

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In accordance with Ministry of Finance (MoF), the realization of tax sector has contributed for 80.9% on national income of 2017. Infrastructure development, education expenditures, infrastructure expenditures, subsidies of fuel, salary expenditures for civil servants, and public facility development are the sector which should be defrayed by the tax revenue. It proves that the importance role of tax revenue is greatly dominant within the Indonesia State Budgeting.

In the recent year, the government of Indonesia is focusing on accelerating tax collections to improve better economic growth. In accordance to MoF (2018a), Indonesia's tax revenue realization in 2017 was increased 4.3% to be IDR 1,339.8 trillion compared to the previous year. Unfortunately, tax revenue realization of in 2017 has not reach the target. There are 38.6 million taxpayers are registered with 17.6 million taxpayers are obligated to fulfilling the tax obligations, however, it is calculated that only 10.59 million of them are actually fulfilling the tax obligations. It means only 59.98% of the registered taxpayers are actually filled the Annual Tax Return (MoF, 2018b). In fact, a lot of taxpayers still not fulfill their tax obligations. Supported by the statement of Director of counseling, service, and public relations of DGT, Hestu Yoga Saksama (Kompas, 2017), that tax compliance in Indonesian is still low.

Every city is obligated to increase their annual tax revenues based on state budgeting. However, there are several largest cities which have the most responsibilities to collect budgeted tax revenues in respect of supporting national economy. Medan as one of the largest cities in Indonesia based on the population is boosted to collect tax revenue as well performs better services for taxpayers. One of the

tax offices in Medan is Medan Polonia Tax Office. These are the following data related to Medan Polonia Tax Office for year period of 2012 – 2017.

Table 1.1 Target and Realization of Tax Revenue (in Rupiah) in Medan Polonia Tax Office for the year of 2012-2017

Year Period	Tax Revenue Target (a)	Tax Revenue Realization (b)	The Percentage (%) of Tax Revenue Realization towards Tax Revenue Target ($\frac{b}{a} \times 100\%$)
2012	848,422,990,000	932,785,962,285	109,9 %
2013	1,008,892,616,999	775,144,420,380	76,8%
2014	872,030,690,000	550,402,122,703	63,1%
2015	992,259,124,000	1,186,091,674,556	119,5%
2016	1,684,515,537,000	2,296,144,510,600	136,3%
2017	1,630,121,626,689	1,658,381,962,697	101,7%

Source: Medan Polonia Tax Office (2018)

Based on table 1.1, it can be analyzed that percentage tax revenue realization towards tax revenue target at 2012 is 109.9% which higher than the next two years that decreased to 76.8% and 63.1%. However, it was increasing by 56.4% to 119.5% at 2015. Then, it increased to 136.3% at 2016. The tax revenue realization at 2016 is the highest realization for Medan Polonia Tax Office during 2012 – 2017. Unfortunately, it fell down slightly to 101.7% at 2017. In summarize, percentage of tax revenue realization towards tax revenue target is still going up and down whereas state expenditure is increasing.

Table 1.2 Total Amount of Individual Taxpayers Who Had Reported Annual Tax Return in Medan Polonia Tax Office for the year of 2012-2017

Year	Total Amount of Individual Taxpayers (a)	Total Amount of Individual Taxpayers Who Had Reported Annual Tax Return (b)	Percentage (%) of Individual Taxpayers Who Had Reported Annual Tax Return ($\frac{b}{a} \times 100\%$)
2012	58,473	24,586	42 %
2013	60,109	29,196	48 %
2014	55,290	27,943	50 %
2015	44,601	32,780	73 %
2016	53,119	39,243	74 %
2017	47,282	39,637	83 %

Source: Medan Polonia Tax Office (2018)

Based on Table 1.2, it can be seen the percentage of individual taxpayers' amount who had reported annual tax return at 2012 is 42% and increasing by 6% to 48% at 2013. It was also increasing for the next four years until 2017. It increased to 83% at 2017 in accordance with the data collected Medan Polonia Tax Office. Although it is increasing from one year to another, Medan Polonia Tax Office still need to make improvement to increase continuously. In addition, 35.022 taxpayers out of 39.637 taxpayers were submitted the tax return by media electronic.

Wise step done by the government to increase national income by applied self-assessment system as tax reformation. According to Imelda (2014), the self-assessment system requires taxpayers to involve in the process of fulfilling the tax obligations starting by registering himself as the taxpayer, filling the Tax Return, calculating the amount of the tax payable that should be paid, and paying the amount of the tax payable to Treasury Fund. Taxpayers are required as well to be self-conscious with the system that facilitates a convenience way to fulfill tax obligations without any intervention by the tax officers.

In the self assessment system, morale is one of the factor to improve individual taxpayers fulfill their tax obligation (Yulitasari and Suprasto, 2017). According to Song and Yarbrough (1978), morale is the behavior that regulates the relationship of taxpayer as a citizen with the government. Taxpayers with more morale responsibility will increase the level of tax compliance regarding fulfilling the tax obligations (Yulitasari and Suprasto, 2017). In addition, other factor such as age, gross income and education of taxpayer also have significant impact on adherence to pay taxes (Tyas, 2015).

