

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The government and society hold the responsibility for ensuring the sustainability of the ongoing national development in which a sufficient source of funding is needed. In conducting the development of the country, the role of government revenue is very important which can be obtained from both domestic and abroad. One of the sources of fund that generates from domestic is in form of tax revenue. Tax revenue from year to year is expected in increasing amount in line with the requirement in the independence of financing state expenditure. Therefore, collecting tax is essential for the government as taxes are the main source of revenue that will be used to defray the government expenditures and enhance the national development. Individuals and companies are obliged to contribute in the payment of tax to the government. One of tax type is a tax levied on the income of which referred as Income Tax. In Indonesia, Income tax plays a major part in the government tax revenue compared to other type of taxes (OECD, 2017). Revenue from income tax includes individual income tax and corporate income tax. Nevertheless, it is not unusual for taxpayers to interpret tax as a burden which decreases their income.

Business decisions are influenced by taxes either directly or indirectly. For companies, corporate tax is often seen as a burden that will reduce their net income which encourages them to seek strategies to minimize their tax liability. Minimizing tax expense can be done in various ways in the frame of taxation regulations without violating tax regulations. This effort is also known as tax planning. Tax planning refers to the process of arranging business and taxpayer transactions

for the purpose of reducing tax liability. It is a legal way that can be implemented to lower tax costs as it is conducted without violating the tax regulations; hence taxpayers are required to have extensive knowledge of the applicable tax laws and regulations. Moreover, taxpayers should stay informed as some changes of the tax laws and regulations are made every year. Tax planning is generally implemented by making the use of tax loopholes which allows taxpayers to take advantage of weaknesses in how the laws are actually worded to circumvent them, thus lowering their taxes.

Companies' net income are mostly derived from business activities and they are required to pay income tax on their business activities to the government every year. As tax is often considered as a burden for companies, tax planning will help companies in minimizing their tax liability so that the companies' profits are optimal. There are several ways that can be done in tax planning, such as taking the advantage of tax credits, increasing tax deductions, maximizing earnings that are excluded from total taxable income, such as deposit interest, saving interest, etc., selecting the effective accounting method, minimizing non-deductible expenses, and so on. Based on tax provisions, expenditures incurred by taxpayers can be divided into deductible expense and non-deductible expense. Deductible expenses reduce tax liability as it can be subtracted from the company's income before it is subject to taxation. These expenses are those having direct relationship with the business or activities for earning, collecting, and securing income which constitutes a taxable income. Meanwhile, non-deductible expenses refer to the expenses that are not allowed to be subtracted from the company's income before tax.

This research is done at PT Binasahabat Jayatama Medan. The company is engaged in heavy equipment sector as a rental provider. In 1990, it was established in the form of Sole Proprietorship (*Usaha*

Dagang). Then, the company changed its status as a limited liability company (*Perseroan Terbatas*) starting from year 2007. The company's net income consists of revenues and expenses. There are certain expenses in commercial income statement that are not allowed to be recognized in fiscal income statement, such as donation expense, transportation expense, and health expense. This type of expenses is categorized as non-deductible expense. Therefore, these expenses should be corrected based on Income Tax Provision. If not, it will result in high amount of non-deductible expenses which will increase the company's taxable income that will eventually lead to higher tax liability. By knowing how to minimize non-deductible expenses, it can benefit the company in decreasing the amount of the entity income tax payable. Nevertheless, it is important for the company to make the correct determination about whether an expense can be exempted from taxation or not; otherwise it could result in audit or even penalties. Thus, having an understanding in tax deductions requirement is necessary for the company. The company should also consider the applicable Income Tax Provision in order that the tax planning can be done appropriately. As the tax regulations has been revised from year to year, the company needs to be aware of the changes regarding tax deductions requirement, whether the previous transactions or events that were allowed to be considered as non-deductible expense are still allowed to be exempted from taxation, or any new requirements are applied which may bring advantages for the company in doing tax planning.

