

CHAPTER 1

INTRODUCTION

1.1. BACKGROUND OF STUDY

National development as an effort to improve the welfare of the people both materially and spiritually requires a lot of funding. Without ignoring the source of funds that comes from abroad, one of the biggest sources of revenue that is used to finance the country's routine and development expenditures is tax. Therefore, tax is the contribution of the citizens to the country under the law (which can be imposed) while not obtaining or receiving any direct benefits as it is used to pay general expenditures (Mardiasmo, 2016).

There are three types of tax collection system in Indonesia, which are self-assessment system, withholding system and official assessment system. Self-assessment system is a collection system where all individual or entity taxpayers are given the right from Directorate General of Tax to conduct the calculation and determine the tax payable amount, deposit the tax payable to state treasury, report the calculation and payment, and be responsible of the tax obligation. While withholding system is a tax collection system which the calculation of individual or entity's tax payable is done by the third party. Official assessment system, on the other hand, is a system in which the tax that is needed to be paid by the taxpayers is calculated by the tax officers. However, taxation system in Indonesia generally adheres to self-assessment system that provides confidence and full responsibility to taxpayers to meet their tax obligation.

One of the taxes in Indonesia that is regulated by the Law of Republic Indonesia Number 36 Year 2008 is Income tax. The tax subject consists of individual tax payer, entity tax payer and the permanent establishment. All of them are obligated to pay tax to the

government of Indonesia according to the regulation stated in UUD 1945. The basis for calculating the amount of tax payable is from the net income before income taxes in the company's income statements. In other words, the size of the company's earnings in the financial statements determines how much tax payable that should be paid. Thus, it could be explained that while tax is an income for a country to support and cover its expenses, it is still recognized by the payers as an expense that will decrease their profit. Therefore, taxpayers try to minimize their tax payment in either legal or illegal ways as plenty of the business decisions are affected by the tax imposed to them.

According to Sumarsan (2013, p.6):

Pajak dari perspektif ekonomi dipahami sebagai beralihnya sumber daya dari kepada sector public. Pemahaman ini memberikan gambaran bahwa adanya pajak menyebabkan dua situasi menjadi berubah, Pertama, berkurangnya kemampuan individu dalam menguasai sumber daya untuk kepentingan penguasaan barang dan jasa. Kedua, bertambahnya kemampuan keuangan Negara dalam penyediaan barang dan jasa public yang merupakan kebutuhan masyarakat.

It can be explained that tax from an economic perspective is understood as a shift of resources from the public sector. This understanding suggests that the existence of tax causes two situations to change. First, it reduces the ability of an individual in controlling the resources of goods and services. Second, the increased financial capacity of the State in the provision of public goods and service that society needs.

The most common way to minimize tax payment is by doing tax management which is an attempt to implement all the management functions to the implementation of the right and responsibilities of running an efficient and effective taxation. Tax management consists of tax planning, tax implementation and tax control. Tax planning itself is the systematic analysis of deferring tax options aimed at the minimization of tax liability in current and future tax period. It is also

the arrangements of a person's business in order to minimize tax liability in such a way that both the income tax and other taxes are in a minimum amount, as long as it does not violate the provisions of tax law regulations (Lestari, 2014).

Typically employed to help a business achieve their financial and business goals, there are some important roles in which tax planning takes place such as lowering the amount of taxable income, reducing the tax rate, allowing greater control of when taxes get paid and maximizing tax relief or tax credit available. Therefore, business tax planning involves a great understanding of the owner towards anything that might impact taxes paid. Company expenses and deductions, business assets, writing off company assets, claiming depreciation expenses, charitable contributions, shifting income and etc are just important considerations. Tax planning itself is also not just reserved for businesses. Private individuals can also retain their wealth through careful tax planning. Fulfillment of the tax obligation that does not disrupt the continuation of the company is the main purpose of the company in doing tax planning as a mean to deal with the tax regulation (Pohan, 2014).

In addition to the efficiency of the tax payments as well as optimizing the applicable taxes provisions to decrease the amount of tax payable, tax planning also correspondingly related to the odds of the business while utilizing a variety of tax facility. The measure of the company in utilizing tax provision can be seen from the selection of the form, activity, location or the product of the business as well as the utilization of the tax facility provided such as the facility related to a remote business areas, bonded area, specific activities, facilities given to export activity and etc. Taking advantages by choosing the best forms of business is also one of the options taken to minimize the income tax.

Thus, some of the most common forms of business are *Usaha Dagang* (UD), Partnership (CV) and Corporation (PT). Each form of businesses is going through a different tax treatment. For instance, in the form of Corporation, there is effect of the imposition of double taxation in which income will be taxed on corporate rate and dividend will be taxed at personal rate while if the entity is in the form of partnership, income is only subjected to tax once. Therefore, the knowledge of a proper tax provision is very prominent for entrepreneurs as it is directly related to their capability in fulfilling their tax obligation. Moreover, it allows the users to take advantage of any tax loophole that gives a beneficial purpose to their business. Nevertheless, the utilization of the tax law provisions in order to find those loopholes shall be concluded without violating the tax law itself as breaching the law will result in administration sanctions (Muljono, 2014).