Moreover, Directorate General of Taxes (DGT) has also modernized the tax administration system by developing taxation information technology application such as online tax payment,

electronic tax return (e-SPT), e-filing and e-registration. Taxation technology system intend to provide an efficient and convenience way for taxpayers to comply the tax obligations.

On the other hand, taxpayer has negative impression toward the efforts by government. There are two subjects in taxation, which are the taxpayers who are obligated to fulfill the tax obligations and government are not obligated to give special benefit for the taxpayers. There is difference of interest between the government and the taxpayer. Government need funds to defray national expenditure tax revenue is dominant source. Meanwhile, taxpayers perceive tax as a burden that reduces their income (Ardyaksa, 2014). It may cause a taxpayer to find any way to minimize the tax burden or even not paying tax at all. Taxpayers have planned to reduce the amount of their tax payable legally or illegally. Therefore, it has become one of the primary problems for government to increase the tax collection.

According to Pohan (2015), tax evasion is an illegal practice by violating the tax regulations. Tax avoidance is effort to minimize the amount of tax payable that done legally and safely for the taxpayer because it is not contradictory to the provisions of taxation, where the methods and techniques used are to take advantage of the weakness (grey area) from the laws and regulations of taxation itself.

In fact, state wants a large amount of tax revenue that can be used for development therefore tax avoidance is an act that is not desired by the government even though it is legal. This statement is supported by Kirchler et al (2001) who stated that tax evasion and tax avoidance have the same negative effect on state revenues. Supported by Fuest and Riedel (2009), tax evasion and tax avoidance can occur tax revenue losses which contrast to state's goal of increasing revenue from tax sector.

In accordance with the phenomenon happened, researcher is interested to analyze the impact of taxpayers' morale and information

technology on mitigation of tax avoidance. Based on the background that has been described, researcher has two factors to indicate the taxpayers' perception on tax avoidance practices which are morale and taxation technology system. Therefore, the title proposed in this research is **“Mitigation of Tax Avoidance: Application of Morale and Taxation Technology System (Empirical Study on Individual Taxpayers of Medan Polonia Tax Office”**.

1.2 PROBLEM LIMITATION

To fulfill the focus criteria and structured research, researcher has limited the scope of research. Researcher limits the elements which are related to morale, taxation technology system, and mitigation of tax avoidance. Sample of the research is individual taxpayers which are registered and effective in Medan Polonia Tax Office.

1.3 PROBLEM FORMULATION

Referring to the background of study which has been described previously, the problems can be described as follows:

1. Is there any influence of morale on mitigation of tax avoidance?
2. Is there any influence of taxation technology system on mitigation of tax avoidance?
3. Is there any influence of morale and taxation technology system on mitigation of tax avoidance?

1.4 OBJECTIVE OF THE RESEARCH

This research is investigated empirically to analyze the independent variables on dependent variable. Therefore, the purpose of this study is as follows:

1. To analyze the influence of taxpayer's morale on the mitigation of tax avoidance.
2. To analyze the influence of application of taxation technology system on the mitigation of tax avoidance.
3. To analyze the influence of taxpayer's morale and application of taxation technology system on the mitigation of tax avoidance.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

This research is expected to enhance literature and knowledge for tax studies in the future as a further development. This research also gives empirical evidence about factors that influence the level of tax avoidance.

1.5.2 PRACTICAL BENEFIT

In this research, there are practical benefit which are :

1. For Medan Polonia Tax Office, this research can be used as information and consideration for program plan to be undertaken that can mitigate tax avoidance.
2. For the government, as a tax regulator, this research can be used as information and consideration in formulating related policies in taxation, especially those affecting taxpayer morals and taxation technology system in Indonesia, so it can mitigate tax avoidance.
3. For readers and taxpayers, this research provides insights that the government has attempted to reform the tax system through technology to improve the convenience of taxpayer in complying tax regulations and mitigating tax avoidance.

1.6 SYSTEMS OF WRITING

As the result of data collection as well as to simplify the discussion and understanding of this research, the writer had divided the research into five chapters which are elaborated into its sections. These are the following systems of writing:

CHAPTER I : INTRODUCTION

This chapter explains the information about the research such background of study, problem limitation, problem formulation, objective of the research, significance of the research, and systems of writing.

CHAPTER II : LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter explains the review towards the information and statements that are given by experts, government, as well as trusted sources on theoretical background, previous research, and framework of thinking.

CHAPTER III : RESEARCH METHODOLOGY

This chapter shows the concept and methods that are used by the writer to do the research such as research design, research object, data collection method, and data analysis method.

CHAPTER IV : DATA ANALYSIS AND DISCUSSION

This chapter describes the general description of research object and data analysis. In this case, the research discusses the impact of taxpayers' morale and taxation technology system towards mitigation of tax avoidance by implementing multiple linear regression model.

CHAPTER V : CONCLUSION

This is the last chapter of doing the research which consists of conclusion, implication and recommendation.