

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In this era of globalization, numerous countries start to expand and increase the development of their country, Indonesia is no exception. Indonesia has begun to build advancement in all regions. Of course, the development can run smoothly if supported by adequate funding. The government needs a source of state revenue to back-up all the development undertaken. One of the sources that contribute greatly to the country is tax. Tax determines the way the wheels of economy as it is today. A tax is levied to incur public expenditures for the benefit of the country. In other words, the tax receipts which already collected by the government from the society will actually return back to the society.

Tax revenue on the state budget from 2014 to 2019 is presented as follows:

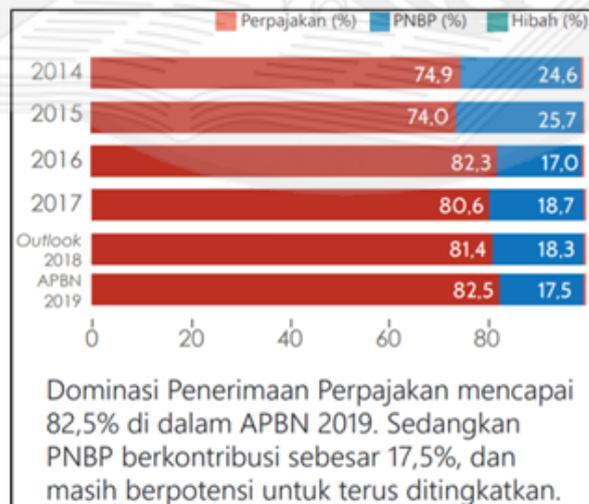


Figure 1.1 Tax Revenue on the State Budget (2014-2019)

Source: <https://www.kemenkeu.go.id/media/11226/buku-informasi-apbn-2019.pdf>

From the figure above, there is a huge difference between the percentage of fund derived from tax sectors and the percentage of fund derived from other sectors. In 2019, the percentage of fund derived from tax sector is 82.5% of total state revenue. While, from PNBPN only 17.5%. So, it is clearly shown that the largest contribution to the state revenue is derived from the tax sector, especially income tax. But in fact, there are still many people who keep on showing negative behaviour towards taxpayer compliance. As a result, there is an unsynchronization between what is expected and what is the realization.

Prakoso et al., (2019) point out that the issue of taxpayer compliance is one of the most important things in the whole world because in general taxpayers tend to avoid themselves from tax payments. Because of the importance of tax in shaping a decent government, it is likewise crucial to regulate the implementation of tax compliance or people's willingness to pay tax with the goal that government can enact to achieve its desired degree of compliance with the tax laws and the gap between expected social and economy in the public can be decreased.

Due to the fact that government expenditure is predominantly funded by revenue generated from tax, it is important to protect the country's tax base. The issue of compliance is an obstacle in maximizing tax revenue. Regardless of whether tax is base for the existence of the state, most taxpayers become unwilling to pay their tax obligations due to the presence of negative voluntary compliance attitude. There appears to be a gap between the tax that is theoretically collectable from economically active persons and the tax which is actually collected.

Hereby, brief information about the data that shows level of compliance

from 2016 to 2019 in Indonesia:

Table 1.1 Target and Realization of Revenue in 2016-2019

Year	Target	Realization	Compliance
2016	1.551.817.284.758.690	1.299.266.146.816.360	83,73%
2017	1.485.841.788.636.960	1.362.039.244.724.370	91,67%
2018	1.632.479.872.321.270	1.539.713.970.066.290	94,32%
2019	1.804.618.392.193.800	1.556.788.973.735.420	86,27%

Source: *Laporan Keuangan Kementerian Keuangan 2021*

The table above described that realization of tax revenue in 2016-2019 has never reached the target. The taxpayer compliance ratio also automatically never shows a full percentage from year to year. This percentage is based on the tax target set by the government. 2018 showed a realization of 1.539 trillion from 1.632 trillion, which is 94.32% of the target. Drastically decreased in 2019 with the realization of 1.556 trillion from 1.804 trillion, which is 86.27% of the target. Indonesia still has not maximized its tax income. Therefore it is necessary to evaluate the factors that affect taxpayer compliance. Thus, increase the contribution to the total amount of tax revenue.

