

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

National development as effort to improve people's welfare should be done with exploring sources of funds from domestic sources optimally. The largest source of domestic funds is tax. Tax is the people's contributions to a state that can be enforced under the law without obtaining direct reward to finance public expenditures and government activities. Tax can also be interpreted as transfer of resources from the private sector to public sector. The transfer of resources will replace the purchasing power of the private sector. For the country, tax is one of the important revenue sources that will be used to finance the development activities but tax is burden for the company. Tax expense will reduce net income and cash flow. Therefore, implementation of tax obligation requires good management in order to avoid overpaid tax or underpaid tax. Overpaid tax can be reduced with tax saving while underpaid tax should be avoided in order to avoid tax sanction from government.

The taxpayer wants the amount of tax payment obligations in minimum amount. Efforts that can be done in tax savings is tax avoidance through tax planning. Tax planning is the process of management in business transaction in order that tax payable is in minimum amount but is still within the scope of tax regulations. Therefore, the purpose of tax planning is to optimize the profit and the efficiency of tax expense payment can be achieved. One of the ways that can increase the tax saving in the company is Article 21-Income Tax planning. With proper tax planning implementation, the company can expect the tax saving in entire tax payment including Entity's Income Tax and Article 21-Income Tax by considering Income Tax

Law. Article 21-Income Tax is an income tax of employment, services and activities undertaken by resident individual taxpayers. The income received in the form of salaries, wages, honoraria, allowances, and other similar remuneration in respect of a job done either by permanent employees or non-permanent employees.

One of tax collection system used to withhold the Article 21-Income Tax is withholding system where the tax paid by income recipient is withheld by other parties. Article 21-Income Tax is tax which withheld by other parties and employees either as individual or entity who pays the income. The parties those required to withhold, deposit and calculate Article 21-Income Tax are employees, government treasurer, pension fund, entity and the one who organizes an activity and one of Article 21-Income Tax withholding agent is the company. In Article 21-Income Tax for employees, there are many factors that affects the calculation such as allowance, bonus, premium and other deductions that can affect the amount of employees' income.

PT Baktiya Utama Indonesia is a company that sells various safety equipment. It is based in Medan and has been established since 2015. The company has 15 permanent employees and with the support of employees, the company has shown consistent growth performance. The reason why the writer chose PT Baktiya Utama Indonesia in doing this research is because the company has been using the Net method in the calculation of Article 21-Income Tax of permanent employees. By using this method, the company bears the employees' income tax which is withheld directly from the salary of the employees. The management of the company wants that the income tax paid can be minimized in accordance with the current tax regulations without reducing the employee's income. Therefore, it is necessary to conduct tax planning on the employee's welfare expenses properly so that the company can achieve high profit and the welfare of employees can be achieved.

One of the alternatives that can be applied by the company for the welfare of employees which can increase the efficiency of the payment of entity tax expense is by using the Gross Up method. The Gross Up method is to provide the same amount of tax allowance as the amount of Article 21-Income Tax Payable. If the company gives tax allowance to the employees, then the allowance given can be considered as income of the employee and can be added to the employee's salary. Therefore, the income that received by the employees is the full salary promised without deductions for tax. Although the income of the employee is greater due to the addition of the tax allowance, the company can still get benefits from the Article 21-Income Tax which can be used as deductible expense. By using Gross Up method, employees will feel satisfied because the Article 21- Income Tax is borne entirely by the company with result that employees will feel appreciated. By doing this, as time pass by, then the performances of each employee in the company will improve continuously.

The writer has an interest to conduct the research with purpose to know whether the Gross Up method can increase the efficiency of tax payment in PT Baktiya Utama Indonesia with the title : **“Tax Planning Implementation on Article 21 - Income Tax By Applying Gross Up Method at PT Baktiya Utama Indonesia”**.

1.2 PROBLEM FORMULATION

Based on the background of the study, the problem identified by the writer in this research is “Does Article 21-Income Tax with Gross Up method can increase the efficiency of income tax payment in PT Baktiya Utama Indonesia?”

1.3 RESEARCH FOCUS

Due to the limitation of writer's ability, time and data, then the research focus is tax planning of Article 21-Income Tax at PT. Baktiya Utama Indonesia in year 2017.

1.4 RESEARCH OBJECTIVE

The objective of doing this research is to know whether the implementation of Article 21-Income Tax with Gross Up method can increase the efficiency of income tax payment in PT Baktiya Utama Indonesia.

1.5 BENEFIT OF THE RESEARCH

The benefits of conducting this research are as follows:

1.5.1 THEORETICAL BENEFIT

1. For writer, this research can increase the knowledge and experience in tax especially tax planning in Article 21-Income Tax by using Gross Up Method.
2. This research can be used as reference in conducting the research with the topic about tax planning.

1.5.2 PRACTICAL BENEFIT

1. For the company, this research can be used as an input in implementing tax planning by using Gross Up method.
2. For the taxpayer, this research can be used as an input in implementing tax planning based on tax regulation.

1.6 SYSTEMS OF WRITING

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

Chapter I : Introduction

In this chapter, the background problem including the reason why writer does the research at PT Baktiya Utama Indonesia is being discussed. The writer will present the background of the

study, problem formulation, research focus, research objective, benefit of the research and systems of writing.

Chapter II : Theoretical Background

This chapter contains the background of theories used in this research such as definition of Article 21-Income Tax, definition of tax planning and the method of tax planning on Article 21-Income Tax. The writer presents theoretical background, previous research and framework of thinking.

Chapter III : Research Methodology

This chapter explains the method and way used in conducting the research. The writer will present research design which is descriptive qualitative, research object, data collection method and data analysis method.

Chapter IV : Data Analysis and Discussion

This research contains analysis of data from the company which is PT Baktiya Utama Indonesia. This chapter consists of general view of research object, data analysis and discussion.

Chapter V : Conclusion

This chapter is the final chapter of the research which contains the conclusion by doing this research. The writer will present conclusion after conducting the research, implication of this research and recommendation for the company.