

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In today's world, business world is changing rapidly, unexceptionally the plantation sector. The development of business world is characterized by increasingly intense competition, this is marked by the emergence of companies engaged in this sector competing to continue to improve the quality and the sustainability of the company. With increasingly intense competition, this encourages and requires companies to focus on deciding on the achievement of sales volume, selling price, tariff policies and applicable Value Added Tax regulations.

Over a decade, Indonesia is the world's largest palm oil producer. Indonesia is the country that have the largest oil palm plantations and developing located in 25 provinces out of 34 provinces.

Table 1.1 Production of Indonesia Oil Palm by Category of Producers

Year	Smallholders		Government Estate		Private Estate	
	Ton	%	Ton	%	Ton	%
2016	11,575,542	36.8	1,887,999	6	18,024,445	57.2
2017	13,191,189	37.8	1,861,263	5.3	19,887,837	56.9
2018	13,999,750	38.3	2,100,708	5.7	20,494,355	56

Source: Statistics Indonesia (2019)

According to the data from Statistics Indonesia or known as *Badan Statistics Indonesia*, which is shown in the table of 1.1, the total production of palm oil past

five years has grown even though in 2018 is still preliminary data and for 2019 is still not available yet. This oil palm production which dominated by private estate and followed by smallholders and government estate that have succeeded in bringing Indonesia to palm oil exporting countries in the international market, since CPO is one of the main sources of vegetable oil in the world, as well as one of the plantation commodities that has an important role in global economic, especially in the main producing countries.

The potential for the sales of palm oil in Indonesia is more inclined to the international market than the domestic market. Statistics Indonesia reports total export of palm oil from 2014 to 2018 had increased from 2.07 to 19.45 percent per year. In 2014 the total export volume reached 24.37 million tons with a total value of around US \$ 19.01 billion, although in 2016 it had decreased to 13.96 percent compared to the previous year, but for the following years started increase again such in 2018 reached 29.67 million tons with a total value of US \$ 18.23 billion. More than 70 percent of total production of palm oil (CPO) are exported to international markets, such as India which is the main export market, Uni Europa, and China, and other countries.

Due to the demand for palm oil in the international market is increasing rapidly, the Indonesian palm oil sector contributes more than 15 billion dollars in annual revenues to total exports or about 3% of Indonesia's GDP.

Otherwise, the volume of palm oil imports in 2014 to 2018 was very unstable. In 2014 the total volume of palm oil imports amounted to 299 tons with a

value of US \$ 394 thousand, then in 2015 a drastic increase of 2.4 percent from last year. Even until 2016, 2017 and 2018 were showing continued decline.

Not only maintaining in the plantation process, business strategy adaptation and innovation are needed in every situation, whether in terms of technology, capital, market, and competition. Every company is competing in attract consumers by implementing appropriate strategies to reach the sales volume. The company must be able to set and implemented the selling price at competitive prices balanced with value added tax. In addition, the economic crisis has caused companies to be highly competitive in terms of selling prices. To achieve the maximum of sales volume, companies must be able to set the right pricing policy so that market demand continues to increase despite the imposition of value added tax.

All companies are generally established with the aim of making a profit by providing goods or services that meet market needs. Profits can be obtained if the company can achieve maximum sales volume. Sales volume is one of the determining factors that are very influential on the achievement of net profit, profit is an important thing for the survival of a company, which means the company must strive to create profitable sales volumes. The higher of sales volume, the more profit is obtained, thus the company will be able to survive, grow and develop further, and resilient in overcoming the effect of environmental factors that are constantly changing.

This research is conducted at PT. Socfin Indonesia, as one of the major private Palm Oil and Rubber plantations in Indonesia that established since 1930 with the first name of the company is Socfindo Medan SA (Societe Financiere Des

Caulthous Medan Societe Anoyne). Additionally, PT. Socfin Indonesia is one of the oil palm plantations that have the best productivity in Indonesia which consistently maintained the commodities quality and keep on innovating.

Therefore, tax revenue in the plantation sector, more precisely the palm oil industry is a very comprehensive industry. All yields produced from palm raw materials provide benefits for the country because it can generate revenue for the country through tax revenue.

According to *Kajian Sistem Tata Kelola Komoditas Kelapa Sawit 2016* prepared by Corruption Eradication Commission, in 2015, Palm oil sector contributing around Rp. 22.2 trillion which 2.1% of the total tax revenue with the tax ratio 6-7% where the palm oil ratio is expected to be 11-12%. In 2018, tax revenue from the palm oil sector is still the same amounted at Rp. 20 trillion annually. Therefore, Directorate General of Taxes seeks to improve tax contributions from the palm oil sector. (Corruption Eradication Commission)

Besides that, Minister of Finance reported in Financial Note and the 2019 State Budget Indonesia presents Value Added Tax revenues is still the second largest source of Tax revenue which contributed up to 37.3 percent to 37.6 percent. Table 1.2 shows Value Added Tax revenue for the year 2014 to 2015 have increased. Even though, in 2016 revenue declined but increased significantly in 2017 and 2018.

