

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Indonesia is a developing country that has an impressive economic growth since recession of 1998 (The World Bank, 2017). The latest statistics records that Indonesia's GDP per capita is currently at USD 3,834.06 in 2015 (Trading Economics, 2017); the better performance was triggered by foreign investments and increases in domestic productions of goods and services. However, the good news does not always come in the directions where Indonesia's GDP annual growth rate was only 4.94% in the fourth quarter of 2016, which is a bit slower than in the previous quarters (The Business Times, 2017). There were assumptions that commodity prices and consumer spending triggered the slowdown. On the other hand, another assumption related this slowdown with China's slowdowns (BBC Indonesia, 2016).

The same question remains what if there are growth in Indonesia's economy, taxpayers, both individuals and corporates, will fulfill their tax duties. There are two types of tax that Indonesia government collects: income tax and value added tax (VAT). From 1989 to 2004, VAT revenues continued to increase which was related to the tax reforms which began in 1984. With the issuance of several new laws, including the Law Number 6 of 1983 regarding *Ketentuan Umum dan Tata Cara Perpajakan* and the Law Number 8 of 1983 regarding *Pajak Pertambahan Nilai Barang dan Jasa dan Pajak Penjualan Barang Mewah*. Afterwards, they were followed by the second taxation amendment in 1994 and the third one in 2000. The fundamental amendment to the taxation law was the tax collection system, which was shifted from the official-assessment system, which gives full authority to the tax authorities to determine the amount of tax payables, into the self-assessment system, which provides authority,

trust, responsibility to taxpayers to calculate, pay, and report on the amount of tax payables (Trisnayanti & Jati, 2015). In other words, they are expected to calculate how much they should pay for their tax duties and report them in their annual tax returns.

As it is regulated in *UU No.42 Tahun 2009*, taxpayers whose sales or revenues exceed Rp4.800.000.000,00 per year must register themselves as taxable entrepreneurs (*Pengusaha Kena Pajak or PKP*). Therefore, it is a requirement for them to report their monthly sales and pay 10% as their VAT. In this case, VAT itself functions as a tracking device of every company performance in terms of sales or revenues. In other words, VAT is distinguished from entrepreneurs' income taxes, but it always correlates with their sales. Sales' VAT is considered as output tax and purchases' VAT is considered as input tax. Of course, output taxes can be credited with input taxes, but in some circumstances, input taxes are not creditable.

Indonesia Minister of Finance, Sri Mulyani Indrawati, admitted that the tax ratio in Indonesia was only eleven percent where the standard tax ratio is fifteen percent. Tax ratio indicates percentage of tax revenues towards the GDP. Therefore, she suggested that tax reformation was required in Indonesia (Suwiknyo, 2018). Furthermore, the Minister of Finance recorded that there were Rp154.66 trillions of tax revenues that were not submitted to state treasury in 2017. This amount of tax revenues was not submitted because it was considered as tax incentives from the government. In detail, that number was composed of VAT & Sales Tax on Luxury Goods (Rp125.32 trillions), income tax (Rp20.17 trillions) and import tariff (Rp9.15 trillions). These tax incentives were provided for transparency purposes, which explained to the business world that Indonesia government has provided tax facilities to taxpayers (Kusuma, 2018).

The Minister of Finance has eased the process of reporting tax payables to individual and corporate tax payables. This process has

been regulated since 23rd January 2018 according to *Peraturan Menteri Keuangan (PMK) Nomor 9/PMK.03/ 2018 atas perubahan PMK 243/PMK.03/2014 tentang Surat Pemberitahuan (SPT)*. This strategy would fix and simplify the administration of tax return; for instance, the employers do not have to prepare periodic tax returns for employees who have income below than non-taxable incomes. Because of this new regulation, employers and taxable entrepreneurs would prepare periodic tax return, for income taxes or VAT, through e-filing (Kusuma D. R., 2018).

PT Kilang Kecap Angsa is a manufacturing company of soy sauce and *tauco*, which was established in 1996 and located at Jl. Meranti No.12, Sekip, Medan Petisah, Kota Medan, Sumatera Utara, Indonesia. The family business, originally, started in 1949, and two decades after its good run, the company expanded its factory to a new location at Jl. Bono No. 24/6. This family business is well known for its traditional production of light soy sauce that takes six-month production. Moreover, this company is registered as a taxable entrepreneur and required to pay and report VAT payables every month. Therefore, the writer suggests that a research should be conducted in terms of how the company fulfill its tax obligations, especially on Value Added Tax. The writer will analyze the VAT treatment in this company and will propose solutions for VAT problems which cause the company to spend cash on VAT. Thus, the writer will conduct research with the title “**Tax Planning on Value Added Tax at PT Kilang Kecap Angsa.**”

1.2 PROBLEM FORMULATION

Under the VAT law, PT Kilang Kecap Angsa is entitled to taxable entrepreneur where its gross income has exceeded Rp4.800.000.000,00 per year. Like any other taxable entrepreneurs, the company must fulfill the VAT obligations where the company should

collect VAT upon its sales. Consequently, the company's selling price has increased by 10%; however, the company does not have to pay all of collected VAT to the government. Those collected output taxes from customers can be deducted with input taxes that the company has paid when purchasing raw materials or production facilities. The problems that most taxable entrepreneurs face is that the negligence of not having input taxes from suppliers and paying all of the output taxes to the government. As the result, the company has difficulties in selling their products due to the VAT while having low margins of profits.

