper level of stability and economic growth, with considerations of all the consequences of the trade and balance of payments.

From such definition, it can be concluded that tax is compulsory and forceful, and that tax itself is the biggest revenue source of the state, which makes tax as the ultimate tool to fund the expenditure of the state. Therefore, government would collect as much tax as possible from taxpayers. In contrast, taxpayers would try to pay as less tax as possible. This is because tax is regarded as a burden, thus making taxpayers to do many attempts to avoid or paying less tax, such as doing creative accounting.

According to Directorate General of Taxation, in 2014, the practice of tax evasion was very high. Compared to 2013, there was an increment of 280 percent (Sari E. V., 2015).

Since then the government has been working to tackle this very matter. In 2016, a new obligation has just been exercised – that is to

have Directorate General of Taxation (DGT) and Directorate General of Customs and Excise (DJBC); National Narcotics Agency (BNN); as well as the National Agency for Combating Terrorism (BNPT) to use shared data (*Data Bersama*) as the benchmark to view the tax object – hoping that the awareness of fulfilling tax could be maximized. Another attempt that has been done recently is Tax Amnesty, and it has proven quite effective with the result that the tax collection has increased by 18% in the first quarter of 2017 compared to the first quarter of 2016 (Apriyani, 2016).

With the government's attempts to increase the collection, such as through passing policies, the collection of taxes indeed has positively changed. However, the collection of tax has never met the established target of tax collection. The realization percentage of tax collection that nearly reached the target is in 2011, which is stated to be 99,3% by the Directorate General Tax A. Faud Rahmany, and the percentage of tax collection has never been that close ever since. For instance, in 2016 the realization percentage of tax revenue is 81,54% which is 4,13% higher than in 2015 meaning that the realization percentage of tax revenue in 2015 is lower (Deni, 2017), and in 2017 the realization percentage of tax revenue is 88,4% (Deny, 2018). Nevertheless, in these three years, the realization percentage of tax revenue could not beat the achievement in 2011. With the research focus at *KPP Pratama Medan Barat*, the proportion of tax collection realization for the last 5 period at *KPP Pratama Medan Barat* is shown in table 1.1 below.

Table 1.1 Realization of Tax Collection at *KPP Pratama Medan Barat*

YEAR	ACQUISITION	REALIZATION
2013	Rp365.551.865.290	83,33%
2014	Rp528.836.970.000	113,62%
2015	Rp617.303.667.000	101,22%
2016	Rp696.876.312.058	116,15%
2017	Rp526.461.316.000	75,21%

Source: Prepared by *KPP Pratama Medan Barat* (2018)

If the tax collection has never been maximized, that means there are some tax payments that have not been made, which is usually the result of tax evasion or tax avoidance practices. Practice of tax evasion or tax avoidance is considered as the practice of creative accounting, which shows that taxpayer's awareness of the importance of tax payments to the state is still very low. According to Oladipupo & Obazee (2016), one of the fundamental ways to increase public awareness is for taxpayers to have knowledge about taxation. Furthermore, the higher the penalty the greater the discouragement for potential tax evasion therefore, the writer is interested in doing the research with the title "**The Effect of Taxpayer Knowledge, Tax Penalties, and Taxpayer Awareness on Tax Compliance at *KPP Pratama Medan Barat***".

1.2 PROBLEM LIMITATION

There are a lot of factors that could affect the compliance of taxpayers. Therefore, a limitation of problem is needed so that this research could be done smoothly and could focus mainly on the problems. This research only focuses on the effect of taxpayer knowledge, tax penalty, and taxpayer awareness towards the taxpayer compliance. This research is done by using the primary data obtained from the questionnaires which are distributed to all of the individual taxpayers registered in the *KPP Pratama Medan Barat*.

1.3 PROBLEM FORMULATION

Based on the background of study described above, the problem formulations in this research are as the following:

1. Does the taxpayer's knowledge affect the taxpayer compliance?
2. Does tax penalty affect the taxpayer compliance?
3. Does taxpayer's awareness affect the taxpayer compliance?

