

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Tax is a tool for the government in achieving the goal of obtaining acceptance, either directly or indirectly from the community, to finance routine expenditure as well as national and economic development of the community (Suhartini, 2015). The purpose of paying taxes is to increase income in the country of Indonesia and also to finance the development of the country. The subject of tax in this *skripsi* is Individual Taxpayer (WP OP). State expenditures include one of the tax revenues of the community. Increasing government spending includes one from tax revenues from the community.

According to Article one of Law No. 28 of 2007 concerning General Provisions and Tax Procedures, tax is a compulsory contribution to a country that is indebted by an individual or a coercive body under the Act, by not obtaining direct rewards and being used for the purposes of the state for the greatest possible prosperity of the people.

In increasing state revenues can be done with strategic measures such as conducted by the Directorate General of Taxation since 1984 referred to as a comprehensive tax reform (Ramadiansyah, 2014). These tax updates include regulatory reform tax and legislation changes in the collection system tax. The main purpose of tax reform is to further enforce independence of Indonesian society in finance national development with more pouring out all over again own liabilities (Suryadi, 2016).

In ancient times, all Indonesians did calculations, reporting and tax payments only with the official assessment system. The

official assessment system is a system that enrolls, calculates, pays and reports taxes conducted by Directorate General of Taxes (DJP). However, now the government is turning the tax system into self-assessment. Self assessment system is a form of the Indonesian government's efforts to improve the quality of individuals belonging to Indonesian Citizens (WNI). This gives full trust to taxpayers to register themselves in the Tax Office (KPP) which will then get the Taxpayer Identification Number (NPWP). The public reports taxes by filling the Letter of Notification (SPT) that has been distributed by the Director General of Taxes (DJP).

The amount of tax receipts should be in accordance and equal to the number of Individual Taxpayers (WP OP) and the tax rate charged. If not appropriate, this may result in a tax gap in the applied tax system.

Obedience is awareness and coercion that is done in everything that can make a person's behavior can be as expected. In other word, obedience is an individual activity to perform its obligations in accordance with the tax rules. It will eventually increase the tax ratio while increasing tax revenues. But in the current reality, the state of Indonesia shows that the level of taxpayer compliance is still low.

Tax gap is the amount of lost due to taxpayers who are not obedient or have no awareness to report everything (Agustiantono, 2012). The amount of tax gap reflects the level of compliance in paying taxes, so the greater the tax gap indicates that taxpayer compliance in paying taxes are getting worse, otherwise if the tax gap is smaller, taxpayers are getting better because taxpayers already have awareness in paying taxes (Sari, 2017). Until now, there is still a considerable difference between tax revenue and that should be accepted (Suryadi, 2016).

Awareness of paying taxes not only leads to obedience or discipline but the taxpayer must have a critical attitude, awareness and voluntary compliance. One of the key noneconomic variables of tax compliance behavior is the tax justice dimension. Taxpayers tend to avoid paying taxes if they consider the tax system unfair (Suryadi, 2016). It reflects how important the tax justice dimension is as a variable that affects tax pay compliance.

The perception of tax justice used in this study uses five dimensions which measures tax fairness from first, general fairness and the distribution of tax burden, discusses whether the tax system has been covering overall justice and equitable distribution of tax burdens and fair, second, exchange with the government, discusses the reciprocity indirectly given by the government to the taxpayer community, third, special provisions, discusses the provisions and incentives specifically granted to taxpayers, fourth, preferred tax rate structure, discusses the preferred proportional / flat / proportional tax rate, fifth, self interest, discusses the conditions of a person comparing the higher tax rates or more low compared to other taxpayers (Berutu and Harto, 2012).

Taxpayers will comply in paying taxes in the presence of elements of general fairness and the distribution of the tax burden, for instance the tax burden imposed on an Individual Taxpayer (WP OP) should be proportional to the ability to pay taxes. The higher the ability of a person to pay taxes, the greater the tax burden paid. Policies or activities that can lead to perceptions, that taxes are fair to everyone will greatly help awaken an Individual Taxpayer (WP OP) to fulfill its obligation to pay taxes (Mc Mahon, 2001 in Albari, 2008). Therefore, the treatment that can lead to compliance with taxes is essential for the purpose of increasing the number of obedient people (Cords, 2006 in Albari, 2008).

The exchange with the government given as compensation for the amount of tax burden will be paid by an Individual Taxpayers (WP OP). Taxpayers expect that the taxes they pay will be immediately followed by the provision of adequate public facilities and good bureaucracy arrangements, which can improve their quality of life. A positive assessment of the taxpayer on the implementation of state functions by the government will mobilize the community to fulfill its obligations in paying taxes (Berutu and Harto, 2012). Paying taxes is a taxpayer contribution for the creation of welfare for themselves and the nation as a whole.

Taxpayer compliance arises from the existence of provisions that are not impartial to certain taxpayers, so that prioritize the element of justice. In addition, there are tax deductions based on fair rules. Tax law and its implementing regulations do not give special recognition to the taxpayer in compliance with tax obligations, whether in the form of priority to obtain public services or award certificates (Thomas, 2012).