For instance, a taxable entrepreneur is a reseller, which purchases products from non-taxable entrepreneurs for Rp5,000.00 and sells them for Rp10,000.00 (VAT excluded). As the result, total output VAT that will be paid to the government will be Rp1,000.00 with cash. If the company purchase products from taxable entrepreneurs for Rp5,000.00 (VAT included), the input taxes will be approximately Rp454.54. Those input taxes can be deducted against the output taxes; thus, the company could only pay remaining VAT for Rp545.46. Furthermore, the company has higher profit margins which are Rp5,454.55 rather than Rp5,000.00.

The illustrated problem above will most likely appear in PT Kilang Kecap Angsa, so the problem formulation of this research is: "What kinds of tax planning should PT Kilang Kecap Angsa implement so that the company could pay less on value added tax without violating any VAT laws?"

1.3 RESEARCH FOCUS

The writer will identify and analyze problems incurred in the VAT treatment of the company, and several methods of tax planning on VAT will be designed and proposed by the writer where they should be compatible with the circumstances of the company's business activities, especially for a manufacturing company. Therefore, the

writer will focus on how the tax planning can contribute to the company by implicating the proposed methods of tax planning into the VAT data in 2018 which are provided by PT Kilang Kecap Angsa.

1.4 RESEARCH OBJECTIVE

The objective of this research is to analyze and propose several methods of tax planning on VAT which help the company to fulfill its VAT obligations while saving financial capital gained from tax planning of VAT. Through proper guidelines illustrated by the writer on how the tax planning works, the company could accurately allocate its investments which can safely reduce the VAT payables of the company.

1.5 BENEFIT OF THE RESEARCH

1.5.1 THEORETICAL BENEFIT

Based on the research objectives above, the research would provide some theoretical advantages as follows:

1. This research would introduce some insights about difficulties and challenges for companies, especially who are taxable entrepreneurs, so that the writer could apply critical thinking and taxation theories inside the implementation of tax planning on VAT payables of the company.
2. This research could be utilized as a reference for other writers in order to establish a relevant tax planning for similar or different kinds of business industries so that they could also gain from the results of tax planning on VAT.
3. This research could provide proper guidelines for other taxable entrepreneurs who face similar problems in VAT payables so that they can spend less capital on VAT payables and can utilize them into better investments.

1.5.2 PRACTICAL BENEFIT

Based on the research objectives above, the research would provide some practical advantages as follows:

1. For public purposes, this research provides additional information and knowledge that can enhance tax planning on VAT, and examples of the writer's illustration can be the evaluation of how effective a tax planning could contribute in tax payables of a company.
2. For PT Kilang Kecap Angsa, this research would provide guidelines of how the company could implement tax planning on VAT without violating any tax laws. Furthermore, the company has the options to implement any proposed methods as long as it is suitable for the company.
3. Through this research, the government could measure the effectiveness and efficiency of VAT laws that are applicable to every taxable entrepreneur, and the government can analyze related VAT issues while proposing solutions through taxation education for taxable entrepreneurs.

1.6 SYSTEM OF WRITING

The systems of writing for this research are as follows:

CHAPTER I INTRODUCTION

The first chapter consists of a brief introduction of the research paper such as background of study, problem formulation, research focus, objective of research, benefits of the research and systems of writing. This chapter discusses about how taxable entrepreneurs fulfill VAT obligations and about VAT related issues.

CHAPTER II LITERATURE REVIEW

The second chapter indicates law and regulations regarding VAT in Indonesia. The VAT law discusses requirements to be taxable entrepreneurs including their responsibilities, and the regulations explain about taxable objects and non-taxable objects. Theoretical background will contain taxation articles that support this research and tax planning developed by the writer. Moreover, this chapter will also provide some prior researches and the framework of thinking.

CHAPTER III RESEARCH METHODOLOGY

The third chapter explains about research design, research object, data collection method and data analysis method of the research performed in PT Kilang Kecap Angsa. Therefore, this chapter will consist of specific guidelines how the writer will collect and analyze data of PT Kilang Kecap Angsa; afterwards, the writer will develop related tax planning to the company.

CHAPTER IV DATA ANALYSIS AND DISCUSSION

This chapter elaborates the company's historical background, vision & mission, organization structure, and data provided by the company. The writer will investigate the problems of the VAT implementation and will provide solutions to each problem through tax planning on VAT.

CHAPTER V CONCLUSION

The last chapter will sum up all the discussion into a set of conclusions that answers the formulated

problem elaborated by the writer. Then, the writer will draw out overall results of implicating the tax planning on VAT. Lastly, a few recommendations will be delivered by the writer after completing this research.