Table 1.2 Value Added Tax Revenue

Year	VAT Revenue (In Millions)
2014	Rp. 443,560,662
2015	Rp. 461,709,396
2016	Rp. 459,296,297

2017	Rp. 533,208,663
2018	Rp. 602,009,741

Source: Minister of Finance (2019)

Value Added Tax as the scope of objective tax that obligation to pay taxes by consumers, both individuals and entities. Every sale and purchase activity are inseparable from Value Added Tax. The amount of sales or purchases can affect tax payable, which makes how small or large the sale or purchase of goods or services will affect the amount of the Value Added Tax payable. Value added tax which is characterized by an indirect tax that is imposed on each transaction of the delivery of taxable goods or taxable services in the inputs of producing, distributing, and trading goods or services from producer to consumer. Indirect tax is an expense that is borne by consumers as VAT subject but through a tax collection mechanism and paid by the seller. Therefore, when the seller that receive the decree as the Taxable Entrepreneur, each delivery of taxable goods or services to the consumers must be charged to standard rate of Value Added Tax of 10% (ten percent) on each good and service.

Thus, if the company sets a selling price that is too high after adding the government's stipulation on the taxable value of taxable goods and taxable services, then consumers will prefer other similar companies' products at lower prices after adding up the value added tax rates. But if the company sets a selling price that is too low, the company will soon reach the sales volume target, but the result is the decreasing in profits earned by the company and on the value added tax side will increase the selling price in addition of 10% tax rate. Where companies should

make the expenditure regarding incur costs to fulfill the production process of crude palm oil (CPO) which will affect the higher input tax figures and low output tax figures because the selling price set by the company is very low. When transaction occurs, value added tax will be related and cannot be avoided.

Therefore, the researcher chose to conduct the research at PT. Socfin Indonesia with sales volume and value added tax as the variables studied as well as crude palm oil (CPO) as the object of research. Based on the fact, data, and explanation above, the researcher chose the title of **Analysis the Effect of Sales Volume of Crude Palm Oil (CPO) towards Value Added Tax on Indonesian Palm Oil and Rubber Industry (Empirical Study in PT. Socfin Indonesia).**

1.2 Problem Limitation

Based on the background of study, the problem limitation is sales of crude palm oil (CPO) and the recapitulation of output value added tax of PT. Socfin Indonesia in the period 2016 to 2019. This research will be conducted to examination the problem solution. Afterward, the result of hypothesis can provide the information regarding sales volume of crude palm oil and value added tax concerning the effect between two variables.

1.3 Problem Formulation

The problem formulation can be divided into primary problems and minor problems. According to the limitation problem, here are the problem formulation that have found during the research:

1. Does Sales Volume of Crude Palm Oil (CPO) have a significant effect towards Value Added Tax in PT. Socfin Indonesia period 2016-2019?
2. How is the relationship between the activity of Sales Volume of Crude Palm Oil as the most sold commodity and Value Added Tax in PT. Socfin Indonesia period 2016-2019?

1.4 Objective of The Research

The objective of the research which makes to solve the problem that has been found out in this study of the influence of Sales Volume of Crude Palm Oil (CPO) to Value Added Taxes, which are:

1. To define the effect of Sales Volume of Crude Palm Oil (CPO) to Value Added Tax of PT. Socfin Indonesia period 2016-2019.
2. To examine the relationship of Sales Volume of Crude Palm Oil (CPO) as the most sold commodity in Value Added Tax of PT. Socfin Indonesia period 2016-2019.

1.5 Benefit of The Research

According to the objective and problems that have been found out during this study of the effects of sales volume of crude palm oil (CPO) towards value added taxes, here are the two types of the benefit research, which are:

1.5.1 Theoretical Benefit

Theoretical benefit of this research is to prove the effect and relationship between the effectiveness of the company operations regarding the application of

sales volume of crude palm oil (CPO) and Value Added Tax in accordance with the VAT Law No. 42 of 2009. Hopefully, this study can provide benefits in gaining the knowledge and insight, be useful input to readers also can be a good reference material for those who carry out further research related sales volume and value added tax.

1.5.2 Practical Benefit

Practical benefit of this research is that it helps in improving those individuals who really want to bring improvement in those practices regarding the topic of sales volume, crude palm oil and value added tax and will becomes aware of the situation whether it brings a good impacts and bad impacts. Also, the benefits for the company will provide a brief explanation of the contribution of sales volume of crude palm oil (CPO) to value added tax and the results of this research will be able to gives some input to the company, such as which objects should be improved and maintain.