Based on the description above, the writer is interested to conduct the study with title as follows: **“The Implementation of Tax Planning on Fiscal Expense For Minimizing Entity Income Tax Payable at PT Binasahabat Jayatama Medan”**

1.2 PROBLEM FORMULATION

Based on the background study above, the writer will make the problem formulation as follows:

1. What is the result of tax planning on fiscal expense in minimizing entity income tax payable at PT Binasahabat Jayatama Medan?
2. What options of fiscal expense that PT Binasahabat Jayatama Medan can utilize for the purpose of minimizing the entity income tax payable?

1.3 RESEARCH FOCUS

As tax planning for income tax savings includes a wide scope of types of tax, the writer will limit to entity income tax payable. Due to the limitation of data, time, and ability, the writer will focus on the research of the implementation of tax planning on fiscal expense for entity income tax payable at PT Binasahabat Jayatama Medan in year 2017.

1.4 RESEARCH OBJECTIVE

The writer attempt to conduct the research for the purpose as follows:

1. To know the result of tax planning on fiscal expense in minimizing entity income tax payable at PT Binasahabat Jayatama Medan.
2. To explain the options of fiscal expense that PT Binasahabat Jayatama Medan can utilize for the purpose of minimizing the entity income tax payable.

1.5 BENEFIT OF THE RESEARCH

Based on the objectives and problems of the research, the benefit of the research can be described as follows:

a. Theoretical Benefit

The research is expected to give theoretical benefits as follows:

1. The research is expected to be able to give input in developing tax theory especially in implementing tax planning on fiscal expense.
2. The research is expected to give contribution as reference to other researchers that are interested in doing similar research in the future.

b. Practical Benefit

The practical benefits that are expected to obtain from the research are as follows:

1. The research is conducted to increase the knowledge and experience about tax planning on fiscal expense for minimizing entity income tax payable.
2. The research is expected to be a material consideration for the implementation of tax planning on fiscal expense in minimizing entity income tax payable.

1.6 SYSTEMS OF WRITING

The system of writing in this *skripsi* will be as follows:

1. Chapter I: Introduction

This chapter contains the background of tax planning, the importance of conducting tax planning, brief description of the research object which is PT Binasahabat Jayatama Medan, and the reason of conducting this research. The problem formulations are made based on the background of study which has been described. The focus of research is on entity income tax payable. The objectives of the research are mentioned based on the result which expected to be obtained from the formulation of problem. The benefits of the research contains both theoretical and

practical benefit that are expected to be achieved from the research, and systems of writing.

2. Chapter II: Literature Review

This chapter consists of the theories related to tax planning, such as the definition of tax planning, the purposes, factors, and benefits of conducting tax planning, the stages in doing tax planning, and the strategies that can be used in tax planning. Moreover, some supporting theories related to income tax are also included such as the elements of income tax subject as well as object, the definition of fiscal reconciliation, the elements of deductible and non-deductible expenses, and the rate of entity income tax. The writer also describes prior researches conducted by previous researches, and framework of thinking.

3. Chapter III: Research Methodology

In this chapter, the writer describes research design of the study in which the writer applies qualitative descriptive research method, the research object which is PT Binasahabat Jayatama Medan, the data collection method, and data analysis method in which the writer choose descriptive method. In the data analysis method, the writer also explains the steps that have been taken to process the data and the method to analyze it.

4. Chapter IV: Data Analysis and Discussion

This chapter contains the general view of PT Binasahabat Jayatama Medan, such as the company profile along with its vision and mission, and the company's organizational structure. The data analysis consists of the description of financial and taxation reporting activity and the analysis of financial statements, and the description of the alternatives

of tax planning which are implemented. The discussion contains the results after the implementation of tax planning on fiscal expense.

5. Chapter V: Conclusion

In this chapter, the writer makes conclusion, implication which contains the impact from the result of the research conducted, and recommendations for the company based on the research findings, as well as for society and future researches who are interested to do similar research in the future.

