

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxes play a significant role in the economic development in Indonesia. “Taxes cover the main portion of Indonesia's state budget. Taxes also determine Indonesia’s economic and trade stability. It is due to this fact that the compliance level of taxpayers for fulfilling their tax obligation is very important.” (Suryadi et al., 2016).

Mardiasmo (2018) stated that, “There are two functions of taxes. Taxes are a source of funds for the government to finance all expenditures (Budgetair), and to regulate or implement government policies in social and economic fields (Regulerend)” (p.4). Every taxpayer may be subject to tax penalties if they fail to recall the date of payment and tax reporting, postpone their tax payments, and conceal their data.

In continuation of the preceding statement, Sri Mulyani, Minister of Indonesia Finance, stated that failure to optimize tax income would drive away from the goals of creating a fair and prosperous environment for Indonesian citizens because the role of tax is an essential means of ensuring a country's well-being (Fauzia, 2018).

She also reported that tax revenue was realized at IDR 1,070 trillion in 2020. This represents a 19.7% decrease from the total achieved in 2019, which was IDR 1,332.7 trillion. The achievement of tax revenue was only able to meet

89.3% of the tax revenue target set at IDR 1,198.8 trillion as stated in Presidential Regulation Number 72 in 2020 regarding the posture of the 2020 State Budget (Santoso, 2021).

According to Teapriangga (2021), the beginning of each year becomes the reporting season for the annual tax return. The Directorate General of Taxes certainly uses this time as momentum to improve formal compliance as measured by the annual tax return reporting from taxpayers.

Table 1.1. Compliance ratio for submitting annual tax returns for the last 5 years

	2016	2017	2018	2019	2020
% Target Ratio	72.5%	75%	80%	85%	80%
% Realization Ration	61%	73%	71%	73%	78%
The number of citizens must report annual tax return	20,16 million	16.60 million	17.65 million	18.33 million	19.00 million

Source: Teapriangga (2021)

From the data above, it can be seen that the realization ratio of reporting tax annual return never meets the target from the past 5 years. Therefore, tax compliance level in Indonesia still needs to be strengthened in order to meet the target amount. The highest number of citizens that report their annual tax return are only in 2016 and drop drastically in 2017 then increase slowly in the following year until 2020.

Indonesian government issued the latest General Provisions and Tax Procedures using the Self-assessment system. The implementation of the Self-assessment system in Indonesia shows that the government puts trust in the taxpayers, whether they are individual or entity taxpayers, to fulfill and carry out their tax obligations and rights. The taxpayers register, calculate, pay, and report the amount of tax payable themselves to the Tax Service Office or also through

the online administration system that has been formulated by the government.

“The main point of the effective Self-assessment system is to boost the moral honesty from the people. This system can simplify the procedure of tax collection and increase the compliance level of the individual taxpayer.” (Osman, 2011 in Wadesango, 2018). This system was drafted by the government with a goal in increasing the compliance level of taxpayers in Indonesia, considering the government has given such freedom to the taxpayer to implement all tax payment processes. However, the drawback of this system is that there is a high chance of the taxpayers to manipulate the calculation of the tax amount. This is considered as a fraud as well as a violation of the taxation law in Indonesia. The violators will be punished accordingly to the taxation law.

Tax knowledge is required for the taxpayers to understand their own income taxes. Both individual and entity taxpayers must recognize the regulations and provisions for reporting taxes, calculating the correct amount of income tax payable, and paying the tax payable as well. It is required for the taxpayers to bear in mind that sanctions are given to them if they do not report or pay taxes according to the taxation provisions. If the taxpayers do not understand the tax payment processes, they could seek help from tax consultants or the nearest tax service office, or they could look for information on the internet. There is a vast amount of information about tax knowledge and its explanations provided by the Indonesian government.

The taxpayer's awareness in paying taxes on time and reporting with the exact amount of tax is an obligation in Indonesia which involves knowledge and confidence. The reason is to find out whether the tax compliance level is increased or decreased. Without a great knowledge of the meaning, functions, and purpose of tax payments, taxpayers will not understand the importance of how tax payments support the Indonesian State's finances. A taxpayer is allegedly to have tax awareness if they grasp the tax knowledge, obey all taxation regulations, and have sincerity without any compulsion factors to fulfill their obligation as a taxpayer to pay taxes will increase the tax compliance level.

