

CHAPTER I

INTRODUCTION

1.1 Background of the Study

In the point of view of economist, tax is the transfer of non-fine resources from the private sector to the public sector which collected based on the predetermined basis and without stated the benefits to be offered. The existence of taxes could cause two situations to change. The first situation, the reduction of the individual ability to control the resources for the interest of mastery of goods and services. And second situation, increase the financial capacity of the country in providing the goods and public services which are the needs of the citizen of Indonesia.

From the legal approach shows that the tax collected must be based on the provisions so that to guarantee the legal certainty, both for the tax authorities as the tax collector and the taxpayer (individual and entity) as the taxpayer. Tax has become one of the important sources of revenue that would be used to pay the state daily expenses or national development for the related country. The amount of tax is being collected from the citizen of Indonesia and has become the obligation which can be collected. Therefore, as the tax contribute a large portion of state revenue, the governance of Indonesia stimulates the efforts and innovations in order to maximize the state revenue from all the source of revenues.

According to UU No.28 Year 2007 about the General Provisions and Tax Procedures, “tax is mandatory contribution to the country owned by the individual or entity and enforceable based on the provisions, by not getting direct reward and used for the needs of the country to maximize the prosperity of the citizen of Indonesia”.

Aside from that, Indonesia as a sovereign state has the authority to regulate the tax with the respect of individuals, goods, or objects within the country (Indonesia’s realm). Indonesia has the jurisdiction (right to regulate) to collect and ask for the tax contribution of its citizen based on the legal authority. And the source the taxation’s right of Indonesia comes from sovereignty of the country.

In Indonesia, as the tax become the main source of revenue for the state financing activity means that the amount of tax received by the country could influence the country financial condition (for the country). While for the taxpayer, pay the taxes has become the burden.

Tax is collected based on the legal norms to cover the cost of production for the collective goods and services to achieve the general welfare. The rejection to pay, the evasion, or the resistance to the taxes are generally classified as the violation of the law.

Aside from the source of revenue for the national development, tax become one of the media for the citizen income distribution. In the long-term period, the citizen of Indonesia could enjoy the effect of the development done by the government.

Most of the countries in the world would still collect the taxes from the citizen, unless for those countries with the rich of natural resources will not charge and collect the taxes as the main source of revenue for the country. In the modern system of taxation, the government collect the taxes in form of money but the payment in *natura* or the work of tax are the characteristic of traditional taxes or pre-capitalist and the equal functions. The taxation system and the government expenditure on the tax revenue become the topic that often being debated in the context of politics or economy.

According to Smith in (Simamora, 2012) : VAT is tax on value added by a firm to its products in the course of its operation. Value added can be view either as the difference between firm's sales and its purchase during an accounting period or as the sum of its wages, profit, rent, interest, and other payment not subject to the tax during that period.

That is the inputs (the raw material, transport, rent advertising, and soon) are bought, people are paid wages to work on these inputs and, when the final goods and service is sold, some profit is left. So, value added can be looked at form the additive side (wages plus profit) or the subtractive side (output minus inputs). In the submission of taxable goods and services done by the taxable person would be subjected to value added tax. The tax provision of value added tax is UU No. 42 Year 2009, as the third amendment of UU No. 8 Year 1983 regarding the Value Added Tax Goods and Services and Salas Tax on Luxury Goods. During the transaction of taxable goods and services, the taxable person (individual or entity) would be subjected to value added tax rate with the tax based.

The company, which already registered as taxable person, have to pay Input Tax for every purchase transaction of taxable goods. The taxable person could collect Output Tax as the submission of taxable goods and or services (in the process of selling).

Ever since the Dutch colonial era, palm oil plantation in Indonesia has been expanding year by year. The total area of palm oil plantation in Indonesia has been increasing during the last 5 years with the average growth around 2.77 percent up to 10.55 percent per year. In 2018, the total area of palm oil plantation in Indonesia reach 12.76 million ha which has been increase by 3.06 percent.

Table 1.1 Total Classification Area of Palm Oil Plantation in Indonesia (ha) in 2000-2018

Year	Category of Producer			Total Area (ha)
	Area of Government Estates	Area of Private Estates	Area of Smallholders	
2000	588,125	2,403,194	1,166,758	4,158,077
2001	609,943	2,542,457	1,561,031	4,713,431
2002	631,566	2,627,068	1,808,424	5,067,058
2003	662,803	2,766,360	1,854,394	5,283,557
2004	674,983	2,821,705	2,220,338	5,717,026
2005	677,792	2,915,634	2,356,895	5,950,321
2006	692,204	3,056,248	2,536,508	6,284,960
2007	685,087	3,416,656	2,752,173	6,853,916
2008	626,666	3,825,142	2,881,899	7,333,707
2009	651,216	4,236,761	3,061,412	7,949,389
2010	658,492	4,503,078	3,387,258	8,548,828
2011	692,065	4,657,751	3,782,480	9,132,296
2012	734,077	5,261,624	4,137,621	10,133,322
2013	727,767	5,381,166	4,356,087	10,465,020
2014	729,022	5,603,414	4,422,365	10,754,801
2015	743,894	5,980,982	4,535,400	11,260,276