The level of tax justice can be measured through the preferred tax rate structure that affects the compliance behavior of an Individual Taxpayers (WP OP). This dimension discusses the tax compliance behavior seen through tax rates established by the government. The Society considers that a fair tax burden is a tax burden that is adjusted to the income level and not the same for each individual. Taxpayer compliance is due to self interest, which indicates the behavior of an Individual Taxpayers (WP OP) to compare the tax burden he pays on the other person's taxpayer expense in the same or different income levels.

1.2 PROBLEM LIMITATION

The writer limits how the Individual Taxpayers can comply the five of tax fairness dimensions in Medan which are general fairness

and distribution of tax burden, exchanges with the government, special provisions, preferred tax rate structure, and self interest towards individual taxpayers compliance behavior.

1.3 PROBLEM FORMULATION

The writer has limited the problem that must be discussed in this *skripsi*. Here are the formulations of the problem:

1. Is the perception of tax justice about the general fairness and distribution of tax burden has an effect on the obedience of the behavior of the Individual Taxpayers (WP OP)?
2. Is the perception of tax justice about the exchange with the government related with the obedience of the behavior of the Individual Taxpayers (WP OP)?
3. Is the perception of tax justice about the special provisions has an effect on the obedience of the behavior of the Individual Taxpayers (WP OP)?
4. Is the perception of tax justice about the preferred tax rate structure has an effect on the obedience of the behavior of the Individual Taxpayers (WP OP)?
5. Is the perception of tax justice about self interest related with the obedience of the behavior of the Individual Taxpayers (WP OP)?

1.4 OBJECTIVE OF THE RESEARCH

The objective of this research is to analyze the five dimensions of tax justice one by one against the behavior of Individual Taxpayers Compliance Behavior (WP OP) provided as followed:

1. To analyze the effect of tax justice perception on general fairness and distribution tax burden on the Individual Taxpayers compliance behavior (WP OP)

2. To analyze the effect of tax justice perception on the exchange with the government on the Individual Taxpayers compliance behavior (WP OP)
3. To analyze the effect of tax justice perception on special provisions on the Individual Taxpayers compliance behavior (WP OP)
4. To analyze the effect of tax justice perception about the structure of tax rate (preferred tax-rate structure) on the Individual Taxpayers compliance behavior (WP OP)
5. To analyze the influence of perception of tax justice about self-interest on the Individual Taxpayers compliance behavior (WP OP)

1.5 BENEFIT OF THE RESEARCH

In this research, there are two benefits, which are:

1.5.1 THEORETICAL BENEFIT

The benefits of theoretical side can be seen from two theories namely: attribution theory and theory of justice. The theoretical benefit is how usefulness of both theories can be linked between the variable dimensions of tax justice and tax compliance behavior.

1.5.2 PRACTICAL BENEFIT

Benefits made in practice can contribute in efforts to increase taxpayers through the perception of Individual Taxpayers (WP OP) in assessing tax justice using five dimensions of tax justice.

1.6 SYSTEMS OF WRITING

Chapter 1: Introduction

It contains background issues that explain the current tax system, taxpayers behave accordingly and have awareness of paying taxes and also affect the tax justice dimension; the limitation of the problem that explains how the Individual Taxpayers (WP OP) can

fulfill the five dimensions of tax justice in Medan; the problem formulation explains about whether the five perceptions of tax justice affect the Individual Taxpayers compliance behavior (WP OP). The purpose of this study is to analyze the five perceptions of tax justice to the Individual Taxpayers compliance behavior (WP OP); there are two benefits of research, namely: theoretical research benefits that explain how the two theories can be linked between the perception of tax justice with tax compliance and the benefits in practice is to contribute in efforts to increase the taxpayer through an Individual Taxpayers (WP OP) in assessing tax justice. Lastly, systematic writing that explains the general features of chapters one through five.

Chapter 2: The literature review and Hypothesis Development

It explains the theoretical basis which has two theories: the theory of attribution and the theory of justice. It also explains the tax compliance behavior of the Individual Taxpayers (WP OP), and also about the five perceptions of tax justice. Furthermore, the previous study that explains the perception of tax justice against WP OP with different researchers. Next, the development of a research hypothesis explains the five perceptions of tax justice to tax compliance behavior. Last part of this chapter is framework of thinking explains about the content of the *skripsi* that is clearly described in a chart.

Chapter 3: Research Methodology

This research is designed using quantitative method with questionnaires consisted of 20 statements and distributed to private employees in Medan city. It also explained about the definition of both variables and how to measure the variables.

Chapter 4: Data Analysis and Discussion

This chapter shows the result of the data after running using IBM SPSS Statistics Editor Verse 22.

Chapter 5: Conclusion

This chapter described the conclusion from this *skripsi*, the implication and what the writer recommends to taxpayers.

