

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Continuous and sustainable national development has the purpose to improve the welfare of the society. One of the efforts to increase the fund needed for the development is by increasing the source of revenue from the country itself, which is tax. Tax collection is the one of the main sources of state revenue that is used to improve the society welfare. Each company that is registered as taxpayer is given the responsibility to determine the amount of tax payable by itself. Each company must calculate, deposit and report tax payable correctly, which means that the tax paid must show the real and actual company's activity. The procedure of calculating, depositing and reporting of tax must conform with tax regulation. Improper tax calculation will cause difference in the amount of actual tax that the company must pay and the tax it reports. This difference will result in underpayment or overpayment of tax.

Underpaid tax will result in imposition of tax sanction. Tax sanction can be avoided by conducting calculation, depositing and reporting of tax properly. The main purpose of tax sanction is to improve taxpayer's compliance in fulfilling tax obligation. Tax sanction is given in form of administration sanction and criminal sanction. Administration sanction is given in form of fine, interest and surcharge. Criminal sanction is given to taxpayer if the taxpayer doesn't fill tax return properly which will result in the loss of tax revenue for the country. To evaluate the company's tax compliance, tax review is needed. Tax review is a series of activities to review all tax liabilities that exist in a company and taxpayer's fulfillment of his/her tax obligation in calculation, deduction, deposit, payment and

report of tax payable to assess whether the tax compliance has been fulfilled or not (Suandy, 2015). Tax review can be done by the employees to support the company to implement tax provision properly. With tax review, the company will be able to determine its tax obligation and potential loss that can arise from imposition of tax sanction due to improper implementation of applicable tax regulation.

State revenues from year to year always increase. However, the government still has a lot of opportunities for continuous increase of tax in the future because the potential of tax sector has not been optimally explored. To increase state revenues from the tax sector, real efforts are needed and must be implemented in the form of tax policies. One of the policies that can be considered is tax amnesty. This policy is expected to increase the number tax subject and tax object. The tax object can be increased in the form of increase in the amount of income and asset as tax base while the increasing of tax subject can be in the form of increase in the number of taxpayers. Currently, one form of tax reform is to apply tax amnesty.

One of the purposes of tax amnesty is to increase the taxpayer's compliance. After the expiration of tax amnesty program, tax compliance should increase significantly. After tax amnesty ends, government will consider to conduct tax audit. Director General of Tax will implement law enforcement based on applicable tax regulation to taxpayers, either on those who participate in tax amnesty program or those who don't. The director general of tax makes priority in conducting tax audit to taxpayers that do not participate in tax amnesty and those who do not have tax identification number. They will be the target of law enforcement after tax amnesty. Director General of Tax has prepared various strategy and procedure to examine the taxpayers. The government will participate in Automatic Exchange of Information (AeOI), which is the program in automatic information transparency between countries. The first step of the

implementation of automatic exchange of information is by accessing bank secrecy. The Director General of Tax will oblige the banks to report the customers' financial information. The data from bank will be used to examine the tax return of taxpayer. Based on the examination of the data from bank with the data from Director General of Tax, the tax office will decide to conduct necessary tax audit for certain taxpayer. (Saeroji, 2017).

In order to avoid tax sanction and prepare to face tax audit from government after tax amnesty, the taxpayer can conduct tax review. The tax review can be done in many aspects such as tax review of entity income tax. The taxpayer conducts tax review of entity income tax in order to know whether the company has fulfilled tax regulation in determining entity income tax or not. The result of tax review can be used to improve calculation of entity income properly. Besides that, the result of tax review can be used to determine appropriateness of the payment of entity income tax and reporting of tax return based on Income Tax Provision. Therefore, tax review benefits the company in fulfilling the material and formal tax compliance.

This research is done at PT Mitra Sejahtera Jaya Abadi Medan. The company is engaged in distribution of electric equipment. The company is established in year 2010. The company as a taxpayer has the obligation to calculate, pay, and report the entity income tax based on Income Tax Obligation. The tax office has never conducted any tax review to the company. Besides that, the company doesn't participate to tax amnesty program. The tax review has not been conducted, neither by tax consultant nor the company's employees. It shows that the company doesn't know its tax compliance of entity income tax. The company should be able to assess its tax compliance before the tax office conducts intense law enforcement in form of tax

audit. If the company doesn't make improvement of entity income tax, the company will get tax sanction from the government.