2016	707,428	5,754,719	4,739,318	11,201,465
2017	638,143	6,047,066	5,697,892	12,383,101
2018	593,619	6,356,182	5,811,785	12,761,586

Source: Catalog BPS-Statistic Indonesia Data, (2018) p.17

The area of palm oil plantation spreads within 25 provinces in Indonesia which are Sumatra and Kalimantan Island, West Java, Banten, Central Sulawesi, West Sulawesi, South Sulawesi, Southeast Sulawesi, Gorontalo, Maluku, Papua, and West Papua. And the largest area of palm oil plantation in Indonesia is located in Riau with the total area around 2.21 million ha or 17.84 percent from the total area of palm oil plantation in Indonesia in 2017.

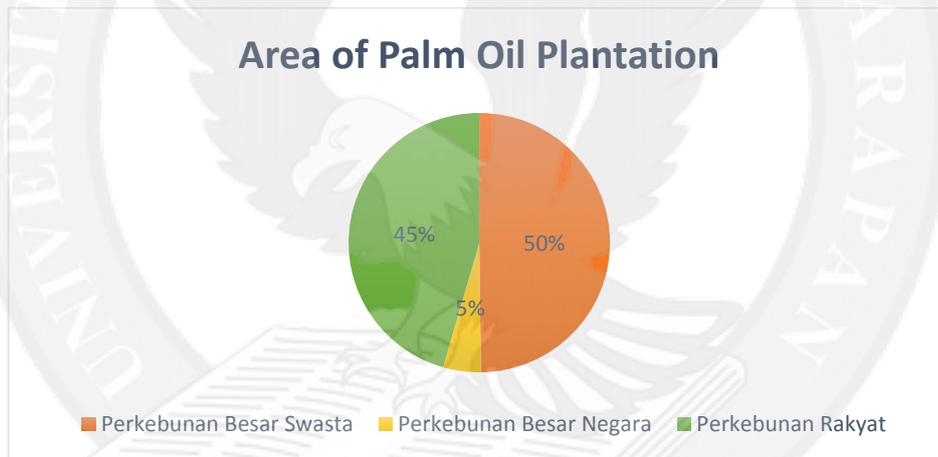


Figure 1.1 Percentage of Total Area of Palm Oil Plantation Based on Status of Ownership on 2018

Source: ("Indonesian Oil Palm Statistics," 2019)

According to data from *Badan Pusat Statistik* as show above, the percentage of ownership of the total area of palm oil plantation divided into 49.81% of private large-scale plantation, 45.54% of people's core plantation and the rest of 4.65% of estate large-scale plantation.

The government realize that the production of crude palm oil (CPO) is getting increase as well as the area of palm oil plantation in Indonesia. The government try to develop the industrial sector especially palm oil industry in order to support and boost up the economic condition in Indonesia.

Table 1.2 Total Area of Palm Oil Plantation in every province in Indonesia (ha)

No.	Province	Year				
		2016	2017	2018	2019*)	2020**)
1.	Aceh	370,079	534,245	494,229	500,118	508,862
2.	Sumatra Utara	1,342,523	1,706,135	1,551,603	1,601,901	1,630,774
3.	Sumatra Barat	378,440	478,317	379,601	384,477	390,554
4.	Riau	2,012,951	2,703,199	2,706,892	2,808,668	2,850,003
5.	Kepulauan Riau	7,409	23,714	7,875	8,012	8,189
6.	Jambi	663,500	887,795	1,032,145	1,070,723	1,086,623
7.	Sumatra Selatan	901,682	1,164,667	1,137,642	1,178,104	1,196,915
8.	Kepulauan Bangka Belitung	232,214	263,343	224,514	229,559	234,136
9.	Bengkulu	285,096	360,448	311,807	314,493	319,027
10.	Lampung	199,470	259,339	201,612	203,674	207,031
11.	DKI Jakarta	-	-	-	-	-
12.	Jawa Barat	17,294	17,420	15,676	16,003	16,413
13.	Banten	19,448	20,258	19,336	19,949	20,339
14.	Jawa Tengah	-	-	-	-	-
15.	DI Yogyakarta	-	-	-	-	-
16.	Jawa Timur	-	-	-	-	-
17.	Bali	-	-	-	-	-
18.	Nusa Tenggara Barat	-	-	-	-	-

