

CHAPTER I

INTRODUCTION

1.1. Background of The Study

Sources of the country's revenue come from various sectors, both internal sectors and external. One source of a country's revenue from the internal sector is tax, while external sources of revenue such as an external country loans. Taxes are contributions of taxpayer to the country owed by a person or entity that is mandatory based on the law. Tax is a fund source that has an important contribution to financing the government's expenditure, public service, national government, and, most importantly, being utilized for the requirements of the state for the greatest prosperity of the people.

Taxes and tax systems are fundamental in building a country. They are needed for significant economic development. Tax is a commitment of citizens to contribute to the government. The citizens ought to fulfil their tax obligations to keep away from sanctions in applying tax law. The government has duties in controlling the tax paid by the company according to tax regulation. The taxpayer can be given tax sanction if the tax payment isn't appropriate with tax regulation. To avoid tax sanctions and increase tax compliance, taxpayers should conduct the tax obligation according to tax regulation.

Efforts to maximize tax revenue can rely on the government's role and require an active role from the taxpayers themselves. For taxpayers to fulfil the obligation to pay taxes, a proper tax collection system is needed. This tax collection

system is needed to facilitate fulfilling the taxpayer's obligations so that it can be carried out properly, correctly, and clearly. The existence of this system also regulates that everything runs in an orderly and organized manner.

In Indonesia itself, there has been a change in the tax collection system. These changes occur to adapt to the situation and conditions that exist in society. During the Dutch colonial era, the tax collection system that applied in Indonesia was the official assessment system. Since 1983, the tax system in Indonesia has switched from the Official Assessment System to the Self Assessment System and has continued until today. Taxpayers have to register, calculate, pay, and report their tax obligations.

On the other hand, the internet is like a primary need for people nowadays. Every human activity is never separated from the internet. The rapid development of information and increasingly sophisticated technology makes all activities dependent on internet technology. Starting from social activities or just looking for entertainment. Many people take advantage of internet connections in making money. It is not surprising that many people nowadays at least have an online shop either as a main source of income or only as a side business.

According to Syech Suhaimi, Head of Central Bureau of Statistics, the 2016 economic census conducted by the Central Statistics Agency of North Sumatra showed that the number of businesses grew 11.5% or 12,000 from 1.06 million to 1.18 million businesses in Medan city. This growth occurred within ten years. The data collection results showed that the most dominant business was the trade sector, almost 47.20% of the total business. This development is supported by the

development of the population and modern businesses such as online businesses. Online businesses have played a major part in contributing to increased economic activity in Indonesia in recent years (okezone.com, 2017).

According to Wibawa (2010) in Rosalinawati and Syaiful (2018), the phenomenon of e-commerce in Indonesia has been known since 1996 with the emergence of the site 'www.sanur.com' as the first online bookstore. The phenomenon of buying and selling in e-commerce has transformed traditional business processes into digital-based businesses by eliminating market inefficiencies in changing a business into a whole new dimension. E-commerce changed the marketing process that was previously done conventionally switch to model marketing through digital systems. The government has set rules regarding e-commerce in several ways legal studies. Among them are listed in Law No. 7 of 2014 about a trade that explains legal certainty and understanding of Trade Through Electronic system (PMSE) and consumers in conducting trading activities through the electronic system.

Basically, online businesses are includes in Micro, Small, and Medium Enterprises (MSMEs). There is no distinction in tax assessment viewpoints between e-commerce transactions and convenience stores in terms of guideline because the status of the tax object is similar. For Income Tax, the object of the tax is the income itself, whether obtained through online or offline transactions, where the provisions are that any additional income received by the taxpayer, which can increase the wealth of the taxpayer concerned, must be subject to income tax. In addition, the seller is also subject to Value Added Tax because it is included in the category of

delivery of taxable goods and services in the customs area of the jurisdiction of the Republic of Indonesia.

