

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Taxpayer compliance has become an issue of concern in the taxation field. In Indonesia, the level of taxpayer compliance is still low. The low level of taxpayers' compliance to meet their tax obligations is very alarming compared to the level of business growth in Indonesia. Growth in the number of micro, small and medium entrepreneurs (MSMEs) continues to increase from year to year. However, this increase was not matched by the awareness of micro, small and medium entrepreneurs owners to carry out their tax obligations.

The micro and small business sector is known as the micro, small and medium entrepreneurs. The main problem faced by micro, small and medium entrepreneurs in taxation aspects is the number of micro, small and medium entrepreneurs that still do not have a Tax Identification Number (TIN). Micro, small and medium entrepreneurs, consider taxes to be still considered as frightening and endangering their businesses.

The primary function of the tax identification number is as a tool in all forms of tax administration. The function of tax identification number in taxation is as a sign of identity or the taxpayer's identity in carrying out taxation rights and obligations in accordance with the applicable laws and regulations.

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In addition to simplifying tax administration, the tax identification number is also commonly used for the administration of certain services. Some agencies or services currently include tax identification number as the main requirement or supporting conditions for other administrations.

Tax has a very important role in the life of the state, especially in the implementation of development because the tax is a source of state revenue to finance all expenses, including development expenses.

The tax benefits are important for the public to know so that there is an increase in tax compliance. Because there are still many people who are not familiar with the tax benefits. The level of tax compliance continues to improve from year to year. This can be seen from the increasing number of taxpayers who report Annual Tax Return.

According to data from the Directorate General of Tax (DGT), the percentage of Annual Tax Returns reports in March 2018 increased by 14.01% compared to the same period in the previous year.

The benefits of tax as a budget function as a source of state revenue that serves to finance state expenditures such as national development or other expenses. So, tax is a state income that functions to balance state expenditure or state income.

The tax benefits as a regulating function are used as a tool to regulate social and economic policies. Taxes can be used to regulate inflation, encourage export activities, provide protection or protection for goods produced in the country, and attract investment.

The tax benefits as a function of income redistribution are used to finance all public interests, including to finance development so as to open employment opportunities, which in turn can increase people's incomes.

One of the main capital of micro, small and medium entrepreneurs is creativity and human resources, which is better known as a business. The businesses run by these entrepreneurs prioritize operations, so bookkeeping and administration are often ignored.

Another problem faced by micro, small and medium entrepreneurs in Indonesia is their ignorance of the obligation to record books in accordance with tax regulations. This impacts the difficulty in determining the tax, making it difficult for the tax audit. Thus, there are still many micro, small, and medium entrepreneurs who have not formally complied with the tax provisions.

Companies in Indonesia are based on the Minister of Trade Regulation Number: 46/M-DAG/PER/9/2009, divided into three sectors namely micro, small, medium and large business sectors. The micro, small and medium business sector, known as the micro, small and medium entrepreneurs (MSMEs), has a vital role in maintaining the local economic activities of micro, small and medium entrepreneurs with all their characteristics being able to provide many choices of economic activities that are needed by producers,

consumers and the government. Economic interactions among financial market players can offer more space in increasing added value for the economy.

Based on the characteristics of micro, small and medium entrepreneurs, such as market uncertainty from a business continuity perspective, accounting information is needed for decision making. The practice of financial accounting at micro, small, and medium entrepreneurs is still low and has many weaknesses.

The basic cause that causes the lack of awareness of micro, small and medium entrepreneurs to pay taxes is the absence of regulations that regulate micro, small, and medium entrepreneurs obligations in preparing financial statements. Besides, the cost factor incurred to prepare financial statements is far greater than the excess tax that must be paid. The weaknesses above can lead to differences in understanding and obligations in fulfilling the tax provisions.

The existence of micro, small, and medium entrepreneurs can create new business opportunities that involve producers and consumers. This certainly can provide new opportunities for the emergence of new taxpayers or tax objects in economic activity. Taxpayers are economic business actors who have an individual income. This income can be created because their business works by expanding the micro, small, and medium entrepreneurs operations business in regional economic development. Indicators of micro, small, and medium entrepreneurs development efforts can be seen from the development of micro, small and medium businesses and the improvement of micro, small,

and medium businesses from various age groups. As micro, small, and medium entrepreneurs' conditions increase, more and more new taxpayers can pay taxes. (Mukhlis and Simanjuntak, 2016)

According to the Directorate General of Tax (DGT), the object of the tax is income, i.e. any additional economic capability that is received or obtained by taxpayers, both originating from Indonesia or from outside Indonesia, which can be used for consumption or to increase the wealth of the taxpayer concerned, by name and in any form, as regulated in Article 4 of Law Number 7 of 1983 concerning Income Tax as amended several times, the latest by Law Number 36 of 2008.