19.	Nusa Tenggara Timur	-	-	-	-	-
20.	Kalimantan Barat	1,264,435	1,504,787	1,815,133	1,864,635	1,904,015
21.	Kalimantan Tengah	1,288,128	1,480,988	1,640,883	1,675,753	1,714,660
22.	Kalimantan Selatan	553,144	587,799	542,420	552,569	564,632
23.	Kalimantan Timur	1,021,314	1,059,990	1,434,485	1,461,168	1,492,934
24.	Kalimantan Utara	50,347	249,952	155,154	159,379	162,747
25.	Sulawesi Utara	-	-	-	-	-
26.	Gorontalo	5,992	17,280	10,049	10,390	10,566
27.	Sulawesi Tengah	158,187	188,534	134,856	139,050	144,652
28.	Sulawesi Selatan	55,707	64,498	48,766	50,565	51,339
29.	Sulawesi Barat	150,309	188,648	167,518	173,855	176,387
30.	Sulawesi Tenggara	69,029	71,129	74,872	76,639	78,434
31.	Maluku	10,054	12,531	11,117	11,376	11,645
32.	Maluku Utara	-	5,525	-	-	-
33.	Papua	85,033	112,638	157,223	160,927	164,709
34.	Papua Barat	59,680	85,543	50,912	52,432	53,454
Total Area in Indonesia		11,201,465	14,048,772	14,326,350	14,724,420	14,966,010

Source: Directorate General of Estate Data

Note: *) Preliminary Figure

***) Estimation Figure

From the table above shows that the total area of palm oil plantation in every provinces in Indonesia have been expanding for every year. Though, most of the

province were doing the expansion but still there are some provinces which the development of plantation area is unstable due to certain factors.

Tandan Buah Segar (TBS) is the main raw material for processing palm oil into crude palm oil. Mostly for the minimum area of 4000 ha, the company already have the processing plant (*pabrik pengolahan*). The implementation of value added tax upon palm oil company is classified into two conditions:

1. The company, which own the private area of palm oil plantation and the private processing plant for crude palm oil, is categorized as **the integrated** palm oil company. The final product of integrated palm oil plantation is Crude Palm Oil and its derivatives.
2. But if the company **do not have the processing plant** for crude palm oil and mostly the company would 'allocate' the TBS (*Tandan Buah Segar*) into other company which own the processing plant to be processed into Crude Palm Oil (CPO). And the company is categorized as **unintegrated** palm oil company with the final product of TBS (*Tandan Buah Segar*) only.

On 2007, the government released PP No. 31 Year 2007 regarding the Import and or the Submission of Certain Strategic Taxable Goods that Exempt from the Imposition of Value Added Tax. By releasing this regulation, the government was trying to confirm that the submission of agriculture, plantation and forestry products (as well as TBS) is categorized as strategic taxable goods which the submission is exempted from the imposition of value added tax.

The government has been regulated regarding the calculation of crediting Input Tax for the taxable person who conduct the submission of goods and services that are taxable and or non-taxable. And the tax policy upon the integrated industry has been formulated and stated in *Peraturan Menteri Keuangan* (PMK) No. 78/PMK.03/2010. But then, these guideline for the integrated and unintegrated palm oil entrepreneur arise dispute between the government and the entrepreneur related of the implementation of the policy.

According to the perspective of government, every subject of tax who conduct the same business activities would be given the same treatment of tax. Therefore, the Input Tax for obtain TBS (*Tandan Buah Segar*) could not be credited for those parties such as farmer, the community of farmer, palm oil entrepreneur who conduct the submission of TBS (*Tandan Buah Segar*).

The implementation of PMK No.78/PMK.03/2010 is contradicting for the entrepreneur of integrated palm oil plantation with Crude Palm Oil (CPO) as the final product. Every business activity which subjected to value added tax could be consider as “the submission” if there is an exchange of ownership between two different parties. In the integrated palm oil company, there is only exchange between two divisions when TBS (*Tandan Buah Segar*) is being processed into Crude Palm Oil (CPO) in the processing plant. As the plantation and the procession plant is included in one entity, so there is no exchange of ownership occur. The government has decided that the TBS classified as strategic taxable goods in which the submission is being exempt from value added tax.

But then, Supreme Court (*Mahkamah Agung*) was considering the implementation of PMK No.78/PMK.03/2010 contradict with the UU No. 42 Year 2009. By collecting the feedback from the entrepreneur of the integrated palm oil plantation, the government realize that the implementation of PMK No.78/PMK.03/2010 could not solve the dispute of the crediting system of Input Tax for obtain TBS (could not be credited). The Minister of Finance try to amendment the regulation by releasing PMK No.21/PMK.011/2014 and inserting additional Arc. 2A from the previous policy (PMK No.78/PMK.03/2010) on 30 January 2014.

