

# CHAPTER I

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Taxation is one of the important elements in managing national income, both in developed and developing countries. Some of the main reasons why the government imposes taxes are to generate income to fund the state budget, increase economic stability and redistribute financial resources. Tax revenues are the driving force towards generating a healthy economy that meets people's needs and ensuring the survival of the government. For developing country like Indonesia, the importance of tax systems as a major revenue source in a country is undeniable.

Over the past few years, tax, which acts as a major contributor to the state budget, shows a downward trend in its realization of tax revenue (Kusuma, 2017). The percentage of tax revenue realization growth shows continuing domestic decrement amidst the government effort to gradually increase state budget throughout the years. In fact, Indonesia still experiences budget deficit as its tax revenues always falls far from its initial target.



**Figure 1.1 Indonesia – Tax Realization 2010-2016**

Source: Prepared by the writer (2017)

In 2016 alone, Indonesia state budget reached Rp 1,859 trillion which was a significant increment compared to state the budget in 2015 which was only Rp 1,810 trillion (Sukmana, 2017). This trend has become a problem since the increment in Indonesia's state budget does not go along with its tax revenue. Furthermore, Indonesia - who was ranked fourth for country with the highest population, also has one of the lowest-tax-to-GDP ratios worldwide (Indonesia-Investments, 2017).



**Figure 1.2 Indonesia – Tax Revenue (% of GDP)**

Source: Worldbank (2017)

The statistic above has evidenced that there is a downward trend in Indonesia tax to GDP ratio over the last ten years. This may be detrimental towards the health of the economy if it continues to drop in the long run. Finance minister Sri Mulyani Indrawati has expressed her concern over the country's low tax-to-GDP ratio which is an indication that the tax received by the state is far lower than the potential (The Jakarta Post, 2017). Evidently, maximizing tax collection and minimizing evasion are still difficult to achieve in practice.

This downward trend in the realization of tax revenue has been caused by the government's loss of credibility from Indonesian taxpayers. Their reputation as sticky fingers has discouraged citizens from declaring their true wealth. In addition, lots of Indonesia citizens

are unwilling to fulfill their tax obligations due to the low incentives received which is then shown by a growing number of taxpayers who invest their assets in other low-tax-rate countries. Moreover, the self-assessment system adopted by Indonesia government has also made accurate tax payment and reporting challenging and creates numerous opportunities for tax evasion.

Aside from individual taxpayers, the problem of tax evasion also comes from entity taxpayers who earn income from businesses conducted at Indonesia. From a business practice, companies generally identify tax payment as an expense and will always seek ways in minimizing the burden to optimize their earnings. Many corporations deliberately misrepresenting the true state of the affairs to the tax authorities to reduce tax expense and includes dishonest tax reporting such as declaring less income or overstating their deductions. Besides, many still have limited understanding of tax implementation and several matters relating to taxation system applied which may result in future administration penalties.

For Indonesia to overcome the aforementioned problem and live up to its potential, tax audit can be commenced. Tax audit plays a critical role in promoting tax revenues and enforcing the administration of tax laws in all countries. In addition to their primary function of detecting and deterring non-compliance, tax audit is often carried out to examine the accuracy of taxpayers' books and records, which result may impact positively towards public finance and increase the credibility as well as the performance of the companies. When the tax audit is well conducted, the company understands that their returns will be quickly and scientifically analyzed. As a result, voluntary compliance may rise which in turn help tax agencies avoid costs and further improve revenue collections.

However, before a real audit is being commenced, it is vital for a company to conduct a tax review to evaluate for the current level of

compliance of the taxpayer in fulfilling their tax obligations. This is useful to prevent any unnecessary costs resulting from fines or penalties if the company is later found out to have paid lower than the amount of tax they should have been paid. Under Law number 16 year 2009 concerning General Provisions and Tax Procedures, the DGT (Directorate General of Taxes) has full authority to perform tax audit if the taxpayer has not fully paid their tax liabilities or failed to comply with prescribed standards. With the enforcement of tax laws, the DGT may issue a tax assessment letter which includes the amount of administrative penalties that taxpayers are liable to.

With this concern held in mind, entities in Indonesia who are earning income from the state should have conducted tax review to minimize the risk of being audited by the tax legislators and to have a preliminary consent of wrongdoings done by the company to prevent repetition in the future and is used as a guideline to prepare a proper annual tax return. As one of the sectors that experiences steady growth in Indonesia, the automotive market has certainly contributed positively to the tax received by the Indonesian government (Kurniawan, 2016).

For a company that has a stable flow of motorcycle sales every month, PT. Anugerah Karya Abiwara (PT AKA) also has to fulfill its tax obligations accordingly to the income they earned based on the tax laws. Despite their stable income every month, the company has always been hiring older employees who have high loyalty but limited knowledge on proper implementation of tax laws. Thus, their limited update on the newest regulations may result in the company not comply with the existing laws. Like every taxpayer does, the company will have to prepare an annual tax return and submit it to the state for each taxable year. With a prior understanding of their current situation through a tax review, the company will be well-prepared to solve out the most probable queries when a real tax audit takes place. With the

consent of the aforesaid problems, the writer makes a research with the title of **“Implementation of Tax Review on Corporate Income Tax as a Tool to Evaluate Tax Compliance at PT. Anugerah Karya Abiwara”**

## **1.2 PROBLEM FORMULATION**

Based on the background discussed above, there are several issues that will be discussed in this study:

1. Does the tax return submitted by PT Anugerah Karya Abiwara presents the true state amount of tax obligations based on the tax laws set by the government?
2. What effects and findings does tax review have on PT Anugerah Karya Abiwara to assist the company in preparing proper tax return to promote future compliance?

