

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In order to support the national economic growth in Indonesia, government needs to improve its infrastructure, education, and health sectors. To realize this growth, immense source of funds are required and one of the most dominant factors behind Indonesia's source of income is tax revenue. National economic growth in Indonesia mainly depends on its tax revenue; it can be seen from the tax revenue realization in *APBN 2017* that reached IDR 1,498.9 trillion compared to Indonesia domestic income realization which is IDR 1,750.3 trillion. (*Kementrian Keuangan RI, 2017*) This concludes that approximately 85.6 % of the country domestic income derived from tax revenue, which is still the greatest contributor with the mean contribution of 77.6%. Tax is one of a country income sources that is very essential to establish and improve infrastructure and to enhance the economy of a country. Each year government tries to maximize tax revenue to fund the expenses of the country since the higher the level of tax revenue the better the potential for a country to finance its infrastructure, vice versa.

Besides VAT, Property Tax, Excise, and other taxes, there is another factor that contributes to Indonesia domestic tax revenue which is Income Tax (*Pajak Penghasilan*). Income Tax is the tax on increase of economic capability that levy to individual, undivided inheritance as a unit in lieu of the beneficiaries, statutory body or entity, and permanent establishment. There are two types of Income Tax, which is *Migas* and *Non-Migas* Income Tax. On the website of *Kemenkeu RI (2017)*, *Non-Migas* Income Tax comprises 91.5% of

income tax revenue in 2017. This indicates that *Non-Migas* Income Tax is one of the main contributors in Income Tax.

In general, *Non-Migas* Income Tax consists of Article 21, 22, 22-Import, 23, 25/29-Individual, 25/29-Entity, 26, Final and Fiscal Income Tax and other Income Taxes. In this case, Article 21-Income Tax revenue is one of the major contributors in *Non-Migas* Income Tax, followed by that of Article 25/29-Income Tax. According to Income Tax Law, Article 21-Income Tax is the tax which is imposed on income in the form of salaries, wages, honorarium, allowances, and other payment in whatever name received or earned by Individual Resident Taxpayer in relation with work, services, and activities. On the other hand, Article 25-Income Tax is the monthly tax installment of a current taxable year that must be paid by Taxpayers and Article 29-Income Tax refers to underpaid tax payable in a taxable year which is greater than the allowable tax credit.

Government expects that income tax revenue can ameliorate each year not only on the total revenue but also on the aspect of payment or Taxpayers compliance. The reason for this is that the country tax revenue tends to be less than what is expected. Based on *Realisasi Anggaran Pendapatan dan Belanja Negara* as stated in *Kemenkeu RI* (2017), the target amount of *Non-Migas* Income Tax realization is IDR 742.2 trillion while the realization is IDR 514.1 trillion. This concludes that the realization is 69.3% of the target and it is IDR 228.1 trillion below the target set by government. Hence, in order to optimize the amount of income tax revenue, taxation potential analysis and obstacles analysis regarding to taxation are required. There are several *Non-Migas* Income Tax potentials, which are the increase of Non-Taxable Income (NTI), Property Tax, potential from Transfer Pricing, and the optimization of e-KTP usage for tax. (*Biro Analisa Anggaran dan Pelaksanaan APBN*, 2013) In this case, Non-Taxable Income (NTI) changes is one of the means that can be

implemented to optimize income tax revenue as it affects income tax revenue through taxation potential.

Non-Taxable Income (NTI) is a part of Individual Income Tax that is essential to determine the total amount of Income Tax payable to be remitted. Non-Taxable Income which is also called as *Penghasilan Tidak Kena Pajak/PTKP* is deductible from Individual Taxpayer's net income and it is the minimum limit of Individual Taxpayer income which is not taxable. Nowadays, the latest government policy regarding Non-Taxable Income adjustment which is regulated in the decree of Minister of Finance *101/PMK.010/2016*, has replaced the former regulation as stated in *122/PMK.010/2015*. The amount of Non-Taxable Income in 2016 has increased by 50% from that in 2015. In 2016, the amount of NTI of Individual Taxpayer has increased to IDR 54,000,000 while in 2015 it was IDR 36,000,000. Also, in 2016, the amount of NTI of both Married Taxpayer and dependent are IDR 4,500,000 while in 2015, they were IDR 3,600,000. The regulation which has been valid since 2016 is also available in 2017 and 2018.

