

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Taxes are one of the largest revenue sources in Indonesia and are used to finance government spending, state expenses or state development. For the success of national development program, it certainly requires development funds that are not small. Therefore, the government seeks to increase state revenues, especially from the taxation sector, by taking into account the capabilities of the community and the business world. The taxation sector is the largest financial source of government and even state revenues in this sector are always increasing year by year. Development of country depends significantly on the state revenues. It, can be seen from the state construction that's growing rapidly in many aspects of life with public facilities is more adequate and modern through technological progress as the result of the tax payment by the taxpayer that consists of individuals and entities.

Taxes are levied by the government on the basis of the act and its implementation rules. One of the ways to fulfill the obligations by taxpayer is to calculate, pay and report the taxes or often referred to as a self-assessment system and it is a form of government to trust the taxpayer to fully implement its tax obligations. The success of the self-assessment system is determined by the taxpayer's compliance and control of tax authorities through tax audit. Individual or entity taxpayer that not familiar with Indonesian Taxation Law can a hire a professionals who understands the procedures. In order to avoid a taxation practice that does not comply with the applicable regulations, taxpayer in the term of individual or entity can conduct tax review.

The government has duties in controlling tax payment by the companies according to Income Tax Law. Company can be given tax sanction if the tax payment is not appropriate with Income Tax Law, in order to avoid tax sanction and to increase the tax compliance, the company should conduct the obligation according to Income Tax Law. To control the proper Income Tax Law implementation in the company, it is needed to done tax controlling activities in the company. One of tax controlling activities is in the form of the tax review. With the tax review, the company can anticipate if there is a mistake before the tax audit from the government.

Tax review is a re-examination activity that usually conducted by internal parties of a company, but it can also be conducted by external parties who have more understanding about the valid taxation procedures. The results can be used as the basis to prepare a proper annual tax return. While on the other hand it will be also used as a guideline for examining the implemented taxation procedures to see whether there are mistakes done by the company and to make corrections according to the tax provisions applied. Tax review is necessary because of the number of new regulations issued by the government and the ignorance of the company or there is an error calculating the amount of tax payable. The negligence of the company in form of under or over comply resulted in losses for the company. It can be minimized by increasing knowledge by understanding of the provisions of the tax laws, reducing miscalculation, and organizing the bookkeeping along with the complete evidence.

One of the company's tax liabilities is to calculate its tax by preparing financial statements, in the form of statement of profit and loss by calculating the gross profit less expenses so that net profit can be obtained. From these data then it can determine the amount of tax to be paid, this activity is known as deposit the taxes amount by filling Tax Payment Letter (*SSP*) which of course must be on time to submit

to avoid fines of the lateness. In order to avoid recurring deposits, the company is required to report *SSP* submitted by filling the Annual Tax Return (*SPT*). *SPT* filling must be correct in accordance with the financial statements and other supporting evidence then need to report it on time to avoid any lateness fines.

PT. Bumi Mulia Makmur Lestari, which was established in the year 2004, in Medan, North-Sumatera, Indonesia is a company which engages in oil palm tree farming. This of course related to entity income tax which includes the process of calculating, pay and reporting tax. At the end of every accounting period, PT. Bumi Mulia Makmur Lestari has calculated and reported the amount of income tax needs to be paid to the government, they organize or prepare to pay taxes by preparing financial statements.

In the income statement of PT. Bumi Mulia Makmur Lestari, there is a significant fiscal correction that is caused by some expenses that actually need to be deducted the in income statement of PT. Bumi Mulia Makmur Lestari, some of the items must be adjusted in accordance with taxation law.

The company has no staff that conducts the procedures in examine tax compliance in the company and there is no tax review activity done in the company, neither by tax consultant nor the company's employees. Therefore there is a possibility to make a mistake in improper payment of entity income tax. Tax review, will help the company to determine its tax obligation and potential loss that can arise from the imposition of tax sanction due to improper implementation of applicable tax regulation.

Based on the issues above, the writer is interested to conduct research on tax review analysis of entity income tax. This will also help to see tax compliance that has been done by PT. Bumi Mulia Makmur Lestari. Therefore the writer will conduct this research with title

**“TAX REVIEW IMPLEMENTATION ON ENTITY  
INCOME TAX TO EVALUATE TAX COMPLIANCE AT PT.  
BUMI MULIA MAKMUR LESTARI.”**

**1.2 PROBLEM FORMULATION**

Based on the background of research that has been described above, writer identified the problem formulation of this research: “How is the implementation of tax review towards PT. Bumi Mulia Makmur Lestari in evaluating the company’s tax compliance?”

**1.3 RESEARCH FOCUS**

Due to the limitation of time, ability, and knowledge, the writer will focus on the company’s fiscal reconciliation of the company’s income tax of the year 2017.

**1.4 OBJECTIVE OF THE RESEARCH**

The objective of doing this research is to know the implementation of a tax review towards PT. Bumi Mulia Makmur Lestari in evaluating the company’s tax compliance.

**1.5 BENEFIT OF THE RESEARCH**

This research will provide benefits for related and unrelated parties. The benefits of this research are divided into two, such as theoretical benefit and practical benefit.

**1.5.1 THEORETICAL BENEFIT**

The results of this research are expected to explain the linkage between existing theories and the applications that occur in the field associated with the procedure of calculating the tax in accordance with taxation rules as well as the impact that will be obtained by the company, so it can assess the level of tax compliance of the company.

### **1.5.2 PRACTICAL BENEFIT**

The results of the research are expected to be useful for various parties including:

1. For researcher

Adding insight and knowledge of the researcher about tax review especially on corporate income tax and its application in assessing tax compliance and controlling tax of corporation both theoretically and practically.

2. For PT. Bumi Mulia Makmur Lestari

Providing input and understanding to the company of increasing tax compliance by conducting tax review, especially in carrying out its obligations as a taxpayer.

3. For public

The results of this research are expected to increase knowledge for readers and also as a reference to conduct research in the field of taxes, especially entity income tax.

### **1.6 SYSTEMS OF WRITING**

The systematic outline of writing this research will be as follows:

#### **Chapter 1: INTRODUCTION**

In this chapter, the writer will describe the background of the research, problem formulation, research focus, research objective, the benefit of the research and systems of writing. The background of the research describes how tax review is important to be done in the company.

## **Chapter 2: LITERATURE REVIEW**

In this chapter, writer declares some theories that are related to the topic of this research such as theoretical background which define the definition of tax, type of tax, income tax, income tax subject, type of tax subject, income tax object, income statement, entity income tax rate, tax credit, tax review and tax return.

Previous research describes the similar prior research that has been done by other writers. Framework of thinking is a chart drawing the mindset of the researcher that start with background of the study, research problem and theoretical framework.

## **Chapter 3: RESEARCH METHODOLOGY**

In this chapter, the writer explains the research design, research object, data collection method, and data analysis method used in this research. This chapter describes descriptive research design that will be used in the research design. Research object will explain short information about the company. The data collection method used is direct interview and documentation, while the data analysis method describes the step in conducting a tax review on entity income tax.

## **Chapter 4: DATA ANALYSIS AND DISCUSSION**

In this chapter, the writer explains the general view of the research object, data analysis and discussion. General view of the research object describes the brief history of the company the organization structure, data analysis elaborates the implementation of the steps in tax review procedures on the research and discussion explains the company's formal compliance and material compliance.

## **Chapter 5: CONCLUSION**

In this chapter, the writer will give a conclusion after conducting a tax review as the results of the whole research. It also includes implications and recommendations to overcome the problem in doing the research.