## **1.3 RESEARCH FOCUS**

The study covers the topic of tax review, and is limited to examining the corporate income tax to disclose unlawful practices for boosting future compliance. The subject of this study is PT. Anugerah Karya Abiwara, a company that operates in the business of motorcycle industry for the taxable year 2017. The writer will focus on analyzing the income tax of the company which was directly correlated with the entity income tax during the year. The tax review result will be used for determining the tax compliance level of the company on whether they have fully followed the existing tax regulations. Any discrepancies resulted from miscalculation or misrepresentation of financial information will be detected to further determine steps to be undertaken.

## **1.4 OBJECTIVE OF THE RESEARCH**

Here are some objectives of the research that have been found, which are:

1. To assess the completeness, accuracy, and timely filing of tax returns submitted by PT Anugerah Karya Abiwara.
2. To evaluate the result of tax review in assisting the company in preparing proper tax return and promoting future compliance to resolve tax dispute between the tax authority and PT Anugerah Karya Abiwara.

## **1.5 BENEFIT OF THE RESEARCH**

### **1.5.1 THEORETICAL BENEFIT**

Based on the research objectives, the theoretical benefit that will be achieved from this paper are as follows:

1. The research is expected to give a more in-depth understanding for the writer about the correct application of tax review in real life business in order to disclose unlawful practices.
2. The result of this study is expected to be used as a theoretical review in other studies and be applied on entity taxpayers in Indonesia in reference to assessment of tax compliance.
3. The research is also expected to be used as a reference for other writers who are conducting this type study in the future.

### **1.5.2 PRACTICAL BENEFIT**

Based on the research objectives, the practical benefit that will be achieved from this paper are as follows:

1. For the company, the result of the research may allow the company to further increase tax compliance by properly

calculating and reporting their financial information which is in accordance with the tax laws. This enables the company to identify weaknesses in their accounting system and keeps them informed of areas or situations which require correction or improvement.

2. For the directors who are not directly involved in the accounting functions, the tax review result also gives assurance to them by providing data on how well the business has been performing. This helps them to make informed decisions such as tightening internal controls to deterring frauds and tax planning.
3. For other parties, tax review also improves their knowledge on the correct application of tax laws. This in turn increases the reliability of the financial information being submitted to reducing the risks of fraud and poor accounting by taxpayers.

## **1.6 SYSTEMS OF WRITING**

To gain a greater understanding on this study, the writer has classified the paper systematically into five major chapters, they are:

### **CHAPTER I INTRODUCTION**

The introduction is developed to give the general idea of the research topic. Here, the writer will give an elaboration of reasons for choosing the topic and the importance of the topic towards the writer. In addition, the writer also describes the problem intended to be addressed and purposes of conducting this study. The importance of conducting a tax review is emphasized and brief explanation of PT Anugerah Karya Abiwara are discussed to give an overview of factors that have led to the problem and its significance relative to the study.

## CHAPTER II LITERATURE REVIEW

The section includes the collection of data and information from reliable sources or previous findings which can support the writer research topic. The writer will provide explanations and regulations related to tax review including entity income tax, fiscal reconciliation, tax return, and tax compliance. Relevant theories and previous findings are used as foundation for the writer to support the topic or problem being discussed. In this chapter, the writer will give a tentative explanation of the phenomenon which consists of the writer's main thrust of the study after gaining an exposure to various theories and prior studies.

## CHAPTER III RESEARCH METHODOLOGY

The writer will discuss on ways the study will be designed and components of the object which will be explored for further data processing. Moreover, the writer will explain the qualitative method which will be utilized to collect relevant data information and methods used to analyze and resolve the topic of interest to support the writer's findings. This chapter discusses about research design, research object, data collection method and data analysis and discussion for tax review at PT Anugerah Karya Abiwara.

## CHAPTER IV DATA ANALYSIS AND DISCUSSION

The following step to take after the writer has gathered data and information using chosen method of data collection and analysis is to present an analysis of the collected data and present arguments which support the output of the findings. The writer will initially elaborate an overview of PT Anugerah Karya Abiwara before discussing on the main problem formulation of the research. The writer will provide a thorough explanation of the findings and factors and elements which have contributed to the result of the study.



## CHAPTER V CONCLUSION

After an analysis has been presented, then the writer will give a conclusion based on the findings which content must address all the problems for the previous research questions and achieve the objectives of the research. This chapter will summarize the result of the study about tax review on PT Anugerah Karya Abiwara and provides implications about the research problem being discussed. Afterward, the writer will give some recommendations for the company to address similar issues in the future and provide some key limitations of the study for further improvement in future studies.