So, the title of the study is The Impact of Taxation System and Tax Knowledge Toward Tax Compliance of Micro Small and Medium Enterprises.

The bill of *Cipta Kerja*, known as the Omnibus Law of *Cipta Kerja* has been officially approved as a law by the Indonesian House of Representatives (DPR), at the Indonesian House of Representative's building in Jakarta on October 5, 2020.

The background of the ease of doing business in the taxation cluster, one of the efforts to strengthen the Indonesian economy, encourage investment in the midst of a world economic slowdown, in order to absorb the widest possible workforce, and changes to various statutory provisions, including three tax laws such as the general tax provisions, the income tax law and the value added tax.

1.2 Research Limitation

The writer makes problem limitation as follows:

1. The research object is micro, small and medium enterprise taxpayer in Indonesia
2. The independent variable is tax system and tax knowledge of micro, small and medium enterprise taxpayers and the dependent variable is tax compliance of micro, small and medium enterprise taxpayers

1.3 Problem Formulation

1. Does tax system partially give significant impact on micro, small and medium enterprise taxpayers compliance in Indonesia?
2. Does tax knowledge partially give significant impact on micro, small and medium enterprise taxpayers compliance in Indonesia?
3. Does tax system and tax knowledge partially give significant impact on micro, small and medium enterprise taxpayers compliance in Indonesia?

1.4 Objective of the Research

Based on the description of the problem formulation above, the writer has some objectives for the research as follow:

1. To analyze the impact of tax system toward tax compliance of micro, small and medium enterprise taxpayers
2. To analyze the impact of tax knowledge toward tax compliance of micro, small and medium enterprise taxpayers

3. To analyze the impact of tax system and tax knowledge toward tax compliance of micro, small and medium enterprise taxpayers

The purpose of this research is to analyze the effect of understanding tax and tax knowledge on micro, small and medium taxpayer compliance in Indonesia.

According to *Badan Pusat Statistik* (n.d), the development of the number of micro, small and medium entrepreneurs in Indonesia for 2017 - 2018 experienced an increase of 2.02%, from 62,922,617 micro, small and medium entrepreneurs to 64,194,057 micro, small and medium entrepreneurs in 2018. The micro, small and medium entrepreneurs economic sector with the largest proportion of business units is the trade sector. The growth in the number of micro, small, and medium entrepreneurs also impacted labor growth of 0.47% in 2018.

The growth of micro, small, and medium entrepreneurs in Indonesia is very vulnerable to unfair competition because micro, small and medium entrepreneurs capital is generally small and not as innovative as large companies. Therefore, the government's role is very important in regulating an economic system that is able to survive and continue to grow. Micro, small and medium entrepreneurs that can survive and grow are also an advantage for the government because micro, small and medium entrepreneurs also contribute to economic development. One of the roles of micro, small and medium entrepreneurs is to absorb a very large workforce, and the income is taxed by the government.

Taxation also often experiences obstacles when entrepreneurs have to recalculate fiscal profits, because they are different from accounting profits. Therefore, specifically micro, small and medium entrepreneurs still need an accountant who also understands tax regulations. One way to make it easier for small entrepreneurs to calculate taxes is to use final income tax. Final income tax often raises pros and cons, because the element of justice should be considered. Through Government Regulation No. 46 of 2013, the imposition of final income tax on entrepreneurs whose gross income in one year is not more than IDR 4,800,000,000.00. This certainly causes differences in the recording and reporting of financial statements.

1.5 Benefit of the Research

As a solution to the problems that occur related to tax problems, tax knowledge and micro, small and medium entrepreneurs taxpayer assistance in Indonesia. The results of this study are expected to provide an understanding of taxes, knowledge about taxes and tax obligations for micro, small and medium entrepreneurs (MSMEs) in Indonesia.

1.5.1 Theoretical Benefits

1. Provide references in tax science for taxpayers of micro, small, and medium businesses.
2. Adding insight and knowledge about the problem under study, namely tax compliance.

1.5.2 Practical Benefits

1. As a contribution in an effort to increase taxpayer compliance by knowing the factors that influence taxpayer compliance which in this study are taxpayer awareness, taxpayer knowledge and taxation system.
2. Providing thinking knowledge for micro, small and medium entrepreneurs in Indonesia.
3. For the next reader or researcher, the results of this study are also expected to be a reference or consideration if you want to develop research on taxation themes.