1.4 OBJECTIVE OF THE RESEARCH

The objectives of this research are in accordance with the problem formulation described above, which are:

1. To find out whether the taxpayer's knowledge has an influence towards the taxpayer compliance.
2. To know whether the tax penalty has an influence towards the taxpayer compliance.
3. To find out whether taxpayer's awareness has an influence towards the taxpayer compliance.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

Theoretically, this research is hoped to be able to provide a greater understanding in the field of taxation. Therefore, the tax compliance in Indonesia could be maximized.

1.5.2 PRACTICAL BENEFIT

The result of this research is hoped to be able to provide the following significance:

1. For Scholars

   It is hoped that this research is able to serve as additional reference and as a perfection material for the next research about the effect of taxpayer knowledge, tax penalties, and taxpayer awareness towards taxpayer compliance.

2. For Taxpayer

   This research is hoped to provide a deeper understanding of the importance of tax, and how taxpayer knowledge, tax penalties, and taxpayer awareness is related to the taxpayer compliance.

3. For Regulator

This research is hoped to be able to provide feedbacks, information, and reference for regulator in preparing regulations or taxation policies, so that the potential of the country to collect tax from its taxpayers could be maximize.

1.6   **SYSTEMS OF WRITING**

During the preparation of this *skripsi*, the applied systems of writing are as follows:

CHAPTER I   INTRODUCTION

This chapter contains the background of study where the reasons of the chosen variables are elaborated with theory and fact, the problem limitation such as the population of the specified Tax Office to prevent a broad and dense discussion, the problem formation which consists of questions that become the objectives of research. This chapter is also to discuss about significance of research which includes theoretical and practical research, and ended by the systems of writing that consists summary of each chapter.

CHAPTER II   LITERATURE REVIEW AND HYPOTHESIS
                DEVELOPMENT

This chapter elaborates about the general theoretical background which presents some related theories such as taxpayer knowledge, tax penalty, taxpayer awareness, and taxpayer compliance. It also includes five prior researches used as the basis of the research and to support the hypothesis development which will become the answer of the research done, a research model which includes taxpayer knowledge, tax penalties, taxpayer awareness, and taxpayer compliance, and framework of thinking which shows the process of the research, from background of study, problem of the research, the grand theory used in the research, as well as the development of hypothesis from prior research.

CHAPTER III   RESEARCH METHOD

This chapter elaborates about the basis of the research method which is a quantitative method with the population consists of the individual taxpayers enlisted in *KPP Pratama Medan Barat* for the period of 2013-2017. The sample is taken using accidental sampling technique. The data used in the research is primary data collected through quesionnaire and secondary data collected through books and online resources. The data analysis method use in the research includes descriptive statistic method, classic assumption test, and hypothesis testing by using multiple linear regressions

CHAPTER IV   DATA ANALYSIS AND DISCUSSION

This chapter provides data about the general description of *KPP Pratama Medan Barat*. The data analysis in this research is using Statistical Package for Social Science Program (SPSS) version 25. The descriptive statistic shows the minimum, maximum, the mean value, the median, and the mode value of each variable used in this research. The classic assumption test implies that the data is distributed normally, and also there is no presence of multicollinearity and heteroscedasticity. The multiple linear regression analysis results in a formula with a constant value, a positive coefficient regression on taxpayer compliance variable. The t test of hypothesis test indicates that each of the taxpayer knowledge, tax penalties, and taxpayer awareness have a significant effect towards the taxpayer compliance. The hypothesis test using f test indicates that the taxpayer knowledge, tax penalties, and taxpayer awareness simultaneously effect on the taxpayer compliance.

CHAPTER V   CONCLUSION

This chapter discusses about the conclusion of the findings of the research. The expectation of the research contribution is stated as a research implication. Suggestions of the research are delivered for people who are interested on this field.