

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Tax is one of the most important parts of government's financial source. To develop the country, the government needs a large amount of fund that is paid by people. Tax is an obligation of taxpayers to contribute to the government. Income Tax is tax which levied to tax object of income earned. One of tax collection system adopted in Indonesia is the self assessment system. The taxpayer is responsible for bookkeeping or recording required to determine the amount of tax payable, which reported in income tax return.

The government has duties in controlling the company's tax obligation. The company can be given tax sanction if the tax payment is not appropriate with Income Tax Provision. Tax review will provides result of evaluation and analysis of company's tax obligation. The purpose tax review is to ensure that the tax obligation is in Income Tax Provision. It is done to help company in increasing its tax compliance and give suggestion if there is any mistake in conducting tax obligation. The company's employee can learn from tax review in reducing the mistake.

Tax review can be done to improve the entity income tax obligation in the company. Entity income tax review is expected to increase the company's compliance in calculating, paying and reporting the entity's income tax. Besides that, the entity income tax review can be used as anticipation activities for the company if there is suddenly entity's income tax audit from government. Entity's income tax review can minimize the possibility of tax sanction. Tax review is needed because there are many new regulation and lack of

understanding in the company that it can lead the mistake in conducting tax obligation. Tax review is review activities to all existing tax obligation in the company and the implementation of the obligation fulfillment in calculation, withholding, payment, settlement and reporting to evaluate tax compliance done by the company. (Suandy, 2015).

Tax compliance can be divided into two types that are formal compliance and material compliance. Formal compliance that includes the extent to which the taxpayer complies to procedural requirements and tax administration including the reporting requirements and the time to deliver and pay tax. Material compliance that refers to the calculation of the amount of the tax expense properly. (Kristiaji, 2013).

PT Surya Mentari Indah is engaged in distributor of sparepart. The company is established at year 2009. The company has performed his tax obligation in calculating, paying and reporting entity's income tax each taxable year. The annual entity income tax return is prepared by the company each year. But tax review is never beed conducted by company due to the lack of understanding and skill in conducting tax review.

Based on preliminary research conducted by the writer, the company has been detected making inappropriate determination on his fiscal income and expenses. Other than that, the employee has also mentioned about the tardiness of the company in submitting the previous year tax return because the company cannot finish their financial statement on time. For the prevention of posibility to conduct inappropriate calculation and implementation of tax obligation, the writer would like to propose the company to conduct tax review. By conducting tax review, hopefully the company can increase their tax compliance where the tax obligation can be carried out properly and

accordingly to the Income Tax Provision for anticipating the tax audit from government and to avoid the tax sanction from the government.

Based on this background study, then the writer is interested to conduct the research with title of : “ **The Implementation of Tax Review on Entity Income Tax to Evaluate Tax Compliance in PT Surya Mentari Indah**”

1.2 PROBLEM FORMULATION

The company as tax payer has an obligation to fulfill tax regulation. If the company doesn't conduct tax obligation, the company will get tax sanction. The company can make improper calculationg entity income tax. Besides that, the company made late reporting of annual entity income tax in previous year. Therefore, it is needed tax review to know the tax compliance of the company in current year. Based on the background study that have been described above, the writer will make the problem formulation as follows: “What is the result of conducting tax review on Entity Income Tax in improving tax compliance at PT Surya Mentari Indah?”

1.3 RESEARCH FOCUS

Tax review can be done in many types of tax. Entity income tax is significant amount of tax in the company. Therefore, it is important to conduct the tax review on entity income tax. Because of the writer's ability, time and data that can be obtained from the company, the writer will limit the study to implementation of tax review in increasing entity's income tax compliance at PT Surya Mentari Indah year 2017.

1.4 RESEARCH OBJECTIVE

The objective to the study is to know the result of tax review of entity income tax in improving tax compliance of PT Surya Mentari Indah.

1.5 BENEFIT OF THE RESEARCH

This research is expected in giving significant contribution theoretically and practically to many parties. The benefits of this research can be seen as follows:

1.5.1 THEORITICAL BENEFIT

Theoritical benefits of this research are as follows:

1. This research is conducted to gain the knowledge and experience concerning about the tax review in Entity Income Tax calculation in accordance to income tax provision and the impact to improving tax compliance.
2. This research is expected to give contributions as an input for those who are interested in doing similar research in the future.

1.5.2 PRACTICAL BENEFIT

Practical benefits of this research are as follows:

1. This research is expected to be a material consideration or input relating to implementation of tax review of entity income tax in improving tax compliance at the company.
2. This research is expected can be used by other companies in using the appropriate method in tax review on entity income tax.

1.6 SYSTEM OF WRITING

The systems of writing in this research will be as follows :

Chapter I : Introduction

In this chapter, it describes the purpose of tax review and the benefit of tax review for improving tax review. This chapter describes condition of the company in implementing tax obligation especially in calculating and reporting entity income tax. Therefore, there is need in conducting tax review in the company.

Chapter II : Literature Review

In this chapter, the writer declares some theories that are related to the topic of the study, such definition of tax, tax function, tax types, tax assessment system, tax return, bookkeeping, tax sanction, definition of entity income tax, taxable income, non taxable income, deductible expense, non deductible expense, entity income tax calculation, definition of tax review, purpose of tax review, implementation tax review of entity income tax, definition of tax compliance, the types of tax compliance, the indicator of tax compliance and benefits of tax review on tax compliance. The writer also describes previous research and framework of thinking.

Chapter III : Research Methodology

This chapter describes descriptive research design that is used in this research. Data collection methods used are documentation and communication. Step in doing tax review of entity income tax is described in data analysis method.

Chapter IV : Data Analysis and Discussion

This chapter consists of general view of research object, data analysis and discussion. The general view of research object will

describes the company's history, business activities, organization structure, entity income tax calculation and implementation of tax obligation. In data analysis and discussion, the writer will describes implementation of tax review on PT Surya Mentari Indah, finding from tax review and recalculation of entity income tax.

Chapter V : Conclusion

This chapter contains conclusion about the entity's income tax compliance based on tax review result. The implication of research presents the findings of the research that has theoretical and practical implication. Recommendation is done to improve the tax compliance on entity income tax based on tax review.

