

# CHAPTER I

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Sustained by a diverse landscape, Indonesia's agriculture sector has long been an important role in national economic development of Indonesia. This sector has served as the second most influential on Indonesia's economic growth, after manufacturing industry (Central Bureau of Statistics, 2017). With its vast and abundant fertile soils, Indonesia is a major global key producer of a wide variety of agricultural tropical products. The agricultural sector of Indonesia comprises large plantations and smallholder production modes. The large plantations tend to focus commodities which are palm oil and rubber, while the smallholder farmers focus on rice, soybeans, corn, fruits, and vegetables. ("Indonesia Investments", 2013)

Palm oil is used in a wide variety of food, cosmetic and hygiene products, and can be used as source for bio-fuel or biodiesel. According to Indonesian Palm Oil Producers Association (GAPKI) and the Minister of Agriculture (2017), production of palm oil has grown rapidly in Indonesia over the past decade. Producing 32 million tons of Crude Palm Oil (CPO) in 2016, GAPKI predicted to produce at least 40 million tons of CPO per year in 2020. Therefore, the industry seems as profitable business. Despite major gains, a host of challenges in this industry is higher than other industry. The challenges are related with fluctuate price since it is based on market price, government policy to support the development and sustainability of this industry, increasingly strong campaign against the Indonesia palm oil industry from a number of foreign Non-

Government Organizations and local NGOs, and the rising number of trade barriers in international market. (GAPKI, 2012)

Issues faced by palm oil companies as mentioned above have impact on the cost of doing business. Accordingly, taxes paid by company will be affected. Tax is a burden that will reduce net income. There are several taxes that should be paid by palm oil companies. One of taxes is Value Added Tax (VAT), which replaces Sales Tax as of 1 April 1985 stipulated under Law No. 8 Year 1983, that has been amended with the Law No. 11 Year 1994 and Law No. 18 Year 1983, and last amended by Law No. 42 Year 2009, which has been used since 1st April 2010 until now, and is called Value Added Tax Law. The rationale for the imposition of this tax is basically to impose a tax on the level of ability of nation consumption, the imposition is made indirectly to consumers.

VAT is one type of tax that is closely related to the main activity of the company. Any goods sold to consumers and purchased from suppliers will affect the amount of VAT payable. Taxation in Indonesia is a self-assessment system, which means taxpayer has the full authority to determine, calculate and pay the tax.

VAT is a tax imposed on any increase in value of goods or services in circulation from producer to consumer. VAT is an indirect tax which means that the tax is deposited by another party who is not the underwriter or in other words, the taxpayer (end-consumer) does not deposit the tax directly.

The common mechanism of the company activity is if the taxable person makes a purchase, then the taxable person is required to report to the tax office how much the amount of input tax. And if the taxable person sell their products to the customer, taxable person is required to collect and report the amount of output tax to the tax office. Therefore, taxable person has to calculate whether he had bought more (pay more / overpaid) or sold more (collect more /

underpaid). If he had bought more, he has the right to get reimbursement of the amount of overpaid tax from Directorate General of Tax, and if he had sold more, he has to pay the amount of underpaid tax to the government.

Registered as a taxable enterprise (PKP), when company purchase raw materials or finished goods, which treated as taxable goods, company pays VAT input, meanwhile company collects VAT out at the time of carrying out the sale or delivery of taxable goods, the difference between VAT input and VAT output is called VAT payable. Increasing in the amount of corporate VAT also resulted in the increased of VAT payable therefore company had to pay more for its VAT payable (Londorang et al., 2014). According to Mulyo et al. (2016), tax planning is needed to be implemented to minimize VAT payable therefore company has more funds to allocate the development of the company.

Business decisions are largely influenced by tax, either directly or indirectly. A good decision making in business could become a poor business decision when dealing with tax, and vice versa. Minimization of the tax burden can be done in various ways, ranging from the actions which are still in the frame of taxation laws until the actions that violate tax regulations. Efforts to minimize tax often refer to tax planning. Generally, tax planning refers to the process of lawfully manipulate of the taxable business transaction so that the tax liability will be in minimal amounts. However, tax planning can also be positive as it can fulfill the tax obligations that make the taxpayer pays in right amount and right time to avoid wasting of resources.

The company that the writer choose to do research is PT. Bukit Bintang Sawit, which is one of the private company of palm oil mill. It was established on 30 April 2000. PT. Bukit Bintang Sawit, Jambi seeks commodity processing activities into industrial raw materials, marketing of commodities produced, and other supporting activities.

The main products are Crude Palm Oil (CPO) and Palm Kernel (PK). PT. Bukit Bintang Sawit has income more than Rp. 4,800,000,000.00 per year, which means that the company is a taxable enterprise, which means PT. Bukit Bintang Sawit has obligation in collecting Value Added Tax from their buyers and calculating Value Added Tax conducting the payment of Value Added Tax Payable in each month. PT. Bukit Bintang Sawit must issue output tax invoice when there is sales transaction of taxable goods and PT. Bukit Bintang Sawit can receive input tax invoice when there is purchase transaction of taxable goods and services. As for the Value Added Tax crediting mechanism, the company must pay the Value Added Tax Payable based on output tax after crediting with input tax in certain month. Afterwards, PT. Bukit Bintang Sawit compels to report all the transactions regarding the input tax and output tax to the state.