In relation to the factors that influence taxpayer compliance, understanding tax mechanism has an important role. It is one of the ways to increase taxpayer compliance. Besides by giving understanding about tax mechanism, people themselves also need to learn about tax mechanism initiatively. In fact, there are still many misunderstanding about how taxes work which lead to non-compliance in paying taxes. Susyanti and Askandar (2019) argues that the lack of tax knowledge and understanding are the main detention in fulfilling tax obligations. Some people who do not understand tax mechanism will think they have to pay more taxes than they are supposed to pay. As the result, they are unwilling to pay taxes and feel that

tax is a burden. Thus, it is important to know how taxes work.

Data from Indonesia Investment (2020) shows that Indonesia is a country that comprises a diverse collection of cultures, languages, beliefs, and backgrounds. It is conceivable that these different population groups may have different perceptions of tax resulting from their backgrounds or even their political and social histories. These perceptions may, in turn, influence their attitudes towards taxpayer compliance. Mohammad (2017) in Sidik et al., (2019) explained that the perceptions of taxpayers which related to tax decisions, allow for more effective functioning of the tax system. In addition, the right perception of tax can help in minimizing tax avoidance.

Taxpayer compliance can also be increased through the imposition of tax sanction. The imposition of sanction would be burdensome for taxpayers. Therefore, the taxpayers then trying to meet expected action to avoid sanctions. According to Mardiasmo (2018), tax sanctions are a means of preventing taxpayers from violating taxation norms. The imposition of sanction aims to prevent taxpayer for not fulfilling their obligations.

Many studies have analysed factors that affect taxpayer compliance in performing their tax obligation. Triandani and Apollo (2020) stated that understanding of taxation has a significant effect, but tax sanctions have no significant effect on taxpayer compliance. Meanwhile, Handoko et al. (2020) concluded that tax knowledge has no effect on taxpayer compliance, but tax sanctions do affect. The other find that perception of taxpayer has no significant effect on taxpayer compliance (Dewi and Ginanjar, 2016). However, Prawagis et

al., (2016) reveals that tax perception does significantly affect taxpayer compliance.

There are many other studies investigating factors that affect taxpayer compliance. The previous studies show different and even clashing outcomes, making it hard to make a considerable conclusion. They are also conducted in different time periods and possibly in different legal context. Thus, it is necessary to synthesize and analyse previous relevant studies to generalize and to test the validity of a substantial body of study on this topic.

Therefore, the title for this study is **“The Effect of Understanding Tax Mechanism, Perception of Tax and Tax Sanction toward Taxpayer Compliance at *Kantor Pelayanan Pajak Pratama Medan Timur*”**.

1.2 Problem Limitation

1. The targets population of this study cover individual and entity taxpayers at *Kantor Pelayanan Pajak Pratama Medan Timur*.
2. This study data for taxpayer compliance is taken from 2016-2019.
3. In this study, the understanding of tax mechanism use some tax knowledge as the indicators, perception of tax use awareness that tax authority will not tolerate any offenses committed, services satisfaction, and know that tax evasion is prohibited as the indicators, tax sanction use fear of being subject to the sanction as the indicator, and taxpayer compliance use compliance in fulfilling tax obligation on time, honestly, completely, and correctly as the indicator.

1.3 Problem Formulation

The problem formulations of this study are:

1. Does the understanding of tax mechanism have a significant effect towards taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Timur*?
2. Does the perception of tax have a significant effect towards taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Timur*?
3. Does the tax sanction have a significant effect towards taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Timur*?
4. Do understanding tax mechanism, perception of tax, and tax sanction simultaneously have a significant effect toward taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Timur*?

1.4 Objective of the Research

The objectives of this study are:

1. To analyze the effect of understanding tax mechanism towards taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Timur*.
2. To analyze the effect of tax perception towards taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Timur*.
3. To analyze the effect of tax sanction towards taxpayer compliance at *Kantor Pelayanan Pajak Pratama Medan Timur*.
4. To analyze the simultaneous effect of understanding tax mechanism, perception of tax, and tax sanction toward taxpayer compliance at

Kantor Pelayanan Pajak Pratama Medan Timur.

1.5 Benefit of The Research

1.5.1 Theoretical Benefit

This study is expected to add understanding in the field of taxation, especially regarding tax mechanism, tax perception, and tax sanction. Thus, people will act accordingly in fulfilling their obligation.

1.5.2 Practical Benefit

This study is expected to be useful in adding knowledge, aware of the purposes and benefits of taxes so that it is more encouraging to fulfill taxpayer obligations. As the result, in the future, the writer or the reader are intrigued in complying with tax regulations. In addition, the study is also expected to be used as reference that guide further study about understanding tax mechanism, perception of tax and tax sanction toward taxpayer compliance.