Basically, NTI determination is adjusted with economic and monetary growth and also the price of staple goods that is increasing each year. The purpose behind the changes of Non-Taxable Income is to increase the purchasing power of Taxpayers in the midst of economic slowdown. NTI itself is identical to the standard of living; the decrease in Income Tax can help Taxpayers to consume more of their income or even to save/deposit the sum of income they have. If there is an increase in NTI then it can benefit the citizens, who work as employees, laborers, and Individual Taxpayers.

In general, the effect of NTI changes affects tax revenue and economy of the country as the rise in Non-Taxable Income will cause the decrease in Individual Income Tax Revenue. Additionally, the growth of new Taxpayers may tend to be declining; individuals who

work as employees, laborers, and others who are not obliged to have Taxpayer Identification Number (*NPWP*), are not compulsory to register for *NPWP* if their income are below the NTI set according to the taxation regulation. As the number of new Taxpayers is decreasing, the amount of Article 21 and Article 25/29 -Income Tax collected will decrease as well.

However, from another point of view, NTI changes can enhance Taxpayers compliance through its deductive nature in reducing the amount of Income Tax Payable. As Individual Taxpayers comply with taxation obligations, the amount of Income Tax Revenue will tend to increase as well. In addition, since *APBN* main source of income is tax and one of the factors that can enhance tax revenue is Non-Taxable Income through leveraging purchasing power, NTI changes can cause national economic improvement and might result in the increase of individual income in general. By the increase of Individual Income, it is expected that Income Tax can also increase in the end; this indicates multiplier effect.

As stated in *detikfinance.com*, tax revenue from the year 2013-2017 had never reached the target. (Kusuma, 2018) The details of shortfalls each year is summarized at the table below: (in trillion rupiahs)

Table 1.1 Shortfalls of Tax Revenue (2013-2017)

Year	Realization	Target	Shortfall
2013	921	995	74
2014	985	1,072	87
2015	1,095.77	1,294	198.23
2016	1,141.45	1,355	213.55
2017	770.7	1,284	513.3

Source: *detikfinance.com* (Kusuma, 2018)

From the phenomena above, it can be concluded that in five years consecutively the realizations of tax revenue is still below the targets determined. The highest shortfall is in 2017, where it reached 513.3 trillion rupiahs. Therefore, in order to solve the problems,

government needs to implement some ways to increase the realization of tax revenue each year. One of them is through increasing the amount of Non-Taxable Income.

In conclusion, based on the explanation above, there is an interesting issue to be analyzed regarding to how effective Non-Taxable Income changes are towards individual income tax revenue received by the Tax Office. In order to complete this research, *KPP Pratama Medan Barat* is chosen as the place to collect the data for the research.

The duty of *KPP Pratama Medan Barat* is to provide counseling, services, and supervision of Taxpayers in the field of Income Tax, VAT, and Sales Tax on Luxury Goods within its jurisdiction based on applicable laws and regulations. Hence, the research object of this study is the Individual Income Tax revenue in *KPP Pratama Medan Barat* which is located at *Jl. Asrama No.7A, Sei Sikambing C.II, Medan Helvetia, Kota Medan, Sumatera Utara*. The data of Individual Income Tax Revenue are accessed from *KPP Pratama Medan Barat* ranging from the remittance of Income Tax from year 2014-2018.

Practically, *KPP Pratama Medan Barat* has determined the amount of target and realization of Income Tax Revenue based on existing taxation provisions. Hence, it can assist the measurement of NTI changes effectiveness towards the amount of Individual Income Tax received by the Tax Office. Therefore, based on this background, the writer is interested to conduct a research with the title:

“The Effectiveness of Non-Taxable Income Changes on Individual Income Tax Revenue in Kantor Pelayanan Pajak Pratama Medan Barat.”

1.2 Problem Formulation

Based on the background of study as stated above, the problem formulations of this research are:

1. How effective is Non-Taxable Income changes towards Article 21-Individual Income Tax Revenue at *KPP Pratama Medan Barat*?
2. How effective is Non-Taxable Income changes towards Article 25/29-Individual Income Tax Revenue at *KPP Pratama Medan Barat*?
3. How is the result of Non-Taxable Income changes towards the growth rate of Individual Taxpayers at *KPP Pratama Medan Barat*?