Mr. Antonius is an individual taxpayer that has a sole proprietorship business which sells snacks. His business, Makmur Jaya Food, was established in 2000 and located at Jalan Pasar 2 Setiabudi No.68, Medan Selayang, North Sumatera, Indonesia. He started his business as a small home business in the form of *Usaha Dagang* (UD). He has an internal records to record his business transaction in term of monetary and summarizing the financial performances of his business activities. For the taxation purposes, Mr. Antonius uses Final Income Tax (*PPh Final*) to calculate the amount of income tax that needs to be paid to the government. Thus, as his business grows well over the course of years, the owner of the company considers to enlarge its business and perhaps change its form of business from *Usaha Dagang* (UD) to an upper level of business form. In this opportunity, writer will compare which form of business will suit UD. Makmur Jaya Food the best in relation to the tax

planning in minimizing the tax, whether it is Partnership (CV) or Corporation (PT) or if the company should stay in its current form.

Based on this background study, the writer is interested to conduct the research with the title as follows: “Tax Planning in Choosing the Best Type of Business as an Effort to Minimize Tax at UD. Makmur Jaya Food”.

1.2. PROBLEM FORMULATION

Based on the background study that has been described previously, the problems that are being discussed in this research is: “Which type of business whether Sole Proprietorship (UD), Partnership (CV) or Corporation (PT) will result in lower amount of entity income tax payable for UD. Makmur Jaya Food in the future?”

1.3. RESEARCH FOCUS

This research will be focused only to the tax planning based on the accounting data of UD. Makmur Jaya Food in 2017 due to limitation of time, ability and knowledge.

1.4. OBJECTIVE OF THE RESEARCH

The objectives of this research is to find out which type of business whether Sole Proprietorship (UD), Partnership (CV) or Corporation (PT) will result in lower amount of entity income tax payable for UD. Makmur Jaya Food in the future.

1.5. BENEFIT OF THE RESEARCH

This study is expected to provide a broader understanding and insight regarding tax planning, the relation of company establishment with taxation by choosing the best legal form to minimize the tax.

1.5.1. THEORETICAL BENEFIT

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

1. The research is expected to provide additional knowledge and experiences for the author in taxation regarding the relation of company establishment on Sole Proprietorship (UD), Partnership (CV) and Corporation (PT) with taxation in order to choose the best business ownership form to minimize the tax payment.
2. The research is expected to be used as reference in the scientific knowledge, especially in the field of taxation by comparing the existing theories with the results of the research.
3. The research is expected to be used as theoretical reviews for further research, especially on the same field of discussion.

1.5.2. PRACTICAL BENEFIT

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

1. For public, this research will improve the knowledge about the relation between company establishment on Sole Proprietorship (UD), Partnership (CV) and Corporation (PT) with taxation.
2. For company, this research can be an input to help the company management in making the decision.

1.6. SYSTEM OF WRITING

The systematic outline of writing in this paper will be as follows:

CHAPTER I: INTRODUCTION

The beginning of the chapter includes the background of study that mentions about the importance of the business form in relationship with the amount of income tax payable. The problem formulation concerns about which type of business forms will result in the lowest amount of income tax payable while the research only focuses on the company's data of the year 2017. The last section of Chapter 1 is completed with the information about benefit that derived into theoretical and practical benefit and also the systems of writing that provide overview on introduction, literature review, research methodology, data analysis and discussion as well as conclusion.

CHAPTER II: LITERATURE REVIEW

In this chapter, the writer will discuss about the general theoretical background that related to the research topic, prior research used as the basis of the research and framework of thinking. The theoretical background includes comprehensive theories about Sole Proprietorship, Corporation and Partnership as well as the methods used to calculate the amount of income tax. There is one prior research used by the researcher. The framework of thinking shows the process of the research, from background of study, problem of the research and grand theory used in the research.

CHAPTER III : RESEARCH METHODOLOGY

In this chapter, the writer describes about research design, research object, data collection method and data analysis method. The research design of this study is using a qualitative method. It also mentions

about the research object which is UD. Makmur Jaya Food. The data used in the research is primary data collected through interview about the company and secondary data that is collected from the internal data of the company. Furthermore, in the data analysis method, there will be an explanation on how the researcher processes the raw data into ready-to-use data.

CHAPTER IV : DATA ANALYSIS AND DISCUSSION

In this chapter, the writer describes the general description of the research object as well as data analysis and discussion of the research result. This general description describes the history of the company establishment and a brief explanation on why the company wants to consider changing its business form as well as the current method used by the company to calculate the tax. While the data analysis shows the results from data analysis thoroughly and through it, the writer describes more clearly on the results obtained.

CHAPTER V : CONCLUSION

This chapter contains conclusion as the result of the whole study that has been explained as well as implication and recommendation to the external parties.