

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In Indonesia, tax is one of the income sectors that the state relies on to drive its economy. Tax plays important role in carrying out the state responsibilities in various life sectors in order to achieve national development and the improvement of its people welfare. Therefore, tax need to be carefully managed by increasing the participation of all levels of society and from the tax apparatus itself.

The tax reformation in 1983, the tax collection system in Indonesia has changed from official-assessment system to self-assessment system. The self-assessment system is a tax collection system whereby individual taxpayers or entities are authorized to calculate, pay, and report taxes owed to the state by themselves (John, 2003). The statement is supported by Cobham (2015) who states that the self-assessment system gives full authority to the Taxpayer to determine the amount of tax payable. In a study conducted by Sapeil, Noor Sharoja and Jeyapalan Kasipillai (2013) states that the objective of the self-assessment system is to increase the level of tax revenues, minimize tax collection fees and encourage voluntary compliance. According to Chong and Lai, cited by Ayu Putu Mirah Haryati and Naniek Noviari (2016), the compliance in fulfilling voluntary taxation obligations is the backbone of the self-assessment system. Taxpayers are no longer seen as objects in the self-assessment system, but are subject to be fostered and directed to be conscious of fulfilling their state obligations (Bohari, 2013).

The Self-assessment system provides opportunity for taxpayers to calculate their own tax payable, this often leads to a different perspective

between the taxpayer and the tax officer. Because every taxpayer in Indonesia will use any strategies to minimize their income tax in legal ways where this action is called tax planning. According to Lumbantoruan, cited by Suandy (2011), tax planning is a legal tax saving strategy that can be done by the taxpayer. The action is legal because tax savings are only made by using loopholes. A tax-minimizing plan can be taken for example, taking the maximum provision of the applicable exclusion and cutting or reduction provisions. In general, tax planning is to minimize tax liability. The plan to minimize taxes can be taken in a manner, to take maximum advantage of the applicable exceptions and allowable deductions such as optimizing allowable tax credit, utilizing the exempted income as a tax object in accordance with article 4 paragraph 3 and other else which could be a benefit to the company.

The taxation of leasing service business is different from the corporate taxpayer in general, since the taxation of income earned from leasing services is mentioned in two different Articles of the Taxation Law Number 36 Year 2008 regarding Income Tax. First, in Article 4 paragraph (2) letter d mentioned that income derived from transactions of property transfers, in the form of land and/or buildings, real estate business, construction services business, as well as the rental of land and/or building is the object of Final Income Tax. Second, in Article 23 paragraph (1) mentioned that income derived from rent and other income related to the use of property except the rent of land and / or building is the object of Income Tax Article 23.

PT. Dumai Paricipita Abadi is one of the companies which source of income is from leasing services. It is engaged in leasing of oil storage tank and port services since 1992 but has been taken over in 2013. The company's tanks were built on the company's land which is on Dumai, Riau. If viewed from the income, the income is considered as leasing

service on the leasing of the tank but if viewed from the land where the tank is standing, it seems to be considered as leasing land and buildings. This leads to different perspective to what income tax should be imposed to the company. To date PT. Dumai Paricipa Abadi is subject to a 10% rate, tariff of income tax article 4 paragraph (2) on the service they provide, because they assume that their income is the leasing income of land and buildings which is subject to final tax. While the other party assumed that their income are included as income of services and the storage tanks are properties of the company, which is not included as land or building of the company, which should be subject to Income Tax Article 23. Furthermore, the port services they provide is mentioned in Article 23 Income Tax which should be subject to 2% rate only, but PT. Dumai Paricipa Abadi charged the 10% rate for the port services they provided as well to their customers.

The action taken by PT. Dumai Paricipa Abadi is one of their tax planning strategy. They uses final income tax in calculating their income with consideration of simplicity, ease and supervision. Thus, the income charged by final income tax will not be calculated again in the annual tax return to be charged general rate together with other income. Likewise, the income tax already deducted or paid is also not a tax credit in the annual tax return.