Since January 1, 2014, the Government has stipulated regulations regarding the limits for Taxable Entities whose turnover reaches IDR 4.8 billion per year. Thus, all business actors, including online businesses whose turnover arrives at this sum have to assemble value-added tax on every transaction. Not only the imposition of VAT in online transactions but e-commerce entrepreneurs are also required to be subject to Income Tax. There are no particular principles concerning income tax treatment for e-commerce entrepreneurs, so they still follow the general income tax provisions. Especially for private e-commerce entrepreneurs, tax imposition is equated with conventional stores. Based on Government Regulation Number 46 of 2013, the tax treatment of e-commerce entrepreneurs with gross income/turnover not exceeding IDR 4.8 billion is subject to the same tax as the MSME tax, which is 1% of turnover.

Achievement of tax revenue in Indonesia is relatively low. Many factors affect taxpayer compliance to report and pay the taxes obligation. Lack of taxpayer's knowledge in calculation tax accordance to tax system and procedures can not be denied as one of the causes. Moreover, lack of government socialization to taxpayers will cause taxpayers to be left behind in getting information about these changes, especially changes in technical calculations of tax.

In this research, Medan city is a research location, and Medan is one of the regencies in the North Sumatra region whose people are fond of buying and selling transactions online. Thus, revenue that came from the online business sector would

be increased and tax compliance would be affected. This taxation can be motivated due to a lack of mandatory understanding of tax in related with tax regulations, tax compliance, and obligations.

Based on this background study, then the writer is interested to research with the title as follows: **“The Effect of Tax Knowledge, Tax System and Tax Sanction towards Taxpayer Compliance (A Case Study of Online Business in Medan City)”**

1.2. Problem Formulation

Based on the description in the background study above, the problem formulation is as follows:

1. Does the tax knowledge partially have significant effect towards taxpayer compliance on online business in Medan city?
2. Does the tax system partially have significant effect towards taxpayer compliance on online business in Medan city?
3. Does the tax sanction partially have significant effect towards taxpayer compliance on online business in Medan city?
4. Do the tax knowledge, tax system and tax sanction simultaneously have significant effect towards taxpayer compliance on online business in Medan city?

1.3. Research Focus

Due to limitation of the time and knowledge of the researcher, this research only focuses on tax knowledge, tax system and tax sanction on respondents who doing business online especially MSMEs in Medan city. This research conducted in 2021.

1.4. Research Objective

Based on the problem formulation, the objectives of this research are as follows:

1. To analyze and provide empirical evidence on the significant effect of the tax knowledge partially have towards taxpayer compliance on online business in Medan city.
2. To analyze and provide empirical evidence on the significant effect of the tax system partially have towards taxpayer compliance on online business in Medan city.
3. To analyze and provide empirical evidence on the significant effect of the the tax sanction partially have towards taxpayer compliance on online business in Medan city.
4. To analyze and provide empirical evidence on the significant effect of the tax knowledge, tax system and tax sanction simultaneously have towards taxpayer compliance on online business in Medan city.

1.5. Benefit of The Research

1.5.1. Theoretical Benefit

1. This research can be used as reading material for Universitas Pelita Harapan Medan in relation with individual taxpayers who are doing business online in Medan city.
2. This research can be used as comparison study material in conducting the research in relation with individual taxpayers who are doing business online in Medan city.
3. This research can be used as a reference to conduct further research on the same topic.
4. This research is expected to add understanding in the field of taxation about tax knowledge, tax system, and tax sanction which have a significant influence on individual taxpayers who are doing business online in Medan city.

1.5.2. Practical Benefit

1. For the writer, this research can be used in increasing the writer's knowledge and experience in taxation especially taxation in doing business online in Medan city.
2. For the reader, this research can be used as a reference that guides further research about taxation especially taxation in doing business online in Medan city.

3. For the research subject, this research can be used as an input in improving tax compliance in order to help advance the country's economy.