Based on preliminary research, the employee doesn't have sufficient skill in conducting tax review due to lack of knowledge and understanding of tax policy. The company doesn't make proper fiscal reconciliation on some expenses. It results in improper payment of entity income tax and reporting of tax return. Tax review will provide information of any improper calculation of entity income tax so that the company will be able to make amendment of tax return and pay the underpaid of entity income tax. The company usually make payment of entity income tax and reporting of tax return before due date of payment and reporting of entity income tax and its Annual Tax Return is usually prepared by its own employees. However, the company has never used the service from tax consultant in preparing its tax return or conducted any tax review before. Because the company didn't participate in Tax Amnesty, tax review should be conducted as a preparation to face tax audit by the government.

Based on this background study, the writer is interested to conduct the research with title as follows : **“The Analysis of Implementing Tax Review on Entity Income Tax to Evaluate Tax Compliance at PT Mitra Sejahtera Jaya Abadi Medan”**

1.2 PROBLEM LIMITATION

There are many types of tax. One of the main tax that should be paid by the company is entity income tax. In this case, tax review is done on its entity income tax. Generally, tax review should be done regularly each year. However, due to the limitation of writer's ability, time and data from the company, the research focus is limited on the in implementation of tax review on entity income tax at PT Mitra Sejahtera Jaya Abadi Medan in year 2016.

1.3 PROBLEM FORMULATION

After the tax amnesty has ended, Directorate General of Tax will conduct tax audit especially on those who do not join tax amnesty. Because PT Mitra Sejahtera Jaya Abadi Medan did not join tax amnesty, the company will be one of the main audit targets. There is also improper calculation of the company entity income tax. Therefore, the company should consider the government's plan in increasing tax potency by improving tax compliance. The company needs to conduct tax review as the preparation to face tax audit from government. Thus the problem formulation in this research is as follows: What are the results of conducting tax review on entity income tax in order to improve the tax compliance at PT Mitra Sejahtera Jaya Abadi Medan?

1.4 OBJECTIVE OF THE RESEARCH

The objective of doing this research is to know the results of conducting tax review on entity income tax in order to improve the tax compliance at PT Mitra Sejahtera Jaya Abadi Medan.

1.5 BENEFIT OF THE RESEARCH

The benefits from conducting this research are as follows:

1.5.1 THEORETICAL BENEFIT

1. This research can add the knowledge and skill for writer in conducting tax review on entity income tax.
2. This research can be used as reference material in conducting the research with same topic.

1.5.2 PRACTICAL BENEFIT

1. This research can provide suggestion for the company in order to improve tax compliance by conducting tax review of entity income tax.
2. This research can be used as input for other company in conducting tax review as preparation in facing tax audit from government.
3. This research gives provides general knowledge for common taxpayers on how to improve tax compliance by implementing tax review.

1.6 SYSTEMS OF WRITING

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

Chapter I : INTRODUCTION

This chapter will presents the background of the study, problem formulation, problem limitation, objective of research, benefit of the research and systems of writing. The background of study describes the the effort of government in increasing tax revenue, the planning of government in increasing tax revenue after tax amnesty, the importance of tax review and company's problems in fulfilling tax obligation of entity income tax

Chapter II : LITERATURE REVIEW

This chapter is background of theory used in this research such as definition of income tax, income tax subject, income tax object, income tax rate, calculation of entity income tax, tax return, bookkeeping, tax sanction, fiscal reconciliation, definition of tax review, purpose of tax review, benefit of tax review, tax review on entity income tax and tax compliance. The writer presents

theoretical background, previous research and framework of thinking.

Chapter III : RESEARCH METHODOLOGY

The writer will presents research design, research object, data collection method and data analysis method. This chapter will describes the research design used in this research that is descriptive research design. Data collection method used are direct interview and documentation. Data analysis method describes the step in conducting tax review on entity income tax.

Chapter IV : DATA ANALYSIS AND DISCUSSION

This chapter consists of general view of research object, data analysis and discussion. General view of research object consists of history of the company and the organization structure. The data analysis elaborates the implementation of the steps in tax review procedures on the research case. Discussion explains the company formal compliance and material compliance.

Chapter V : CONCLUSION

The writer will presents conclusion after conducting the tax review and its results on tax compliance. The recommendation is given for the company to improve tax compliance based on tax review result.