From the previous research conducted by Diantimala (2018), tax knowledge, self-assessment system, and tax awareness have a significant positive effect towards tax compliance. Another research done by Damajanti & Karim (2017) stated that tax compliance can be improved with a proper understanding of tax regulations. Siregar (2017) stated that tax awareness has a positive effect on the compulsory compliance tax. However, according to Yulia et al. (2020) and Lestari & Wicaksono (2017), tax knowledge has no significant positive effect towards tax compliance, but taxpayer awareness has positive impact.

Based on the previous research stated above, the writer is motivated to perform a research towards tax compliance at a private company in Medan to act as comparison for the same factors which are the application of self-assessment system, tax knowledge and tax awareness. The purpose is to analyze whether these variables can have a significant effect on the taxpayer's compliance.

In this research, the writer focuses on PT. Pasar Swalayan Maju Bersama, which main office is located at Jl. K.L Yos Sudarso No. 338, Medan. This company has been operating since 1989 and holds on 14 branches of supermarket expanding across Medan. The total number of employees working at PT. Pasar Swalayan Maju Bersama are 600 people.

Now, PT. Pasar Swalayan Maju Bersama have developed along with the technology by increasing shopping efficiency, especially in this pandemic, they launched a website that is easily accessible with smartphones.

To measure the compliance for individual taxpayers at PT. Pasar Swalayan Maju Bersama, the writer would like to conduct a questionnaire to do the research for the employee and examine their compliance in paying taxes with the title of **"The Perception of Self-Assessment System, Tax Knowledge and Tax Awareness Toward Tax Compliance on Individual Taxpayers Working at PT. Pasar Swalayan Maju Bersama"**

1.2 Problem Limitation

The limitation that the writer faced in this research is because it only focusing on tax, so not all of the employees in this company can answer the questionnaire given by the researchers. The objects are limited to the individual taxpayers that worked in PT. Pasar Swalayan Maju Bersama. This research is limited to three independent variable which are Reporting tax with Self-assessment System, Tax Knowledge and Tax Awareness while the dependent variable is Tax Compliance.

1.3 Problem Formulation

The problem formulations that the writer has found are as follows:

1. How is the implementation of Self-assessment system by the individual taxpayer at PT. Pasar Swalayan Maju Bersama affect the tax compliance?
2. How is the understanding of the individual taxpayer at PT. Pasar Swalayan Maju Bersama about the importance of reporting and paying taxes affect the tax compliance?
3. How does the awareness of the individual taxpayer at PT. Pasar Swalayan Maju Bersama affect the tax compliance?

1.4 Objective of the Research

Some objectives of the research are as follows:

1. To find out is there any significance influence in implementing the Tax Self-assessment system for the individual taxpayer compliance at PT. Pasar Swalayan Maju Bersama.
2. To identify the significance influence of tax knowledge from each of the individual taxpayer compliance at PT. Pasar Swalayan Maju Bersama.
3. To analyze the significance of influence of tax awareness of the individual taxpayer toward the tax compliance at PT. Pasar Swalayan Maju Bersama.

1.5 Benefit of the Research

The benefits in conducting this research are as follows:

1.5.1 Theoretical Benefit

The results of this research will benefit in its academic field, which are:

1. To provide more knowledge about the government's latest General Provisions and Tax Procedures in using the Self-assessment system.
2. To elaborate the effect of implementing the Self-assessment system, tax knowledge and tax awareness of individual taxpayers towards the tax compliance and the relationship between those variables, in detail.
3. To become a reference of information for researchers in this topic.

1.5.2 Practical Benefit

The practical benefits for this research are:

1. For the writer, a vast amount of new knowledge and information will be apprenticed from the detailed explanation of the Self-assessment system, tax knowledge and tax awareness of individual taxpayers towards the tax compliance level.
2. From the results of the questionnaire, the company will realize their employee compliance level in paying tax.
3. For researchers, this research will be the references for those who are in a similar field of study.