

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The word “prosperity” has an excessive meaning. However, for one country to successfully reach prosperity for their country is through the increase in economic. Tax is one of the tools to increase the economic as well as the largest income source of a country. The prosperity which will be given to the citizens when a high tax revenue is earned, is in form of economic development. When a country earns a high amount of revenue, government will increase the amount of spending in many forms such as public facilities, transportations, etc. Vice versa, when revenue drops, spending will decrease. However, if government did not decrease the amount of spending while revenue drops, will cause foreign debt to rise. This is what Indonesia is facing now.

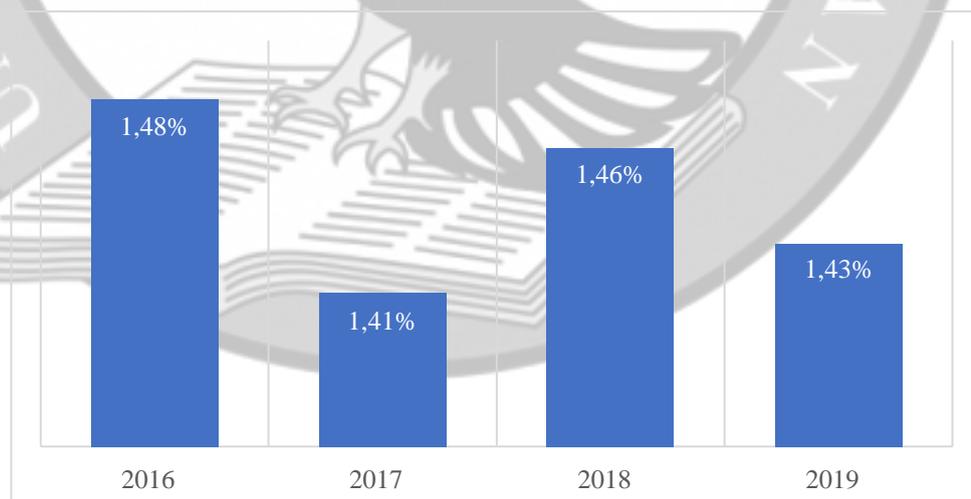


Figure 1.1: Tax Income Percentage Ratio 2016 - 2019
Source: *Badan Pusat Statistik* (2020)



Figure 1.2: Government Spending Percentage Ratio 2016 - 2019

Source: *Badan Pusat Statistik* (2020)

The statistical data above shows the ratio percentage of tax income and government spending in Indonesia from 2016 to 2019. The gaps exist between tax income and government spending is the foreign debt. On 2019, the World Bank in the report entitled International Debt Statistics (IDS) recorded that the amount of Indonesia's foreign debt reached US\$402.08 billion which is equal to IDR5.940 trillion. Therefore, it can be concluded that tax holds a great influence in economic growth.

Tax comes in many forms. There is income tax, corporate tax, estate tax, capital gains tax, death tax, inheritance tax, sales tax, excise tax, value-added tax, and many more. Paying taxes to finance national policy enterprises and investments are the central requirement of most societies and most of citizens successfully fulfill these expectations.

One of the corporate responsibilities is to pay tax. Indonesia applies self-assessment system which taxpayers are trusted to determine, calculate, pay, and

report the amount of tax liabilities in accordance with the existing laws. However due to this assessment system, problems during the calculation may arise.

Every company in Indonesia has a financial statement made at the end of every period which aims to determine the performance of a company, either they are manufacturers, service providers or distributors. Inside a financial statement, a company's profits and expenses are stated. The amount of profits earned, and expenses used will determine the net profit and represent the company's situation and condition. In addition, this report also states the amount of tax liability. This means that beside as a physical data, financial statement also acts as a communication media. Therefore, financial statement holds an essential pillar not only for future business plans, but also in gaining the trust in the eyes of public. It is that every company's dream to have the highest possible revenue along with the lowest cost and expense. It is too good to be true. Aside from the fact that taxes are used to improve one country's economy, tax is proven to be the most complicated expense to be determined. Along with the development of Indonesian taxation regulations is always dynamic and changed rapidly in accordance with the business climate and economic conditions. Until now, new regulations keep emerging and it narrows the chances of minimizing tax burden. This is where the chances of tax avoidance slipped in.

Tax avoidance is an action unintended by the tax law. To solve this frequent problem, a tax review is needed. Through tax review, the negative impact such as miscalculation in payment and reporting tax payable might be found. This method helps to avoid tax sanctions to further cases like tax audit. In general, tax

review is done by the accounting department of the company. In some cases, companies involve external parties with have a better understanding in the taxation laws to interfere with the tax review.

