

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Every government surely wants to enhance the well-being of citizens, services, and economic development for its country. In order to fulfill those expectations, it requires adequate revenue, which is raised through taxes. Moreover, as a developing country, Indonesia needs to run a good government and carry out development in all areas to help promote the welfare of the citizen living in that country. Since economic development has become an important factor for the national development, a support of adequate funding sources is compulsory. According to Resmi (2017), tax is one of the largest contributions of income in Indonesia as it covers around 70% of the Indonesian Budget. Therefore, tax takes a big role for the implementation and improvement of National Development to attain the welfare of the community.

Tax is the ultimate tool to fund the expenditure of the state. Thus, the role of tax is surely important. In Indonesia, the applications of several procedures set in regulations are done to achieve the objective which is maximizing tax revenue.

Unfortunately, the realization of tax revenue every year in Indonesia has not reached its target. This happens because tax is considered as a burden, which decreases taxpayer's revenue, so it makes taxpayer do tax evasion and tax avoidance that reduces the level of taxpayer's compliance and ultimately results in the disadvantage of state revenue. This can be seen from the table 1.1 which shows the level of taxpayer's compliance fluctuated from 2015 to 2018. In 2015, the percentage of taxpayer's compliance is 97.82% and it fell to 86.79% in the next year. Then, it increased to 92.13% in 2017 and decreased back again to 83.52% in 2018.

The data of individual taxpayer's compliance for the last four periods at *KPP Pratama Medan Belawan* is shown in table 1.1.

Table 1.1
Individual Taxpayer's Compliance Year 2015-2018

No	Year	Target of Compliance Ratio	Compliance Ratio	Realization of Compliance Ratio
1	2015	67.50%	66.03%	97.82%
2	2016	70.00%	60.75%	86.79%
3	2017	72.50%	66.79%	92.13%
4	2018	87.00%	72.66%	83.52%

Source: Prepared by *KPP Medan Belawan* (2019)

Furthermore, the proportion of tax collection realization for the last five years at *KPP Pratama Medan Belawan*, which can be seen in table 1.2, revealed that the collection of tax in some year has not met the established target of tax collection. From the table, the percentage of realization in 2014 reached 74.84% and it exceeded the target to 119.51% in 2015. Then, the percentage of realization fluctuated from 2016 to 2018. It decreased slightly to 92.44% and went beyond the target to 111.40%. Then, it decreased again in the next year to 80.72%. By looking at the data shown at the table, it can be concluded that the realization of tax revenue reached the target only in the year 2015 and 2017. This results in the inconsistency of the realization for the last five years.

Table 1.2
Realization of Tax Collection at *KPP Pratama Medan Belawan* Year 2014-2018

No	Year	Target	Acquisition	Realization
1	2014	274.693.130.000	205.570.654.060	74.84%
2	2015	373.620.940.000	446.499.464.507	119.51%
3	2016	494.949.043.010	457.517.058.253	92.44%
4	2017	410.099.969.000	456.848.962.081	111.40%
5	2018	523.688.146.000	422.714.707.907	80.72%

Source: Prepared by *KPP Medan Belawan* (2019)

Enforced tax sanction can help promote tax compliance because the imposition of sanction to taxpayer will be done if the taxpayer does not comply with the taxation regulation. Understanding the sanction without awareness of the taxpayer will be less effective. This research concurs with Yusnindar, Sunarti, and Prasetya (2015), which state that taxpayer

awareness would make taxpayer to contribute paying tax on time and on the exact amount willingly. From such statement, it can be concluded that tax awareness is also needed to increase taxpayer's compliance.

According to Lasmaya and Fitriani (2017), increasing tax revenue can be done by enforcing self assessment system as the tax assessment system in Indonesia. The amount of individual income tax revenues is highly dependent on the level of compliance and awareness of the taxpayer. Furthermore, it needs not only Directorate General of Taxes (DGT) by collecting as much tax as possible from taxpayer but also taxpayer needs to take part by paying the tax which is necessary. Thus, the practice of this system were hoped to greatly influence state's revenue by increasing the level of taxpayer's compliance.

Previous research conducted by Anam, Andini, and Hartono (2018) shows the result that tax sanction does not have a positive effect on individual taxpayer's compliance while taxpayer awareness has a positive effect on taxpayer's compliance. Besides, the result of the research done by Yusnindar, Sunarti, and Prasetya (2015) states that taxpayer awareness and tax sanction significantly have an effect on individual taxpayer's compliance. Meanwhile, the conclusion of the research done by Amanda, Rifa, and Minovia (2014) states that tax sanction and taxpayer awareness do not have a significant effect on individual taxpayer's compliance. Lasmayana and Fitriani (2017) also state that tax assessment system has a positive effect on taxpayer's compliance.

Based on the background above, further research regarding the effect of tax sanction, taxpayer awareness, and tax assessment system on individual taxpayer's compliance is needed. It is because of the possibility of differences in the results such as research object, subject as well as the conflicting results of previous studies conducted regarding this topic. Therefore, the writer is interested in doing the research with the title "**The Effect of Tax Sanction, Taxpayer Awareness, and Tax Assessment**

System on Individual Taxpayer's Compliance at *Kantor Pelayanan Pajak Pratama Medan Belawan*".

