

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Basically, the purpose of tax is to improve the welfare of all people through improvement and addition of public services, which are allocated not only to taxpayers both individual and entity taxpayers, but also for the interest of the people who have no obligation to pay taxes. Taxes are one of the biggest potentials of domestic revenues which are the top priority for being able to dominate state revenue.

Taxes are the obligation of the citizen which is a form of devotion towards the country that lead the reverse cannot be perceived directly by taxpayers and coercive. The current role of the tax as one of the backbone of the country's reception is very important, because the tax is the main source of financing government and development. Tax revenue as a source of domination is the one thing that is reasonable, because the amount of natural resources are limited, taxes as a source of admissions unlimited age, especially with the increase of the population so that the tax becomes one of the main alternatives in revenue of State.

Taxes are dynamic and following the development of the social and economic life of the country and its people. The demands will increase in revenue, repair and fundamental change in all aspects of taxation become the reason in doing tax reform from time to time in the form of completion against the policies of taxation and tax administration system, in order for the tax base can be increasingly required so that the potential tax revenues that are available can be charged optimally with respect to the principle of social justice and provide excellent service to taxpayers.

According to Early Suandy in Irawan and Khairani (2013) the tax system is composed of 3 elements which are the taxation policy, tax law and tax administration. The tax system is a method or a way how to manage tax debt of indebted by taxpayers can flow into the state treasury, while tax collection system used in Indonesia in this time are Self - Assessment System that replaced the Official Assessment System.

Official Assessment System is a system of tax collection which authorizes the tax apparatus to determine the amount of tax which is payable every year in accordance with the provisions of the taxation law apply. However in practices, this system was considered inefficient because the procedure used more time consuming that cause less in optimal state tax revenues. This has been proved by not achieving of a target of tax revenues in year 2015 amounting to Rp 1.294.25 trillion and only reached 81.5% of target which is Rp 1.055 trillion. (www.liputan6.com)

Table. 1.1 Target and Realization of Revenue

Year	Target	Realization
2012	683.834.999.993	700.521.272.157
2013	867.910.999.985	775.007.848.087
2014	908.663.480.000	842.154.172.056
2015	1.446.540.218.000	1.055.902.822.175
2016	1.305.273.822.000	1.663.091.909.930
2017	1.514.131.370.000	1.323.276.040.452

Source : *KPP Pratama Medan Timur* (2018)

Along with the development of the times as well as the existence of various demands in the taxation such as improvements increased acceptance, awareness-raising and taxpayer compliance, and many other fundamental changes so do tax reform. Tax reform begins from the refinement of policies and tax administration system so that a tax revenue can be performed optimally.

Tax reform is marked by the establishment of a vision from the Directorate General of Taxes applicable to become a model

community service which organizes taxation management system and world class trusted and proud community. In addition, Directorate General of Taxes also sets the fiscal mission which is to gather domestic revenue of the tax sector that capable in supporting independence of government financing based on the tax laws with effectiveness and efficiency. Reform's policy is done through an amendment to the Tax Law (*Undang-Undang Perpajakan*) which is Act. No 28 of 2007 about General Provisions (*Ketentuan Umum*) and Taxation Procedures (*Tata Cata Perpajakan*).

The programs and activities of tax administration reform are realized in the application of modern tax administration system which has special characteristics such as organizational structure based on function, service improvement for each taxpayer through the establishment of account representative and complain center to accommodate the taxpayer complaints. In addition, the modern tax administration system also embraces the latest technological advances including through the development of Tax Information System (TIS) which was based on the functional approach to Integrated Tax Administration System (ITAS) controlled by case management system in workflow system with various office automation modules as well as various e-system services such as e-SPT, e-Filling, e-Payment, Taxpayer's Account, e-Registration and e-Counseling.

Through this reform, it is expected that the control mechanism will be more effectively supported by the implementation of the code of ethics of Directorate General of Taxation officers that regulate the behavior of employees in performing their duties.

Tax reforms which become a priority concern about modernization of the administration of taxation. This modernization of tax administration was done so that the tax collector can be more perfect and can optimize the tax as a source of revenue countries. Besides, the modernization of tax administration system are also made

to change the behavior of the apparatus and the value of the Directorate General of Taxes, so as to enhance the capabilities of the Directorate General of Taxes in overseeing the implementation of tax policies to conform with the principles of Good Governance (*Tata Kerja yang Baik*). By applying this system of modern tax administration, supported with the high quality of Human Resource, it is expected to create the principles of Good Governance based on transparency, accountable, responsive, independent and fair.