PT. Bukit Bintang Sawit cannot be denied also face the risks as described earlier. The instability of the transactions affects tax paid to government. Tax planning is implemented in order to minimize the overpaid Value Added Tax. Moreover, it can also be done in order to maintaining the amount of Value Added Tax in stable amount that it can reduce the risk of getting tax inspection from government.

Based on the description of the above problems, the writer is interested to discuss further in the form of a *skripsi* titled "**Analysis of Tax Planning Implementation for Value Added Tax at PT. Bukit Bintang Sawit**"

## **1.2 PROBLEM LIMITATION**

The writer will focus on the implementation of tax planning on Value Added Tax of output tax and input tax at PT. Bukit Bintang Sawit on year 2016, from January until December.

### **1.3 PROBLEM FORMULATION**

Based on the background of study that has been described, the problem identified by the writer in this research is:

1. How is the implementation of tax planning in PT. Bukit Bintang Sawit on Value Added Tax?
2. How is the effectiveness of tax planning in PT. Bukit Bintang Sawit on Value Added Tax?

### **1.4 OBJECTIVE OF THE RESEARCH**

Based on problem formulation, then this research has a research objective that is expected to be achieved:

1. To analyze the implementation of tax planning on Value Added Tax for PT. Bukit Bintang Sawit.
2. To analyze the effectiveness of the tax planning on PT. Bukit Bintang Sawit.

### **1.5 BENEFIT OF THE RESEARCH**

These can be separated into two kinds of benefit, which are:

#### **1.5.1 THEORETICAL BENEFIT**

For the writer: this research is conducted to increase understanding of the theoretical and practical issues of treatment of Value Added Tax (VAT) in a company.

For the reader: this research is conducted to gain knowledge, or as a role model to anyone who wants to know more about the tax planning on Value Added Tax, both input tax and output tax.

#### **1.5.2 PRACTICAL BENEFIT**

For the company: this research is conducted to become input and the material for evaluation related to the problem in the company regarding their overpaid tax and tax inspection by tax officers.

## **1.6 SYSTEMS OF WRITING**

### **CHAPTER 1: INTRODUCTION**

The first chapter contains the insights of background of study, problem formulation, research focus, benefit of the research, and systems or writing. In the background of study, it provides the basis of thought in outline in both theory and fact where it is a reason for this research. In this research, the input tax was bigger than the output tax, which resulting overpaid tax. The overpaid tax was stuck in State Treasury and increasing the risk to be audited. The overpaid tax can be overcome by doing tax planning. Problem formulations contain questions related to the phenomenon and obtain those answers through the research to achieve the research objective. It is expected that this research can be benefit for others. The last part of this chapter the writing system elaborated on a summary of the material to be discussed in each chapter which is in the research.

### **CHAPTER 2: LITERATURE REVIEW**

This chapter describes the theoretical basis, which contains the theories derived from the citations of books and websites related to the preparation of reports and some literature reviews related to the research. Tax planning on Value Added Tax could be done through some steps: maximize the VAT crediting mechanism, maximize the facility in VAT, centralize the imposition on VAT, maximize the restitution of VAT, do self-construction activity, VAT on free goods for promotional purpose, controlling cash flow, controlling VAT, and joint and several liability (Pohan, 2017). Prior research is a research conducted by previous researchers associated with this research. Framework of thinking is a scheme designed to describe the research in briefly.

### **CHAPTER 3: RESEARCH METHODOLOGY**

In this chapter, it will describe the type of research used in this study, which is qualitative method. The research object is conducted at PT. Bukit Bintang Sawit, the data is compiled through observation, interview and collecting data from the company that are needed in the research. Then the data are being analyzed with descriptive qualitative method, case study.

### **CHAPTER 4: DATA ANALYSIS AND DISCUSSION**

This chapter consists of general view of research object, data analysis and discussion. The general view of research object describes the company's history, including company's business activities, vision, and mission, organization structure and the understanding of VAT recognition. The data analysis and discussion is done to analyze the tax planning implementation of Value Added Tax and the effectiveness of the tax planning. Writer analyze the VAT Return, Input and Output tax, recalculate the VAT calculation, depositing & reporting of VAT, and tax planning based on VAT Law No. 42 Year 2009.

### **CHAPTER 5: CONCLUSION**

This chapter contains the conclusion, the implication and recommendations. The writer will give conclusion of the analysis of tax planning implementation of Value Added Tax and the effectiveness of the tax planning. The implication of this research is to minimize the overpaid tax and mitigate the risk of tax audit. The recommendations are done to company in improving the tax planning implementation of Value Added Tax.