1.2 Problem Limitation

For a better discussion to achieve the objectives of the research, the writer will limit the scope of the existing problems which are as follows:

1. In this research, the independent variable is limited into four variables. This research will focus on the effect of tax sanction, taxpayer awareness, and tax assessment system on the compliance of individual taxpayer.
2. This research will be conducted only at *KPP Pratama Medan Belawan* and the target will be only individual taxpayer.
3. The data that will be used in this research is in a five-year period starting from the year 2014-2018.

1.3 Problem Formulation

Referring to the background of study which has been described above, the problem formulations in this research are as the following:

1. Does tax sanction partially have an effect on individual taxpayer's compliance?
2. Does taxpayer awareness partially have an effect on individual taxpayer's compliance?
3. Does tax assessment system partially have an effect on individual taxpayer's compliance?
4. Do tax sanction, taxpayer awareness, and tax assessment system simultaneously have an effect on individual taxpayer's compliance?

1.4 Objective of the Research

The objectives of this research are in accordance with the problem formulation described above, which are:

1. To determine whether tax sanction partially has an effect on the individual taxpayer's compliance;
2. To determine whether taxpayer awareness partially has an effect on the individual taxpayer's compliance;
3. To determine whether tax assessment system partially has an effect on the individual taxpayer's compliance;
4. To determine whether tax sanction, taxpayer awareness, and tax assessment system simultaneously have an effect on the individual taxpayer's compliance.

1.5 Benefit of the Research

This research provides benefits for the related and unrelated parties. Some of the most important benefits are:

1.5.1 Theoretical Benefit

Theoretically, this research is hoped to broaden the knowledge in taxation and provide a greater understanding in the field of taxation to maximize the tax compliance in Indonesia.

The theoretical benefits of this study are directed to:

1. For researcher

As an insight for the researcher of the discourse of educational values, especially in understanding tax sanction, taxpayer awareness and tax assessment system as well as the effect they might give on taxpayer's compliance, to further serve as a reference in behaving when it comes to tax obligation and responsibility.

2. For academics

The results of this study are expected to be useful for academics as a reference to increase their knowledge about the effect of tax sanction, taxpayer awareness and tax assessment system on the taxpayer's perception of ethical tax evasion.

1.5.2 Practical Benefit

The practical benefit of this study are directed to:

1. For regulator

This research is hoped to be able to provide feedbacks, information, and reference for regulator in preparing regulations or taxation policies, so that the potential of the country to collect tax from its taxpayer could be maximized.

2. For taxpayer

This research is hoped to provide a deeper understanding of the importance of tax, and how tax sanction, taxpayer awareness, and tax assessment system is related to the taxpayer's compliance.

3. For future researchers

The results of this study may be useful for researchers in particular, in increasing knowledge and providing confidence about the effect of tax sanction, taxpayer awareness and tax assessment system on taxpayer's compliance. For this reason, this research is expected to function as a reference for those researchers who conduct the same topic research but with a different point of view.

1.6 Systems of Writing

During the preparation of this *skripsi*, the applied systems of writing are as follows:

CHAPTER I: INTRODUCTION

This chapter contains the background of the study where the purpose and reasons of the chosen variables – tax sanction, taxpayer awareness, tax assessment system, and individual taxpayer's compliance are elaborated with supporting theory and fact, the problem limitation in regards to the relationship between tax sanction, taxpayer awareness, and tax assessment system on individual

taxpayer's compliance are also stated clearly, the problem formulation which consists of questions that become the objectives of research. This chapter is also to discuss about the benefits of the research, which includes theoretical and practical research, and ended by the systems of writing that consists summary of each chapter.

CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter elaborates about the general theoretical background which presents some related theories such as tax sanction, taxpayer awareness, tax assessment system, and taxpayer's compliance. Several prior researches in the same field are also included to act as a comparison in both similarities and differences which this research carries. Hypothesis development will also be included in this chapter along with the research model to prove the truth of the hypothesis itself and framework of thinking which shows the process of the research, from background of study, problem of the research, the grand theory used in the research, as well as the development of hypothesis from prior research.

CHAPTER III: RESEARCH METHODOLOGY

This chapter describes the basis of the research method which is a quantitative descriptive method. The determination of its sample is calculated from Slovin formula with the population of individual taxpayer enlisted in *KPP Pratama Medan Belawan*. The data collection method is using primary data collected through questionnaires and secondary data collected through

books, online resources, and data resources from *KPP Pratama Medan Belawan*. Lastly, the data analysis method consists of descriptive statistic method, classic assumption test, and hypothesis testing by using multiple linear regressions.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter explains the general view of *KPP Pratama Medan Belawan*. The data analysis in this research is using Statistical Package for Social Science Program (SPSS) version 25. This chapter also focuses on data analysis such as descriptive statistic which shows the minimum, maximum, the mean value, the median, and the mode value of each variable used in this research; the result of data quality testing as well as the result of hypothesis testing and lastly, the discussion.

CHAPTER V: CONCLUSION

This chapter contains of conclusion of the findings of the research. The expectation of the research contribution is stated as a research implication. Then, it continues to the recommendations from the researcher that might be advantageous to people who are interested on this field.