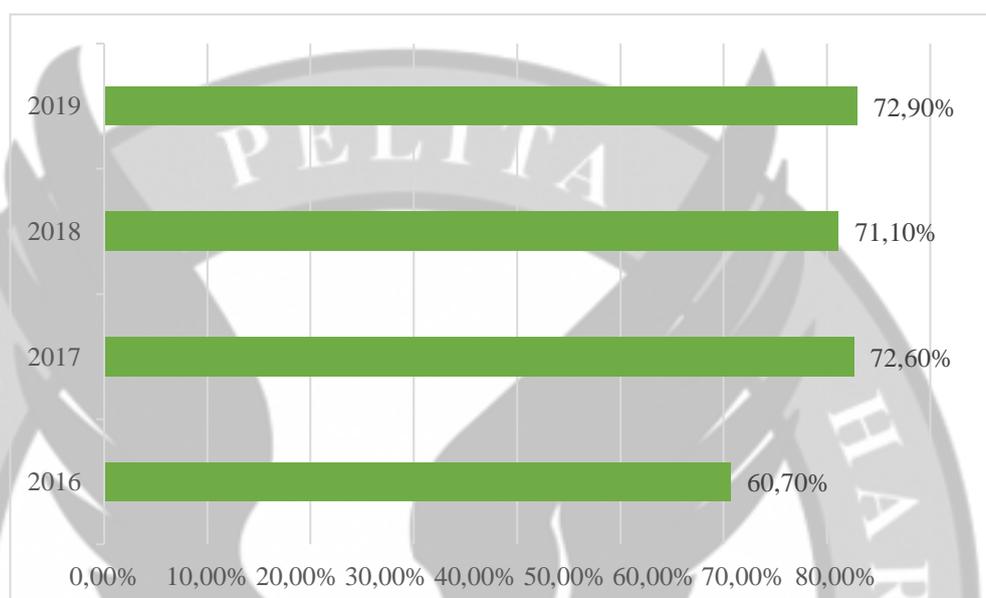


Figure 1.3: Indonesia Tax Compliance Ratio 2016 - 2019

Source: Mahadi (2021)

The chart above shows the tax compliance ratio from 2016 to 2019. The Director General of Tax stated the tax compliance percentage in reporting tax return. The authorities mentioned that out of 19 million taxpayers, only 11,46 million of them who are compliant with paying taxes. This proof shows that despite companies having accounting departments and/or consultants that help them in reporting tax return, the level of tax compliance is not high enough compared to the Organization for Economic Co-operation and Development (OECD) standards, which is 85%.

According to the previous research made by Leny Rismawaty and Indra Wijaya (2017), PT. Indo discovered through tax review that there was an underpayment of Rp. 26,880,210.

Another research made by Sheren (2020), PT. Anugerah Prima Sejati was able to decrease the amount of tax payable through other method in the calculation of employee's Article 21 as deductible expenses.

In this thesis, similar research will be conducted in PT. Wahana Jaya Raya. The private company is a household appliance and furniture's wholesalers. During 2019, PT. Wahana Jaya Raya reported loss in the Annual Entity Income Tax Return. Meanwhile in 2018, the company generated profit. This research will examine PT. Wahana Jaya Raya's financial statement and income tax calculation to discover whether the company suffer loss in accordance with Income Tax Law and Regulation. This research will also analyze the company's compliance, potential miscalculations, and sanctions along with benefits of tax review through the research entitled "**Entity Income Tax Review at PT. Wahana Jaya Raya.**"

1.2 Problem Formulation

How do PT. Wahana Jaya Raya implement Indonesia Income Tax Law and Regulation?

1.3 Research Focus

This research focus is on the period of 2018 and 2019.

1.4 Objective of The Research

Analyze how PT. Wahana Jaya Raya implement Indonesia Income Tax Law and Regulation.

1.5 Benefit of The Research

This research is expected to give significant impact and contribution to the writer, company, and future reference users. The benefit of this research is divided into theoretical and practical benefit. Theoretical benefit is based on theory and ideas while practical benefit is based on field practice.

1.5.1 Theoretical Benefit

The theoretical benefits of the study might be as follow:

1. To gain information and understanding on the procedures of tax review to minimize the possibility of additional sanctions that might occur in the company in the future.
2. To be a reference for future research with similar topics.
3. To enhance the awareness of the tax procedures and regulations enforced during the tax review.

1.5.2 Practical Benefit

The practical benefits of the study might be as follow:

1. To give insights to PT. Wahana Jaya Raya on the importance of performing tax review to minimize the possible sanctions and increase level of compliance.
2. To have deeper understanding on the taxation regulations and procedures that are applied in Indonesian taxation laws for the writer.