1.3 Research Focus

The problem which will be discussed in this final project is focusing on how effective Non-Taxable Income changes are towards Individual Tax Revenue. The data used for the research are the Article 21 & Article 25/29-Individual Income Tax Revenue and the number of Individual Taxpayers registered each year, which are collected ranging from the year 2014-2018. Article 21 and Article 25/29-Individual Income Tax are chosen as they are parts of Individual Income Tax which are directly related to Non-Taxable Income. In measuring the effectiveness of Non-Taxable Income changes towards Individual Tax Revenue, the realization of Individual Income Tax is compared with the target of Individual Income Tax each year and the result is shown in percentage. Also, the data related to the number of Individual Taxpayers are collected to measure the growth of Individual Taxpayers each year after the changes of Non-Taxable Income. In addition, the data collection regarding to the amount of Tax Revenue and Individual Taxpayers is conducted solely in *KPP Pratama Medan Barat* which is located at *Jl. Asrama No.7A, Sei*

Sikambing C.II, Medan Helvetia, Kota Medan, Sumatera Utara as it is able provide the information and data required for the research study.

1.4 Research Objective

The research objectives of the problem that has been formulated above are:

1. To identify the level of effectiveness on the changes of Non-Taxable Income towards Article 21-Individual Income Tax Revenue in *KPP Pratama Medan Barat*.
2. To identify the level of effectiveness on the changes of Non-Taxable Income towards Article 25/29-Individual Income Tax Revenue in *KPP Pratama Medan Barat*.
3. To analyze the result of Non-Taxable Income changes towards the growth of Individual Taxpayers in *KPP Pratama Medan Barat*.

1.5 Benefit of the Research

In this research, there are theoretical and practical benefits that can be useful for the parties as listed below:

1.5.1 Theoretical Benefit

There are several theoretical benefits that can be obtained from this research, which are:

1. For Author

This research is conducted as a means to implement the knowledge achieved in the university in real-world context and to improve scientific knowledge related to taxation, especially in the field of Non-Taxable Income and Individual Income Tax.

2. For Researchers and Academics

This research is expected to provide useful information that can be used as a reference for upcoming research and as a contribution to scientific knowledge development in the similar subject of research.

1.5.2 Practical Benefit

Besides theoretical benefits, there are also practical benefits that can be implemented by the parties listed below:

1. For Directorate General of Tax (DGT)

The research study can contribute as a decision making tool for Directorate General of Tax and Tax Officials in setting policies related to Non-Taxable Income and to increase domestic income through tax revenue.

2. For *Kantor Pelayanan Pajak Pratama Medan Barat*

This research contributes useful information for *Kantor Pelayanan Pajak Pratama Medan Barat* in order to increase the existing taxation potential through socialization towards Taxpayers. Also, the research provides input to *KPP Pratama Medan Barat* in the implementation of its tax administration.

3. For Taxpayers

This research presents information and input to Taxpayers in understanding and assessing the effectiveness of Non-Taxable Income Increment towards Individual Income Tax Revenue.

1.6 Systems of Writing

In order to provide a clear picture of the research conducted, systems of writing help readers understand the content of this research. The outline research is organized as below:

CHAPTER I: INTRODUCTION

This chapter explains about the background of the study that briefly describes the research topic regarding to Non-Taxable Income increment effectiveness towards Individual Income Tax Revenue in *KPP Pratama Medan Barat*, problem formulation, research focus, research objective, benefits of research, and systems of writing.

CHAPTER II: LITERATURE REVIEW

This chapter reviews the theoretical background, which includes general theories further narrowed to the focus of the research topic; previous research that is related to the problems that will be discussed in the research along with framework of thinking

CHAPTER III: RESEARCH METHODOLOGY

This chapter outlines the research design, describing what type of research methodology chosen, either quantitative or qualitative; research object that mentions the source of data such as books, documents, etc.; data collection method which provides information regarding to how the data are collected; and data analysis method implemented in the research.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter indicates the general description of the research object, delineates the results of data

analysis, and discussion about the results of data analysis regarding to the effectiveness of Non-Taxable Income changes towards Individual Tax Revenue in *KPP Pratama Medan Barat*.

CHAPTER V: CONCLUSION

This chapter provides the conclusion related to the result of the research, along with the implication and recommendation to related parties that might be implemented for future research.