With the enactment of PMK No. 21/PMK.011/2014, there is no longer a dispute between the taxpayers of palm oil entrepreneurs with the Directorate General of Taxes regarding the calculation of Input Tax for the palm oil industry. But then, the Ministry of Finance released the second amendment of PMK No.21/PMK.011/2014 into PMK No.135/PMK.011/2014 on 18th June 2014.

By referring to these policy, integrated palm oil industry which already registered as taxable person with business turnover with more than 4.8 billion in one fiscal year could use the policy as the guideline for crediting input tax for the submission of taxable goods (collect value added tax-in of 10%).

PT Socfin Indonesia is registered as an agribusiness company that focuses on palm oil and rubber plantations industries. The company is a foreign company from Belgium. The head-quarter office is located at Jalan Kolonel Yos Sudarso No. 106, 20115, Medan, North Sumatra, Indonesia.

There are 14 processing units or plantation areas under PT Socfin Indonesia that are located in Medan (10 units) and Nagroe Aceh Darussalam (4 units). The total productions of palm oil are 196. 814 tons, while total productions of rubber are 13. 573 tons.

PT Socfin Indonesia is a plantation industry that processes the commodities of:

1. Palm Oil

After the “fruit” of palm oil is being processed, then it will produce CPO (Crude Palm Oil) and mostly being process in factory with fractionation and refinement standard to be ready-to-use cooking oil and sell locally.

2. Rubber

3. Palm Oil Seeds

PT Socfin Indonesia is classified as an integrated palm oil company which own private processing plant and plantation area with the final product of CPO and its derivatives. During daily business activities, the company would process further TBS which classified as strategic taxable goods and the submission is being exempt from value added tax.

PT Socfin Indonesia, as taxable person for VAT purpose, conduct the submission of taxable goods (which being tax) also the submission of strategic goods which is being exempt from VAT. There would be input tax which should not be fully credited due to the submission of value added tax payable and receive exemption facility of value added tax.

Thus, in order to determine the amount of input tax which can be credited to output tax, the company refers to the PMK No.135/PMK.011/2014 as the second amendment to PMK No.78/PMK.03/2010 concerning on Counting Guidelines of Crediting Income Tax-In for Taxable Person who did the Submission that is being tax and not being taxed.

1.2 Problem Formulation

Therefore, the problem formulation that would be discuss:

1. How is the implementation of Value Added Tax Provision upon the integrated palm oil and rubber company based on the Regulation of Minister of Finance of Republik of Indonesia (*Peraturan Menteri Keuangan Republik Indonesia*) PMK No.135/PMK.011/2014 concerning on Counting Guidelines of Crediting Income Tax-In for Taxable Person who did the Submission that is being tax and not being taxed?
2. How is the calculation of value added tax toward the transaction of CPO (Crude Palm Oil) in PT Socfin Indonesia?

1.3 Problem Focus

The discussion of Value Added Tax policy has wide scope. Therefore, these study research focus on:

1. Regulation of Minister of Finance of Republik of Indonesia (*Peraturan Menteri Keuangan Republik Indonesia*) PMK No.135/PMK.011/2014 as the second amendment to PMK No.78/PMK.03/2010 concerning on

Counting Guidelines of Crediting Income Tax-In for Taxable Person who did the Submission that is being tax and not being taxed.

2. UU No.46 Year 2009 regarding Value-Added Tax on Goods and Services and Sales Tax on Luxury Goods
3. The calculation of value added tax toward the transaction of CPO (Crude Palm Oil) in PT Socfin Indonesia.

1.4 Objective of the Research

Based on the problem formulation which has been stated above, therefore the objectives of the study research are :

1. To analyze the value added tax policy upon the integrated palm oil and rubber company based on the Regulation of Minister of Finance of Republik of Indonesia (*Peraturan Menteri Keuangan Republik Indonesia*) PMK No.135/PMK.011/2014 as the second amendment to PMK No.78/PMK.03/2010 concerning on Counting Guidelines of Crediting Income Tax-In for Taxable Person who did the Submission that is being tax and not being taxed.
2. To analyze the calculation of value added tax toward the transaction of CPO (Crude Palm Oil) in PT Socfin Indonesia

1.5 Benefit of the Research

The research is expected could provide some benefits such as theoritical and practical benefit :

1.5.1 Theoretical Benefit

These research aim to develop the research and studies regarding the Value Added Tax Policy upon the Integrated Palm Oil and Rubber Company. Therefore, this research could be use as the reference for the next research. The research aims to provide the insight of how the implementation of value added tax regulation upon the integrated palm oil and rubber company.

1.5.2 Practical Benefit

In these research, there would be describe and discuss the implemetation of value added tax policy upon the integrated palm oil and rubber company. Therefore, these research is practically usefull and suitable for all-interest-parties such as the palm oil company, government, and other practitioner as provide the advices and insight.