

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

One of the main sources of state revenue is tax, where tax can be used to finance state expenditures. The state revenue can be increased when taxes collected are also increased, which will improve the government's capability in financing the activities and development of the country. Tax also acts as a means of redistributing the communities' income and as a means of economic stabilization. Therefore, government relies heavily on tax as the main source of state revenue, considering the increase on the amount of fund needed for development, along with the increasing number and needs of the community. The citizens of a country should contribute in paying tax which becomes their obligation that need to be complied. There are some types of tax and one of them is income tax. Article 21 of Income Tax is tax on income that can be derived from wages, salaries, allowances, honorarium, and other types of payment relating to work, services, and activities, which are obtained by individual taxpayer that has become resident of the country.

Indonesia applies self-assessment system, where the taxpayer has to determine, calculate, and pay the tax payable by himself; and withholding system that gives the third party authority to determine, calculate, withhold and remit tax to state treasury. Company as the withholding party often makes error or miscalculation on Article 21- Income Tax that required to be withheld from employees. As a result, the trust ability of the external information has to be proved through tax audit conducted by government. Tax audit consists of activities to collect, process data, and information conducted based on audit standard in order to assess tax compliance or other purposes based on

applicable provision. Following tax amnesty that was held from July 2016 to March 2017, government needs to ensure that the tax revenue is secured and taxpayer's compliance is maintained by improving the procedures and increasing the possibility to conduct tax audit towards taxpayer (Ariyanti, 2017).

Therefore, the company should consider to implement tax review as the preparation for anticipating audit surprise from government. Tax review is conducted to improve the company's tax compliance according to the applicable tax provisions since the company will have the opportunity to make correction towards erroneous information and incompliance of taxation obligation. In addition, the company could maintain its goodwill and avoid possible tax sanction for improper implementation of taxation obligation.

PT. Mensa Binasukses is a company that engaged in the activity of distributing and selling healthcare products, such as medical devices and pharmaceutical goods. PT. Mensa Binasukses has the obligation to fulfill its tax payment to government and withhold Article 21-Income Tax from its employees. The company applies gross method in withholding Article 21 of Income Tax from the employees. This company has not been examined by government through tax audit and it has no experience in conducting tax review previously. From the preliminary research done by the writer, there are slightly different information regarding salary that the writer obtained from the company's data and informal conversation with the employees. The writer is concerned that there are irregularities occurred. As a result, the writer is interested to implement tax review relating to Article 21-Income Tax of the company's permanent employees in order to help the company to improve its tax compliance by checking whether the Article 21-Income Tax has been calculated and withheld according to applicable laws. Through tax review, it is also expected to avoid possible tax sanction if there are incompliance

of tax obligation. Therefore, the writer formulates the research title of **“Tax Review Implementation towards Article 21 of Income Tax of Permanent Employees at PT. Mensa Binasukses”**.

1.2 PROBLEM FORMULATION

Based on the background of study that has been described, the writer identified the problem formulation of this research: “How to implement tax review towards Article 21 of Income Tax of permanent employees in order to improve tax compliance at PT. Mensa Binasukses?”.

1.3 RESEARCH FOCUS

Due to the limitation of time, ability, and knowledge, the writer will only discuss Article 21 of Income Tax, where the writer will concentrate on evaluating the calculation of Article 21-Income Tax of the company’s permanent employees in year 2017 by conducting tax review to assess whether the company has calculated and withheld the proper amount of tax according to applicable laws.

1.4 OBJECTIVE OF THE RESEARCH

The objective of doing this research is to know and understand how to implement tax review towards Article 21-Income Tax of permanent employees in order to improve tax compliance at PT. Mensa Binasukses.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

This research is expected to provide theoretical benefits which include:

1. This research is conducted to improve the knowledge and understanding of the writer regarding how to conduct tax

review for the company, specifically on Article 21 of Income Tax. This research also enables the writer to implement the knowledge and course that has been learned in taxation concentration. In addition, the writer has gained more experience in solving taxation issues by applying understood concepts.

2. This research is expected to contribute by providing information which serves as a reference and supplementary knowledge for education sectors and other researchers who are interested in doing similar research relating to tax review on Article 21 of Income Tax in the future.

1.5.2 PRACTICAL BENEFIT

This research is expected to provide practical significance which includes:

1. For the public, this research will provide and improve the knowledge regarding tax review on Article 21 of Income Tax that could be implemented by companies in order to improve their tax compliance in the upcoming periods.
2. For the company, which is PT. Mensa Binasukses, this research will give the recommendation and improve the understanding on how to conduct tax review on Article 21- Income Tax, that the company can use as an input in the future to improve tax compliance and avoid sanction from incompliance towards tax obligation.
3. For the tax authorities of Indonesia, this research will provide insight regarding the extent of taxpayer's understanding of taxation regulation and tax compliance.

1.6 SYSTEMS OF WRITING

The systems of writing provide the general overview of the research paper to facilitate the understanding of the readers. This research paper is divided into five chapters, where every chapter is divided into interrelated subchapters. Following are the systems of writing of this research paper.

CHAPTER I: INTRODUCTION

The first chapter includes background of the study, problem formulation, research focus, research objective, benefit of the research; which is divided into theoretical benefit and practical benefit; and systems of writing.

CHAPTER II: LITERATURE REVIEW

The second chapter includes the theoretical background, prior research, and framework of thinking of the research. This chapter serves as the basis of the research paper that promotes the discussion of the research problem. It provides the theories associated with taxation and the main topic of this research, starting from tax review, purpose of tax review, tax assessment systems, Article 21 of Income Tax, tax compliance, and other theories related to the topic of the research.

CHAPTER III: RESEARCH METHODOLOGY

The third chapter explains the methodology used in this research, which involves research design, research object, data collection method, and data analysis method regarding tax review on Article 21 of Income Tax towards permanent employees.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter consists of the general view of the company which includes the company background, history, vision, mission, and other related information of the company. It also explains the data analysis and discussion of the research.

CHAPTER 5: CONCLUSION AND RECOMMENDATION

In this chapter, the writer explains the conclusion as the result of the study, implication of the study, and recommendation that serves as input for the company to overcome problem in the future. In addition, the writer will also discuss the limitation of doing the research.