Renewal in the tax system is characterized by the application of the latest information technology in the tax service. The increasing of this tax service is seen by developing the administration information technology and modern taxation in various aspects. Fundamental changes that related to the tax modernization happened in early 2005 that the implementation type of service to the new taxpayer in order to deliver notification and submission of annual notification letter using electronic (e-filling). Exactly on 24th January 2005, coinciding in the Office of the Presidency, the President of the Republic of Indonesia together with the Directorate General Taxes launching a product name e-Filling or Electronic Filling System is a system to report/deliver the tax by using the Letters Notification (*SPT*) electronically (e-Filling) which be done by on-line or real time system.

In the decision of the Directorate General of Taxes Number *KEP-88/PJ/2004* on 14th May 2004 about the delivery of the Notice in Electronic, stated that the submitted of delivery of the Notice is in electronic way (e-SPT) through the Application Service Provider company (*Perusahaan Penyedia Jasa Aplikasi*) appointed by the Director General of Taxes. For further settings, then the Directorate General of Taxes issued a regulation called Regulations Directorate General of Taxes Number *KEP-005/PJ/2005* on 12th January 2005 about The Procedures for Submission of The Notice Electronically (e-Filling) through Application Service Provider company.

By the existence of this system, the taxpayer would be easier to fulfill its obligations without having to stand in line at the offices of the Ministry of Tax thus proved more effective and efficient. In addition, data delivery Tax Return can be done anywhere and anytime both inside and outside the country, is not dependent on office hours and it can also be done on holidays and without the presence of a tax officer, were the data will be sent directly to the database of Directorate General of Taxes with internet facilities are channeled through one or more enterprise Application Service Provider company and the use of the use of e-Filing can be reduce the burden of administrative process tax reports using paper.

With the ease to meet the obligation of taxation expected to improve taxpayer compliance. In addition, transition the way of delivery and reporting the Tax Return can facilitate and benefit the Directorate General of Taxes itself in the management of taxes. Hence, the need to support all parties on an ongoing basis in order to increase service to the mandatory tax continues to run and the creation of modern tax administration.

Based on the background of study above, author would like to know the influence of modernization on tax administration system to tax compliance of taxpayer in the *KPP Pratama Medan Timur*. *KPP Pratama Medan Timur* was chosen because of some consideration. First, because Medan is on of a growing city. Second, the various of socioeconomic background of the population in Medan City. Then the author would like to conduct research with the title: **“The Effect of Modernization on Tax Administration System to Tax Compliance of Individual Taxpayer in *KPP Pratama Medan Timur*”**

1.2 PROBLEM LIMITATION

If author examine more deeply, author can see the extent of the problems that exist in this research, than the restriction is indispensable in order to issue this research can present an accurate result. Therefore this research is limited to two variables that can be used which are the effect of modernization and the tax compliance of individual taxpayer in the *KPP Pratama Medan Timur*.

1.3 PROBLEM FORMULATION

Based on the background of research that has been mentioned above, then the formulation of the problem in this study, is there any significant influence between the modernization of the tax administration system on taxpayer compliance at the *KPP Pratama Medan Timur*.

1.4 BENEFIT OF THE RESEARCH

1.4.1 THEORETICAL BENEFIT

Theoretically the research is to expect to contribute in adding knowledge to academic ad profession in order to examine and develop the issue of taxpayer compliance. In addition, this research can also can be used as a reference for students majoring in accounting to add insight and knowledge and can be used as a guide for further research.

1.4.2 PRACTICAL BENEFIT

1. To *KPP Pratama Medan Timur*

This research can provide information to the *KPP Pratama Medan Timur* about the application of the system of the administration of taxation taxpayer compliance against modern in order to optimize the performance of administering tax as the main source of the country's acceptance.

2. To Taxpayer

The results of this research can provide information that will make it easier for taxpayer in doing tax obligations.

1.5 SYSTEMS OF WRITING

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

CHAPTER I INTRODUCTION.

This chapter is explaining about the background of the study that explain about the effect of modernization on tax administration system to tax compliance of individual taxpayer in the *KPP Pratama Medan Timur*. The background of study part become the base of problem formulation to analyze the influence of administration system against the taxpayer compliance. The objective of this research and the significance of this research gives information to society and *KPP Pratama Medan Timur*.

CHAPTER II LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT.

This chapter provides a review of the theories of modernization on tax administration system and tax compliance necessary to support relevant research and concepts to address the issues that have been formulated in this study, a review of previous research, a frame of thought, and a hypothesis.

CHAPTER III RESEARCH METHOD.

This chapter discusses the methods or steps taken in this study, which include research design where the researcher using quantitative associative research by using questionnaire, place and time, population and sample, research variables, research instruments and data collection techniques, and data analysis used.

CHAPTER IV DATA ANALYSIS AND DISCUSSION.

This chapter explaining about collective and descriptive data research, and contains the results of data analysis also discussion about the results of data analysis.

CHAPTER V CONCLUSION.

This chapter contains of conclusion about the results of the research, and the recommendation to related parties in this research.