However, if reviewing the tax strategy conducted by PT. Dumai Paricipa Abadi, the withholding tax using Article 4 paragraph 2 Income tax on the services they provide will result to a decrease on the net income of the company due to higher tax costs compared to using Article 23 income tax. Companies are usually required to reduce costs optimally in order to improve efficiency and competitiveness. Similarly, the obligation to pay taxes, companies will seek to minimize such tax payments, in order to optimize the amount of profit.

Therefore, the writer is interested in conducting further research with research title: **“Analysis of the imposition of Income Tax on Building Leasing and Port Services (Case Study at PT. Dumai Paricipta Abadi)”**

1.2 PROBLEM FORMULATION

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

1. How is the calculation of final income tax using article 4 paragraph 2 for leasing and port services by PT. Dumai Paricipta Abadi referring to tax regulations in Indonesia?
2. What are the differences of income tax if the company apply Article 23 in calculating their income?
3. What is the tax benefit received by the company by applying article 4(2) than article 23 in calculating their income tax?

1.3 RESEACRH FOCUS

To help the authors in analyzing the results of research, this study focused on analyzing the final income tax on leasing and installation services and the differences if the company apply article 23 on their income tax.

1.4 RESEARCH OBJECTIVES

According to the research problem formulated above, the objectives of the research are as follows:

1. To determine the appropriate implementation of final income tax calculation on Leasing and port services at PT. Dumai Paricipta Abadi has been referring to tax regulations in Indonesia.

2. To determine the differences the income tax PT. Dumai Paricipita Abadi by applying Article 23 income tax.
3. To determine whether the application of article 4 paragraph 2 income tax can provide benefits for the business in accordance with the objectives and benefits to be achieved.

1.5 BENEFITS OF THE RESEARCH

The research about “Analysis of the imposition of Income Tax on Building Leasing and Port Services (Case Study at PT. Dumai Paricipita Abadi)” is expected to be useful for all interested parties and besides, this research can give benefit:

1.5.1 THEORETICAL BENEFIT

This research will provide benefit in theoretical significance for:

1. For the author

This research purposes are to increase the writer knowledge regarding taxation in Indonesia. It is expected to gain the writer’s knowledge and experiences in understanding the calculation of entity tax payable and the right implementation in tax withholding according to the tax regulation in Indonesia.

2. For the reader

It is expected that this research can be a reference for other researchers who want to study in the taxation field or to those who are interested in doing similar research in the future.

1.5.2 PRACTICAL BENEFIT

This research is expected to gain the company knowledge in calculating their entity tax payable according to tax regulation in Indonesia. Besides that, this research is expected to give recommendation

which tax regulation could give more benefit to the company.

1.6 SYSTEM OF WRITING

To understand more clearly this report, this report is grouped into several sub-chapters with systematic delivery as follows:

CHAPTER I: INTRODUCTION

The first chapter provides an introduction and background to the study and presents the problem statement, research objectives, research benefits and system of writing. In the background of study, it explained the impact of self-assessment system in taxation which could give taxpayer options in calculating their tax payable. Problem formulation contains questions related to the research and obtains 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 contains the summary of each chapter that is discussed in this research.

CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The second chapter highlights the important findings from the literature review. This discussion primarily evaluates the imposition of income tax around taxpayer. Previous empirical research performed relating to income taxation is explored. A brief discussion is provided concerning taxation

regulations and taxation strategies. This chapter also elaborates the previous research and framework of thinking.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discusses the research design that suitable for the research compatible with the variable. This chapter describes about the research objects, the method in collecting the data and the method to analyze the data.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

In this chapter the writer discusses a brief description about the research object and analyzes the data that related to the object. In addition, this chapter also discuss about the results of the research.

CHAPTER V: CONCLUSION AND RECOMMENDATION

This chapter concludes the research results and recommendation for the company to determine which strategy of taxation could give benefit to the company. This recommendation is expected to be useful for the company and those who have interest in this research.